SCANNER TECHNOLOGIES CORP
Form 10QSB
August 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

Commission File Number: 000-08149

SCANNER TECHNOLOGIES CORPORATION

(Exact name of small business issuer as specified in its charter)

New Mexico	**85-0169650**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14505 21st Avenue North, Suite 220, Minneapolis, MN 55447

(Address of principal executive offices)

(763) 476-8271

(Issuer s telephone number)

Check whether the Issuer (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No o

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

The Issuer had 12,235,568 shares of Common Stock, no par value, outstanding as of July 31, 2007.

Transitional Small Business Disclosure Format (Check one): Yes o No x

SCANNER TECHNOLOGIES CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
REVENUES	$ 445,566	$ 705,762	$ 748,487	$ 1,571,737
COST OF GOODS SOLD	214,853	263,135	384,786	630,842
GROSS PROFIT	230,713	442,627	363,701	940,895
OPERATING EXPENSES				
Selling, general and administrative	459,731	464,533	1,377,012	1,033,293
Research and development	9,222	8,598	17,776	17,257
Legal fees	195,742	38,088	303,086	53,467
	664,695	511,219	1,697,874	1,104,017
LOSS FROM OPERATIONS	(433,982)	(68,592)	(1,334,173)	(163,122)

OTHER INCOME (EXPENSE)				
Interest expense	(46,397)	(17,755)	(46,480)	(38,205)
Miscellaneous	3,127	1,233	8,734	(337)
LOSS BEFORE INCOME TAXES	(477,252)	(85,114)	(1,371,919)	(201,664)
INCOME TAXES		800	400	2,800
NET LOSS	$(477,252)	$(85,914)	$(1,372,319)	$(204,464)
NET LOSS PER SHARE - BASIC AND DILUTED	$(0.04)	$(0.01)	$(0.11)	$(0.02)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	12,235,568	12,216,068	12,226,308	12,216,068

See notes to condensed consolidated financial statements.

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SCANNER TECHNOLOGIES CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (unaudited)	**December 31, 2006**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,452	$ 688,251
Accounts receivable, less allowance of $15,000	418,337	343,926
Inventories	646,574	795,721
Prepaid expenses	23,134	36,564
TOTAL CURRENT ASSETS	1,103,497	1,864,462
PROPERTY AND EQUIPMENT, net	13,525	

We target eight market segments in the United States for our integrated revenue cycle service offering:

- Academic Medical Centers and Ambulatory Clinics. Academic medical centers and ambulatory clinics, including related physician practices, represent approximately $132 billion in annual net patient revenue. This market offers attractive opportunities for us because of the significant size and patient volume of academic medical centers and ambulatory clinics (typically more than $1 billion each in net patient revenue) and the fragmented revenue cycle management operations of most physician practices. Our customers in this market include the Dartmouth-Hitchcock Medical Center and the Henry Ford Health System.

- Catholic Community Healthcare Systems. Catholic community healthcare systems represented our initial target market segment and remain a primary focus for us. Catholic community healthcare systems manage approximately $68 billion in annual net patient revenue. Ascension Health is the nation's largest Catholic and largest non-profit healthcare system that provides care at more than 1,400 locations in 21 states and the District of Columbia. We serve a number of hospitals and regional healthcare systems affiliated with Ascension Health.
- Other Faith-Based Community Healthcare Systems. Drawing on our experience with the Catholic community healthcare system market, we also target the market for other faith-based community healthcare systems. Healthcare systems affiliated with other religious faiths manage approximately $46 billion in annual net patient revenue. We serve several regional healthcare systems in this market.
- Not-for-Profit Community Hospitals. There are nearly 2,000 not-for-profit community hospitals, with a variety of affiliations that are not faith-based. Not-for-profit community hospitals, including integrated delivery networks, manage approximately $265 billion in annual net patient revenue. Fairview Health Services, Beaumont Health System, and Intermountain Healthcare are integrated delivery networks and our customers in this market segment.
- Physicians' Billing Organizations. Large physicians' billing organizations represent more than $115 billion in annual net patient revenue. Our customer work in this market includes the billing activities involving several hundred physicians at the Dartmouth-Hitchcock Medical Center and the Henry Ford Health System.
- For-Profit Hospital Systems. For-profit hospital systems manage approximately $101 billion in annual net patient revenue. This sector, although smaller than the not-for-profit sector, still represents a significant target market for our revenue cycle services. We currently serve one for-profit hospital as the result of the acquisition of a formerly non-profit hospital by a for-profit company in 2009 and several facilities in physician advisory services.

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- Government-Owned Hospitals. Based on industry sources, each major metropolitan area in the United States has at least one large municipal or city-owned hospital system. We believe that this market represents approximately $111 billion in annual net patient revenue. We currently have one revenue cycle customer in this market.
- Home Services and Medical Equipment. In 2010, we began targeting the home healthcare services and medical equipment providers market, which we believe represents $80 billion in annual net patient revenue. This market includes both for-profit and not-for-profit companies which work with hospitals and physicians across the United States. We believe that most companies in this market fail to capture and collect a significant portion of the total amounts contractually owed to them due to their highly decentralized customer service and order entry departments and the differences in payor requirements that occur when goods and services are provided in multiple locations. We do not currently have any customers in this market.

The six hospital market segments noted above are also targets of our quality and total cost of care and physician advisory services offerings. We believe that the diversity of our customer base, ranging from not-for-profit community hospitals to large academic medical centers and healthcare systems, demonstrates our ability to adapt and apply our operating model to many different situations.

Customer Agreements

We provide our revenue cycle and quality and total cost of care service offerings pursuant to managed service contracts with our customers. In rendering our services, we must comply with customer policies and procedures regarding charity care, personnel, compliance and risk management as well as applicable federal, state and local laws and regulations. Generally, we are the exclusive provider of revenue cycle or quality and total cost of care services to our customers.

Our contracts are multi-year agreements and vary in length based on the customer. After the initial term of the agreement, generally our customer contracts automatically renew unless terminated by either party upon prior written notice.

In general, our managed service contracts provide that:

- we assume responsibility for the management and cost of the customer's revenue cycle or population health management operations, including the payroll and benefit costs associated with the customer's employees conducting activities within our contracted services, and the agreements and costs associated with the related third-party services;
- we are required to staff a sufficient number of our own employees on each customer's premises and the technology necessary to implement and manage our services;
- in general, the customer pays us base fees equal to a specified amount, subject to annual increases under an agreed-upon formula, and incentive fees based on achieving agreed-upon financial benchmarks;
- the parties provide representations and indemnities to each other; and
- the contracts are subject to termination by either party in the event of a material breach which is not cured by the breaching party.

Our contracts for physician advisory services are multi-year arrangements which average in length between one and three years. Generally, the contracts automatically renew unless terminated by either party upon prior written notice. Services rendered are billed either monthly, based on the anticipated volume of cases at each facility or on a case-by-case basis.

Sales and Marketing

Our new business opportunities have historically been generated through high-level industry contacts of members of our senior management team and board of directors and positive references from existing customers. As we have grown, we have added senior sales executives to support our revenue cycle and quality and total cost of care offerings, and have adopted a more institutional approach to sales and marketing that relies on systematic relationship building by a team of senior sales executives. Our sales process generally begins by engaging senior executives of the prospective hospital or healthcare system, typically followed by our assessment of the prospect's existing revenue cycle or quality and total cost of care operations, and a review of the findings.

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We employ a standardized managed service contract that is designed to streamline the contract process and support a collaborative discussion of revenue cycle operation or population health management issues and our proposed working relationship. Our sales process for revenue cycle and quality and total cost of care typically lasts six to twelve months from the introductory meeting to the contract execution. For our physician advisory offering, we employ a separate sales force of professionals supported by our team of clinicians. We utilize a standardized contract to streamline the contract process which typically lasts between six to twelve weeks.

Technology

Technology Development

Our technology development organization operates out of various facilities in the United States and India. Our technology is developed in-house by Accretive Health employees, although at times we may supplement our technology development team with independent contractors, all of whom have assigned any resulting intellectual property rights to us. We use an agile methodology in which new functionality and enhancements are released on a 30-day cycle, and minor functionality or “patch” work is released on a seven-day cycle. Based upon this schedule, we release approximately eleven technology offerings with new functionalities each year across each of the principal portions of our customer-facing applications. All customer sites run the same base set of code. We use a beta-testing environment to develop and test new technology offerings at one or more customers, while keeping the rest of our customers on production-level code.

Our applications are deployed on a consistent architecture based upon an industry-standard Microsoft SQL*Server database and a “DotNetNuke” open source application architecture. This architecture provides a common framework for development, which in turn simplifies the development process and offers a common interface for end users. We believe the consistent look and feel of our applications allows our customers and staff to begin using ongoing enhancements to our software suite quickly and easily.

We devote substantial resources to our development efforts and plan at a yearly, half-yearly, quarterly and release level. We employ a “value point” scoring system to assess the impact an enhancement will have on net revenue, costs, efficiency and customer satisfaction. The results of this value point system analysis are evaluated in conjunction with our overall corporate goals when making development decisions. In addition to our technology development team, our operations personnel play an integral role in setting technology priorities in support of their objective of keeping our software operating 24 hours a day, 7 days a week.

Technology Operations

Our applications are hosted in data centers located in Alpharetta, Georgia and Salt Lake City, Utah, and our internal financial application suite is hosted in a data center in Minneapolis, Minnesota. These data centers are operated for us by third parties and are SSAE No.16 (formerly referred to as SAS 70) compliant. Our development, testing and quality assurance environment is operated from our Alpharetta, Georgia data center, with a separate server room in Chicago, Illinois. We have agreements with our hardware and system software suppliers for support 24 hours a day, 7 days a week. Our operations personnel also use our resources located in our other U.S. facilities and in our India facilities. Customers use high-speed Internet connections or private network connections to access our business applications.

We utilize commercially available hardware and a combination of custom-developed and commercially available software. We designed our primary application in this manner to permit scalable growth. For example, database servers can be added without adding web servers, and vice versa. We believe that this architecture enables us to scale our operations effectively and efficiently.

Our databases and servers are backed-up in full on a weekly basis and undergo incremental back-ups nightly. Databases are also backed-up frequently by automatically shipping log files with accumulated changes to separate sets of back-up servers. In addition to serving as a back-up, these log files update the data in our online analytical processing engine, enabling the data to be more current than if only refreshed overnight. Data and information regarding our customers’ patients is encrypted when transmitted over the internet or traveling off-site on portable media such as laptops or backup tapes.

Customer system access requests are load-balanced across multiple application servers, allowing us to handle additional users on a per-customer basis without application changes. System utilization is monitored for capacity planning purposes.

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Our software interacts with our customers' software through a series of real-time and batch interfaces. We do not require changes to the customer's core patient care delivery or financial systems. Instead of installing hardware or software in customer locations or data centers, we specify the information that a customer needs to extract from its existing systems in order to interface with our systems. This methodology enables our systems to operate with many combinations of customer systems, including custom and industry-standard implementations. We have successfully integrated our systems with 15 to 20 year old systems, with package and custom systems, and with major industry-standard products.

When these interfaces are in place, we provide an application suite across the hospital revenue cycle. For our purposes, the revenue cycle starts when a patient registers for future service or arrives at a hospital or clinic for unscheduled service and ends when the hospital has collected all the appropriate revenue from all possible sources. Thus, we provide eligibility, address validation, skip tracing, charge capture, patient and payor follow-up, analytics and tracking, charge master management, contract modeling, contract "what if" analysis, collections and other functions throughout the front office, middle office and back office operations of a customer's revenue cycle.

Because our databases run on industry-standard hardware and software, we are able to use all standard applications to develop, maintain and monitor our solutions. Databases for one or more customers can run on a single database server with disk storage being provided from a shared storage area network (SAN) with physical separation maintained between clients. In the event of a server failure, we have maintenance contracts in place that require the service provider to have the server back on-line in four hours or less, or we move the customer processing to another server. The SAN is configured as a redundant array of inexpensive disks (RAID) and this RAID configuration protects against disk failures having an impact on our operations.

In the event that a combination of events causes a system failure, we typically can isolate the failure to one or a small number of customers. We believe that no combination of failures by our systems can impact a customer's ability to deliver patient care, nor can any such failures prevent accurate accounting of customer finances because accounting functions are maintained on customer systems. In the past twelve months, our up-time has exceeded 99.95% of planned up-time.

Our data centers were designed to withstand many catastrophic events, such as blizzards and hurricanes. To protect against a catastrophic event in which our primary data center is completely destroyed and service cannot be restored within a few days, we store backups of our systems and databases off-site. In the event that we had to move operations to a different data center, we would re-establish operations by provisioning new servers, restoring data from the off-site backups and re-establishing connectivity with our customers' host systems. Because our systems are web-based, no changes would need to be made on customer workstations, and customers would be able to reconnect as our systems became available again.

We monitor the response time of our application in a number of ways. We monitor the response time of individual transactions by customer and place monitors inside our operations and at key customer sites to run synthetic transactions that demonstrate our systems' end-to-end responsiveness. Our hosting provider reports on responsiveness server-by-server and identifies potential future capacity issues. In addition, we survey key customers regarding system response time to make sure customer-specific conditions are not impacting performance of our applications.

Proprietary Software Suite

Revenue Cycle Management. Our proprietary AHtoAccess® software suite is composed of a broad range of integrated functional areas or domains. The "patient access", "improving best possible", "follow-up" and "measurement" domains utilize interdependent design and development paths and are an integral driver of value throughout our customers' entire revenue cycle. These domains correspond to the front office, middle office and back office revenue cycle business processes described above.

- The "patient access" domain is used during hospital employees' first interactions with patients, either at the point of service in a hospital or in advance of a hospital visit during our pre-registration process. The domain uses a straightforward, consistent architecture.
- The "improving best possible" domain is designed to facilitate top-line revenue improvements and bottom-line efficiency gains. The domain's AHtoCharge® application is a rules-based engine that, with the oversight of a centralized team of nurse-auditors, automatically analyzes medical billing and coding data to identify inconsistencies

that may delay or hinder collections.

- The “follow-up” domain tracks unpaid claims and contacts with insurance companies, government organizations and other payors responsible for outstanding debts for past patient services. The domain also organizes previously unpaid claims using a proprietary risk-based algorithm.
- The “measurement” domain integrates our functional domains by providing real-time metrics and insight into the operation of revenue cycle businesses. This application can be used to generate standard operational reports and allows the end user to review and analyze all of the micro-level data that supports the results found in these reports.

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In addition to applications designed for use by our customers, we have developed proprietary software for use in our collections operations and measurement activity. To manage patient follow-up activities and the collection of patient debt, we use a combination of off-the-shelf telephony and campaign management software which analyzes critical data points to determine the optimum approach for collecting outstanding debts. Our measurement system enables a user to generate models for outstanding medical claims related to specific third-party payors and determine the maximum allowed reimbursement, based upon the hospital's contract with each payor.

Quality and Total Cost of Care. Our proprietary AccretiveQ software suite provides the technology infrastructure to enable our customers to have visibility into, and better control of, the full spectrum of services and associated costs for all patients. Our AccretiveQ software consists of two broad domains, "analytics" and "workflow". The analytics domain provides physicians with on-line analytical processing capabilities so that they can more easily and accurately monitor patient results by grouping patients with similar healthcare attributes, risk scores, demographics and other factors. We also use the analytics domain to monitor the results of individual physicians, physician practices or clinics in their efforts to institute the use of processes that will result in enhanced clinical outcomes with lower total cost of care for the defined patient populations. The workflow domain uses a combination of proprietary algorithms and industry standard applications to prioritize the patients that are most at risk of an adverse health event. The domain then automatically assigns the patient to an appropriate care coordinator, assists in developing the patient's care plan, and serves as a tool for scheduling the appropriate care interventions. The workflow solution also monitors variation in care plan activities and the success rate of applying the care plan's parameters.

Physician Advisory Services. Our proprietary physician advisory services ("PAS") tools are designed to assist our customers in submission, tracking, reviewing, auditing and running real time analytics over the full range of our PAS services. The PAS portal environment is established as a highly secure site, and it enables us to receive customer submissions from a number of leading client systems in a fully automated manner. The analytics engine within the PAS web portal provides our customers the ability to improve their compliance and workflow with our real time reporting, dashboards and worklists.

Competition

While we do not believe any single competitor offers the same breadth of offerings we currently provide, we face competition from various sources.

The internal revenue cycle management staff of hospitals, who historically have performed the functions addressed by our services, in effect compete with us. Hospitals that previously have made investments in internally developed solutions sometimes choose to continue to rely on their own internal revenue cycle management staff.

We also currently compete with several categories of external participants in the revenue cycle market, most of which focus on small components of the hospital revenue cycle:

- software vendors and other technology-supported revenue cycle management business process outsourcing companies, such as athenahealth and MedAssets;
- traditional consultants, either specialized healthcare consulting firms or healthcare divisions of large accounting firms, such as Deloitte Consulting and Huron Consulting; and
- IT outsourcers, which typically are large, non-healthcare focused business process outsourcing and information technology outsourcing firms, such as Perot Systems and Computer Science Corporation/First Consulting.

These types of external participants also compete with us in the field of quality and total cost of care. In addition, the commercial payor community has historically attempted to provide information or services that are intended to assist providers in reducing the total cost of medical care. United Health Group, through Optum Health, and Aetna have recently introduced solutions that are similar in nature to our quality and total cost of care solution.

We believe that competition for the services we provide is based primarily on the following factors:

- knowledge and understanding of the complex healthcare payment and reimbursement system in the United States;
- a track record of delivering revenue improvements and efficiency gains for hospitals and healthcare systems;
- the ability to deliver a solution that is fully-integrated along each step of a hospital's revenue cycle operations;
- cost-effectiveness, including the breakdown between up-front costs and pay-for-performance incentive compensation;

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- reliability, simplicity and flexibility of the technology platform;
- understanding of the healthcare industry's regulatory environment; and
- sufficient infrastructure and financial stability.

We believe that we compete effectively based upon all of these criteria. We also believe that several aspects of our business model differentiate us from our competitors:

- our solutions do not require any up-front cash investment from customers and we do not charge hourly or licensing fees for our services;
- we focus on assisting our customers to enhance their quality of care;
- we focus on providing services to healthcare providers and not third-party payors; and
- we focus on delivering significant and sustainable improvements rather than one-time cost reductions only.

Nonetheless, we operate in a growing and attractive market with a steady stream of new entrants. Although we believe that there are barriers to replicating our end-to-end revenue cycle solution, we expect competition to intensify in the future. Other companies may develop superior or more economical service offerings that hospitals could find more attractive than our offerings. Moreover, the regulatory landscape may shift in a direction that is more strategically advantageous to existing and future companies.

Government Regulation

The customers we serve are subject to a complex array of federal and state laws and regulations. These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. We devote significant efforts, through training of personnel and monitoring, to establish and maintain compliance with all regulatory requirements that we believe are applicable to our business and the services we offer.

Government Regulation of Health Information

Privacy and Security Regulations. The Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations that have been issued under it, which we collectively refer to as HIPAA, contain substantial restrictions and requirements with respect to the use and disclosure of individuals' protected health information. HIPAA prohibits a covered entity from using or disclosing an individual's protected health information unless the use or disclosure is authorized by the individual or is specifically required or permitted under HIPAA. Under HIPAA, covered entities must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic protected health information maintained or transmitted by them or by others on their behalf.

HIPAA applies to covered entities, such as healthcare providers that engage in HIPAA-defined standard electronic transactions, health plans and healthcare clearinghouses. In February 2009, HIPAA was amended by the Health Information Technology for Economic and Clinical Health, or HITECH, Act to impose certain of the HIPAA privacy and security requirements directly upon "business associates" that perform functions on behalf of, or provide services to, certain covered entities. Most of our customers are covered entities and we are a business associate to many of those customers under HIPAA as a result of our contractual obligations to perform certain functions on behalf of and provide certain services to those customers. In order to provide customers with services that involve the use or disclosure of protected health information, HIPAA requires our customers to enter into business associate agreements with us so that certain HIPAA requirements would be applied to us as contractual commitments. Such agreements must, among other things, provide adequate written assurances:

- as to how we will use and disclose the protected health information;
- that we will implement reasonable administrative, physical and technical safeguards to protect such information from misuse;
- that we will enter into similar agreements with our agents and subcontractors that have access to the information;
- that we will report security incidents and other inappropriate uses or disclosures of the information; and
- that we will assist the customer with certain of its duties under HIPAA.

Transaction Requirements. In addition to privacy and security requirements, HIPAA also requires that certain electronic transactions related to healthcare billing be conducted using prescribed electronic formats. For example, claims for reimbursement that are transmitted electronically to payors must comply with specific formatting standards, and these standards apply whether the payor is a government or a private entity. We are contractually required to

structure and provide

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our services in a way that supports our customers' HIPAA compliance obligations. On October 1, 2013, the ICD-9 code sets used to report medical diagnoses and inpatient procedures will be replaced by ICD-10 code sets. This change will affect coding for all covered entities and requires system and business changes throughout the health care industry. We are working collaboratively with our customers to prepare for the transition to the new code sets.

Data Security and Breaches. In recent years, there have been well-publicized data breach incidents involving the improper dissemination of personal health and other information of individuals, both within and outside of the healthcare industry. Many states have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to data breach incidents, such as providing prompt notification of the breach to affected individuals and government authorities. In many cases, these laws are limited to electronic data, but states are increasingly enacting or considering stricter and broader requirements. Under the HITECH Act and its implementing regulations, business associates are also required to notify covered entities, which in turn are required to notify affected individuals and government authorities of data security breaches involving unsecured protected health information. In addition, the U.S. Federal Trade Commission, or FTC, has prosecuted some data breach cases as unfair and deceptive acts or practices under the Federal Trade Commission Act. We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents.

State Laws. In addition to HIPAA, most states have enacted patient confidentiality laws that protect against the unauthorized disclosure of confidential medical information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards and data security breach notification requirements. Such state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements, and we must comply with them even though they may be subject to different interpretations by various courts and other governmental authorities.

Other Requirements. In addition to HIPAA, numerous other state and federal laws govern the collection, dissemination, use, access to and confidentiality of individually identifiable health and other information and healthcare provider information. The FTC has issued and several states have issued or are considering new regulations to require holders of certain types of personally identifiable information to implement formal policies and programs to prevent, detect and mitigate the risk of identity theft and other unauthorized access to or use of such information. Further, the U.S. Congress and a number of states have considered or are considering prohibitions or limitations on the disclosure of medical or other information to individuals or entities located outside of the United States.

Government Regulation of Reimbursement

Our customers are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs. Accordingly, our customers are sensitive to legislative and regulatory changes in, and limitations on, the government healthcare programs and changes in reimbursement policies, processes and payment rates. During recent years, there have been numerous federal legislative and administrative actions that have affected government programs, including adjustments that have reduced or increased payments to physicians and other healthcare providers and adjustments that have affected the complexity of our work. For example, the federal healthcare reform legislation that was enacted in March 2010 (known as the Patient Protection and Affordable Care Act of 2010 (ACA)) may reduce reimbursement for some healthcare providers while increasing reimbursement for others (including primary care physicians). In addition, ACA mandates the implementation of various programs and value and quality-based reimbursement incentives that may impact the amount of reimbursement for our customers. Some of these programs, such as the Medicare Value-Based Purchasing Program and the Hospital Readmission Reduction Program, take effect later this year. It is possible that the federal or state governments will implement additional reductions, increases or changes in reimbursement in the future under government programs that adversely affect our customer base or increase the cost of providing our services. Any such changes could adversely affect our own financial condition by reducing the reimbursement rates of our customers.

Fraud and Abuse Laws

A number of federal and state laws, generally referred to as fraud and abuse laws, apply to healthcare providers, physicians and others that make, offer, seek or receive referrals or payments for products or services that may be paid for through any federal or state healthcare program and in some instances any private program. Given the breadth of these laws and regulations, they may affect our business, either directly or because they apply to our customers. These laws and regulations include:

Anti-Kickback Laws. There are numerous federal and state laws that govern patient referrals, physician financial relationships, and inducements to healthcare providers and patients. The federal healthcare anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients

covered by Medicare, Medicaid and certain other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Courts have construed this anti-kickback law to mean that a financial arrangement may violate this law if any one of the purposes of an arrangement is to induce referrals of federal healthcare programs, patients or business, regardless of whether there are other legitimate purposes for the arrangement. There are several limited exclusions known as safe harbors that may protect certain arrangements from enforcement penalties although these safe harbors tend to be quite narrow. Penalties for federal anti-kickback violations can be severe, and include imprisonment, criminal fines, civil money penalties with triple damages and exclusion from participation in federal healthcare programs. Anti-kickback law violations also may give rise to a civil False Claims Act action, as described below. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to induce referrals, and some of these state laws are applicable to all patients regardless of whether the patient is covered under a governmental health program or private health plan.

False or Fraudulent Claim Laws. There are numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with the submission and payment of provider claims for reimbursement. In some cases, these laws also forbid abuse of existing systems for such submission and payment, for example, by systematic over treatment or duplicate billing of the same services to collect increased or duplicate payments.

In particular, the federal False Claims Act, or FCA, prohibits a person from knowingly presenting or causing to be presented a civil false or fraudulent claim for payment or approval by an officer, employee or agent of the United States. The FCA also prohibits a person from knowingly making, using, or causing to be made or used a false record or statement material to such a claim. The FCA was amended on May 20, 2009 by the Fraud Enforcement and Recovery Act of 2009, or FERA. Following the FERA amendments, the FCA's “reverse false claim” provision also creates liability for persons who knowingly conceal an overpayment of government money or knowingly and improperly retain an overpayment of government funds. In addition, ACA requires providers to report and return overpayments and to explain the reason for the overpayment in writing within 60 days of the date on which the overpayment is identified, and the failure to do so is punishable under the FCA. Violations of the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs. The scope and implications of the FCA amendments have yet to be fully determined or adjudicated and as a result it is difficult to predict how future enforcement initiatives may impact our business.

In addition, under the Civil Monetary Penalty Act of 1981, the Department of Health and Human Services Office of Inspector General has the authority to impose administrative penalties and assessments against any person, including an organization or other entity, who knowingly presents, or causes to be presented, to a state or federal government employee or agent certain false or otherwise improper claims.

Stark Law and Similar State Laws. The Ethics in Patient Referrals Act, known as the Stark Law, prohibits certain types of referral arrangements between physicians and healthcare entities and thus potentially applies to our customers. Specifically, under the Stark Law, absent an applicable exception, a physician may not make a referral to an entity for the furnishing of designated health service (or DHS) for which payment may be made by the Medicare program if the physician (or any immediate family member) has a financial relationship with that entity. Further, an entity that furnishes DHS pursuant to a prohibited referral may not present or cause to be presented a claim or bill for such services to the Medicare program or to any other individual or entity. Violations of the statute can result in civil monetary penalties and/or exclusion from federal healthcare programs. Stark law violations also may give rise to a civil FCA action. Any such violations by, and penalties and exclusions imposed upon, our customers could adversely affect their financial condition and, in turn, could adversely affect our own financial condition.

Laws in many states similarly forbid billing based on referrals between individuals and/or entities that have various financial, ownership or other business relationships. These laws vary widely from state to state.

Laws Limiting Assignment of Reimbursement Claims

Various federal and state laws, including Medicare and Medicaid, forbid or limit assignments of claims for reimbursement from government funded programs. Some of these laws limit the manner in which business service companies may handle payments for such claims and prevent such companies from charging their provider customers on the basis of a percentage of collections or charges. We do not believe that the services we provide our customers result in an assignment of claims for the Medicare or Medicaid reimbursements for purposes of federal healthcare programs. Any determination to the contrary, however, could adversely affect our ability to be paid for the services we provide to our customers, require us to restructure the manner in which we are paid, or have further regulatory consequences.

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Emergency Medical Treatment and Active Labor Act

The federal Emergency Medical Treatment and Active Labor Act, or EMTALA, was adopted by the U.S. Congress in response to reports of a widespread hospital emergency room practice of “patient dumping”. At the time of EMTALA’s enactment, patient dumping was considered to have occurred when a hospital capable of providing the needed care sent a patient to another facility or simply turned the patient away based on such patient’s inability to pay for his or her care. EMTALA imposes requirements as to the care that must be provided to anyone who seeks care at facilities providing emergency medical services. In addition, the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services has issued final regulations clarifying those areas within a hospital system that must provide emergency treatment, procedures to meet on-call requirements, as well as other requirements under EMTALA. Sanctions for failing to fulfill these requirements include exclusion from participation in the Medicare and Medicaid programs and civil monetary penalties. In addition, the law creates private civil remedies that enable an individual who suffers personal harm as a direct result of a violation of the law to sue the offending hospital for damages and equitable relief. A hospital that suffers a financial loss as a direct result of another participating hospital’s violation of the law also has a similar right.

EMTALA generally applies to our customers, and we assist our customers with the intake of their patients. Although we believe that our customers’ medical screening, stabilization and transfer practices are in compliance with the law and applicable regulations, we cannot be certain that governmental officials responsible for enforcing the law or others will not assert that we or our customers are in violation of these laws nor what obligations may be imposed by regulations to be issued in the future.

Regulation of Debt Collection Activities

The federal Fair Debt Collection Practices Act, or FDCPA, regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Certain of our accounts receivable activities may be subject to the FDCPA. The FDCPA establishes specific guidelines and procedures that debt collectors must follow in communicating with consumer debtors, including the time, place and manner of such communications. Further, it prohibits harassment or abuse by debt collectors, including the threat of violence or criminal prosecution, obscene language or repeated telephone calls made with the intent to abuse or harass. The FDCPA also places restrictions on communications with individuals other than consumer debtors in connection with the collection of any consumer debt and sets forth specific procedures to be followed when communicating with such third parties for purposes of obtaining location information about the consumer. In addition, the FDCPA contains various notice and disclosure requirements and prohibits unfair or misleading representations by debt collectors. Finally, the FDCPA imposes certain limitations on lawsuits to collect debts against consumers.

Debt collection activities are also regulated at state level. Most states have laws regulating debt collection activities in ways that are similar to, and in some cases more stringent than, the FDCPA. In addition, some states require debt collection companies to be licensed. In all states where we operate, we believe that we currently hold all required state licenses or are pursuing a license, or are exempt from licensing.

We are also subject to the Fair Credit Reporting Act, or FCRA, which regulates consumer credit reporting and which may impose liability on us to the extent that the adverse credit information reported on a consumer to a credit bureau is false or inaccurate. State law, to the extent it is not preempted by the FCRA, may also impose restrictions or liability on us with respect to reporting adverse credit information.

The FTC has the authority to investigate consumer complaints relating to the FDCPA and the FCRA, and to initiate or recommend enforcement actions, including actions to seek monetary penalties. State officials typically have authority to enforce corresponding state laws. In addition, affected consumers may bring suits, including class action suits, to seek monetary remedies (including statutory damages) for violations of the federal and state provisions discussed above.

Regulation of Credit Card Activities

We accept payments by credit cards from patients of our customers. Various federal and state laws impose privacy and information security laws and regulations with respect to the use of credit cards. If we fail to comply with these laws and regulations or experience a credit card security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to additional legal or financial risk as a result of non-compliance.

Foreign Regulations

Our operations in India are subject to additional regulations by the government of India. These include Indian federal and local corporation requirements, restrictions on exchange of funds, employment-related laws and qualification for tax status.

Intellectual Property

We rely upon a combination of patent, trademark, copyright and trade secret laws and contractual terms and conditions to protect our intellectual property rights, and have sought patent protection for aspects of our key innovations.

We have been issued one U.S. patent, which expires in 2028, and filed eight additional U.S. patent applications aimed at protecting the four domains of our AHtoAccess software suite: patient access, improving best possible, follow-up and measurement. See "Business — Technology — Proprietary Software Suite" for more information. Legal standards relating to the validity, enforceability and scope of protection of patents can be uncertain. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Our patent applications may not result in the grant of patents with the scope of the claims that we seek, if at all, or the scope of the granted claims may not be sufficiently broad to protect our products and technology. Our one granted patent or any patents that may be granted in the future from pending or future applications may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. Third parties may develop technologies that are similar or superior to our proprietary technologies, duplicate or otherwise obtain and use our proprietary technologies or design around patents owned or licensed by us. If our technology is found to infringe any patent or other intellectual property right held by a third party, we could be prevented from providing our service offerings and subject us to significant damage awards.

We also rely in some circumstances on trade secrets to protect our technology. We control access to and the use of our application capabilities through a combination of internal and external controls, including contractual protections with employees, customers, contractors and business partners. We license some of our software through agreements that impose specific restrictions on customers' ability to use the software, such as prohibiting reverse engineering and limiting the use of copies. We also require employees and contractors to sign non-disclosure agreements and invention assignment agreements to give us ownership of intellectual property developed in the course of working for us.

On occasion, we incorporate third-party commercial or open source software products into our technology platform. Although we prefer to develop our own technology, we periodically employ third-party software in order to simplify our development and maintenance efforts, provide a "commodity" capability, support our own technology infrastructure or test a new capability.

Employees

As of December 31, 2011, we had 2,721 full-time employees, including 292 engaged in technology development and deployment, as well as 342 part-time employees. None of our employees is represented by a labor union and we consider our current employee relations to be good.

Our revenue cycle operations employees are required to participate in our "operator academy" and "revenue cycle academy", consisting of multiple training sessions each year. Our ongoing training and executive learning programs are modeled after the practices of companies that we believe have reputations for service excellence. In addition, all of our employees are required to undergo mandatory compliance training, including HIPAA compliance training.

As of December 31, 2011, pursuant to managed service contracts, we also managed approximately 11,300 revenue cycle staff persons who are employed by our customers. We have the right to control and direct the work activities of these staff persons and are responsible for paying their compensation out of the base fees paid to us by our customers, but these staff persons are considered employees of our customers for all purposes.

Corporate Information

We were incorporated in Delaware under the name Healthcare Services, Inc. in July 2003 and changed our name to Accretive Health, Inc. in August 2009. Our principal executive offices are located at 401 North Michigan Avenue, Suite 2700, Chicago, Illinois 60611, and our telephone number is (312) 324-7820.

Accretive Health®, the Accretive Health logo, Accretive PAS™, AccretiveQ, AHtoAccess®, AHtoCharge®, AHtoContract®, AHtoLink™, AHtoPost™, AHtoRemit, AHtoScribe™, AHtoScribe Administrator®, AHtoTrac®, A2A®, Charge Integrity Services, Medicaid Eligibility Hub, YBFU®, Yield-Based Follow Up® and other trademarks or service marks of Accretive Health appearing in this Annual Report on Form 10-K are the property of Accretive Health.

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Information availability
Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website at www.accretivehealth.com under the “Investor Relations” caption as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

Item 1A. Risk Factors
Risks Related to Our Business and Industry
We may not be able to maintain or increase our profitability, and our recent growth rates may not be indicative of our future growth rates.
We have been profitable on an annual basis only since the year ended December 31, 2007, and we incurred net losses in the quarters ended March 31, 2007, December 31, 2007, March 31, 2008, December 31, 2008 and March 31, 2009. We may not succeed in maintaining our profitability on an annual basis and could incur quarterly or annual losses in future periods. We expect to incur additional operating expenses associated with being a public company and we intend to continue to increase our operating expenses as we grow our business. We also expect to continue to make investments in our proprietary technology applications, sales and marketing, infrastructure, facilities and other resources as we expand our operations, thus incurring additional costs. If our revenue does not increase to offset these increases in costs, our operating results would be negatively affected. You should not consider our historic revenue and net income growth rates as indicative of future growth rates. Accordingly, we cannot assure you that we will be able to maintain or increase our profitability in the future. Each of the risks described in this “Risk Factors” section, as well as other factors, may affect our future operating results and profitability.
Hospitals affiliated with Ascension Health currently account for a significant portion of our net services revenue, and we have several customers that have each accounted for 10% or more of our net services revenue in past fiscal periods. The termination of our master services agreement with Ascension Health, or any significant loss of business from our large customers, would have a material adverse effect on our business, results of operations and financial condition.
We are party to a master services agreement with Ascension Health pursuant to which we provide services to its affiliated hospitals that execute separate managed service contracts with us. Hospitals affiliated with Ascension Health have accounted for a significant portion of our net services revenue each year since our formation. In the years ended December 31, 2009, 2010, and 2011, aggregate revenue from hospitals affiliated with Ascension Health represented 60.3%, 50.7% and 40.8% of our net services revenue in such periods. In some fiscal periods, individual hospitals affiliated with Ascension Health have each accounted for 10% or more of our total net services revenue. For example, in the years ended December 31, 2009 and 2010 revenue from St. John Health (an affiliate of Ascension Health) was equal to 13.0% and 11.1%, respectively, of our total net services revenue. Additionally, Henry Ford Health System, which is not affiliated with Ascension Health and with which we entered into a managed service contract in 2009, accounted for 11.3% of our total net services revenue in the year ended December 31, 2010. St. John Health's and Henry Ford Health System's respective revenue in the year ended December 31, 2011 was less than 10% of our total net services revenue due to the expansion of our client base and associated revenues. Furthermore, Fairview Health Services, which is not affiliated with Ascension Health and with which we entered into a managed service contract in 2010, accounted for 10.7% and 12.2% of our total net services revenue in the years ended December 31, 2010 and 2011, respectively.
All of our managed service contracts with hospitals affiliated with Ascension Health will expire on December 31, 2012 unless renewed. Pursuant to our master services agreement with Ascension Health and our managed service contracts with hospitals affiliated with Ascension Health, our fees are subject to adjustment in the event quarterly cash collections at these hospitals deteriorate materially after we take over revenue cycle management operations. While these adjustments have never been triggered, if they were, our future fees from hospitals affiliated with Ascension Health would be reduced. In addition, any of our other customers, including hospitals affiliated with Ascension Health, can elect not to renew their managed service contracts with us upon expiration. We intend to seek renewal of

all managed service contracts with our customers, but cannot assure you that all of them will be renewed or that the terms upon which they may be renewed will be as favorable to us as the terms of the initial managed service contracts. Our inability to renew the managed service contracts with hospitals affiliated with Ascension Health, the termination of our master services agreement with Ascension Health, the loss of any of our other large customers or their failure to renew their managed service contracts with us upon expiration, or a reduction in the fees for our services for these customers would have a material adverse effect on our business, results of operations and financial condition.

Our master services agreement with Ascension Health requires us to offer to Ascension Health's affiliated hospitals service fees that are at least as low as the fees we charge any other similarly situated customer receiving comparable services at comparable volumes.

Our master services agreement with Ascension Health requires us to offer to Ascension Health's affiliated hospitals fees for our services that are at least as low as the fees we charge any other similarly-situated customer receiving comparable services at comparable volumes. If we were to offer another similarly-situated customer receiving a comparable volume of comparable services fees that are lower than the fees paid by hospitals affiliated with Ascension Health, we would be obligated to offer such lower fees to hospitals affiliated with Ascension Health, which could have a material adverse effect on our results of operations and financial condition.

Our agreements with hospitals affiliated with Ascension Health and with some other customers include provisions that could impede or delay our ability to enter into managed service contracts with new customers.
Under the terms of our master services agreement with Ascension Health, we are required to consult with Ascension Health’s affiliated hospitals before undertaking services for competitors specified by them in the managed service contracts they execute with us. As a result, before we can begin to provide services to a specified competitor, we are required to inform and discuss the situation with the Ascension Health affiliated hospital that specified the competitor but are not required to obtain the consent of such hospital. In addition, we are required to obtain the consent of one customer not affiliated with Ascension Health before providing services to competitors specified by such customer. In another instance, our managed service contract with one other customer not affiliated with Ascension Health requires us to consult with such customer before providing services to competitors specified by such customer. The obligations described above could impede or delay our ability to enter into managed service contracts with new customers.
The markets for our revenue cycle management, physician advisory services and quality and total cost of care services may develop more slowly than we expect, which could adversely affect our revenue and our ability to maintain or increase our profitability.
Our success depends, in part, on the willingness of hospitals, physicians and other healthcare providers to implement integrated solutions that span the entire revenue cycle, which encompasses patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. Our success also depends on healthcare providers’ willingness to move away from traditional fee-for-service payment systems and toward accountable care organizations and similar initiatives, or to adjust their process for performing the classification of care assessment. Some hospitals may be reluctant or unwilling to implement our solutions for a number of reasons, including failure to perceive the need for improved revenue cycle operations, quality and total cost of care services, or physician advisory services and lack of knowledge about the potential benefits our solutions provide.
Even if potential customers recognize the need to improve revenue cycle operations and to more effectively manage the health of defined patient populations, they may not select solutions such as ours because they previously have made investments in internally developed solutions and choose to continue to rely on their own internal resources. As a result, the markets for integrated, end-to-end revenue cycle, physician advisory services and quality and total cost of care solutions may develop more slowly than we expect, which could adversely affect our revenue and our ability to maintain or increase our profitability.
We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenue, growth rates and market share.
The market for our solutions is highly competitive and we expect competition to intensify in the future. We face competition from a steady stream of new entrants, including the internal revenue cycle management staff of hospitals, as described above, and external participants. External participants that are our competitors in the revenue cycle market include software vendors and other technology-supported revenue cycle management business process outsourcing companies; traditional consultants; and information technology outsourcers. These types of external participants also compete with us in the field of quality and total cost of care. In addition, the commercial payor community has historically attempted to provide information or services that are intended to assist providers in

reducing the total cost of medical care. They could attempt to develop similar programs again. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, regulations or customer requirements. We may not be able to compete successfully with these companies, and these or other competitors may introduce technologies or services that render our technologies or services obsolete or less marketable. Even if our technologies and services are more effective than the offerings of our competitors, current or potential customers might prefer competitive technologies or services to our technologies and services. Increased competition is likely to result in pricing pressures, which could negatively impact our margins, growth rate or market share.

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If we are unable to retain our existing customers, our financial condition will suffer.
Our success depends in part upon the retention of our customers, particularly Ascension Health and its affiliated hospitals. We derive our net services revenue primarily from managed service contracts pursuant to which we receive base fees and incentive payments. Customers can elect not to renew their managed service contracts with us upon expiration. If a managed service contract is not renewed or is terminated for any reason, including for example, if we are found to be in violation of any federal or state fraud and abuse laws or excluded from participating in federal and state healthcare programs such as Medicare and Medicaid, we will not receive the payments we would have otherwise received over the life of contract. In addition, financial issues or other changes in customer circumstances, such as a customer change in control, may cause us or the customer to seek to modify or terminate a managed service contract, and either we or the customer may generally terminate a contract for material uncured breach by the other. If we breach a managed service contract or fail to perform in accordance with contractual service levels, we may also be liable to the customer for damages. Any of these events could adversely affect our business, financial condition, operating results and cash flows.
We face a variable selling cycle to secure new revenue cycle and quality and total cost of care managed service contracts, making it difficult to predict the timing of specific new customer relationships.
We face a variable selling cycle, typically spanning six to twelve months, to secure a new managed service contract. Even if we succeed in developing a relationship with a potential new customer, we may not be successful in entering into a managed service contract with that customer. In addition, we cannot accurately predict the timing of entering into managed service contracts with new customers due to the complex procurement decision processes of most healthcare providers, which often involves high-level or committee approvals. Consequently, we have only a limited ability to predict the timing of specific new customer relationships.
Delayed or unsuccessful implementation of our technologies or services with our customers or implementation costs that exceed our expectations may harm our financial results.
To implement our solutions, we utilize the customer's existing management and staff and layer our proprietary technology applications on top of the customer's existing patient accounting and clinical systems. Each customer's situation is different, and unanticipated difficulties and delays may arise. If the implementation process is not executed successfully or is delayed, our relationship with the customer may be adversely affected and our results of operations could suffer. Implementation of our solutions also requires us to integrate our own employees into the customer's operations. The customer's circumstances may require us to devote a larger number of our employees than anticipated, which could increase our costs and harm our financial results.
Our quarterly results of operations may fluctuate as a result of factors that may impact our incentive and base fees, some of which may be outside of our control.
We recognize base fee revenue on a straight-line basis over the life of the managed service contract. Base fees for contracts which are received in advance of services delivered are classified as deferred revenue until services have been provided. Our managed service contracts generally allow for adjustments to the base fee. Adjustments typically occur at 90, 180 or 360 days after the contract commences, but can also occur at subsequent dates as a result of factors including changes to the scope of operations and internal and external audits. In addition, our fees from hospitals affiliated with Ascension Health are subject to adjustment in the event quarterly cash collections at these hospitals deteriorate materially after we take over revenue cycle management operations. While these adjustments have never been triggered, if they were, our future fees from hospitals affiliated with Ascension Health would be reduced. Further, estimates of the incentive payments we have earned from providing services to customers in prior periods could change because the laws, regulations, instructions, payor contracts and rule interpretations governing how our customers receive payments from payors are complex and change frequently. Any such change in estimates could be material. The timing of such adjustments is often dependent on factors outside of our control and may result in material increases or decreases in our revenue and operating margin. Any such changes or adjustments may cause our quarter-to-quarter results of operations to fluctuate.
In addition, the timing of customer additions is not uniform throughout the year, which causes fluctuations in our quarterly results as new customers are added. Operating margins are typically slightly lower in quarters in which we add new customers because we incur expenses to implement our operating model at those customers while our

incentive payments from revenue improvements and operating cost reductions for those customers are only at a preliminary stage. We also experience fluctuations in incentive payments as a result of patients' ability to accelerate or defer elective procedures, particularly around holidays such as Thanksgiving and Christmas. Generally, incentive payments are lower in the first quarter of each year and higher in the fourth quarter of each year. Incentive payments have a significant impact on operating margins and adjusted EBITDA, and changes in the amount of incentive payments can cause fluctuations in our quarter-to-quarter operating results.

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

Our future success depends in part on our ability to attract, hire, integrate and retain key personnel. Our future success also depends on the continued contributions of our executive officers and other key personnel, each of whom may be difficult to replace. In particular, Mary A. Tolan, our founder, president and chief executive officer, is critical to the management of our business and operations and the development of our strategic direction. The loss of services of Ms. Tolan or any of our other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business. The replacement of any of these key personnel would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives. Competition for the caliber and number of employees we require is intense. We may face difficulty identifying and hiring qualified personnel at compensation levels consistent with our existing compensation and salary structure. In addition, we invest significant time and expense in training each of our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring, integrating and training their replacements and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect on our business.

The imposition of legal responsibility for obligations related to our employees or our customers' employees could adversely affect our business or subject us to liability.

Under our contracts with customers, we directly manage our customers' employees engaged in the activities we have contracted to manage for our customers. Our managed service contracts establish the division of responsibilities between us and our customers for various personnel management matters, including compliance with and liability under various employment laws and regulations. We could, nevertheless, be found to have liability with our customers for actions against or by employees of our customers, including under various employment laws and regulations, such as those relating to discrimination, retaliation, wage and hour matters, occupational safety and health, family and medical leave, notice of facility closings and layoffs and labor relations, as well as similar liability with respect to our own employees, and any such liability could result in a material adverse effect on our business.

If we fail to manage future growth effectively, our business would be harmed.

We have expanded our operations significantly since inception and anticipate expanding further. For example, our net services revenue increased from $240.7 million in 2007 to $826.3 million in 2011, and the number of our employees increased from 33, all of whom were full-time, as of January 1, 2005 to 2,721 full-time employees and 342 part-time employees as of December 31, 2011. In addition, the number of customer employees whom we manage has increased from approximately 1,600 as of January 1, 2005 to approximately 11,300 as of December 31, 2011. This growth has placed significant demands on our management, infrastructure and other resources. To manage future growth, we will need to hire, integrate and retain highly skilled and motivated employees, and will need to effectively manage a growing number of customer employees engaged in revenue cycle operations. We will also need to continue to improve our financial and management controls, reporting systems and procedures. If we do not effectively manage our growth, we may not be able to execute on our business plan, respond to competitive pressures, take advantage of market opportunities, satisfy customer requirements or maintain high-quality service offerings.

Disruptions in service or damage to our data centers and shared services centers could adversely affect our business.

Our data centers and shared services centers are essential to our business. Our operations depend on our ability to operate our shared service centers, and to maintain and protect our applications, which are located in data centers that are operated for us by third parties. We cannot control or assure the continued or uninterrupted availability of these third-party data centers. In addition, our information technologies and systems, as well as our data centers and shared services centers, are vulnerable to damage or interruption from various causes, including (i) acts of God and other natural disasters, war and acts of terrorism and (ii) power losses, computer systems failures, Internet and telecommunications or data network failures, operator error, losses of and corruption of data and similar events. We conduct business continuity planning and maintain insurance against fires, floods, other natural disasters and general business interruptions to mitigate the adverse effects of a disruption, relocation or change in operating environment at one of our data centers or shared services centers, but the situations we plan for and the amount of insurance coverage we maintain may not be adequate in any particular case. In addition, the occurrence of any of these events could result

in interruptions, delays or cessations in service to our customers, or in interruptions, delays or cessations in the direct connections we establish between our customers and third-party payors. Any of these events could impair or inhibit our ability to provide our services, reduce the attractiveness of our services to current or potential customers and adversely impact our financial condition and results of operations.

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In addition, despite the implementation of security measures, our infrastructure, data centers, shared services centers or systems that we interface with, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third parties seeking to disrupt operations or misappropriate information or similar physical or electronic breaches of security. Any of these can cause system failure, including network, software or hardware failure, which can result in service disruptions. As a result, we may be required to expend significant capital and other resources to protect against security breaches and hackers or to alleviate problems caused by such breaches.

If our security measures are breached or fail and unauthorized access is obtained to a customer's data, our service may be perceived as not being secure, the attractiveness of our services to current or potential customers may be reduced, and we may incur significant liabilities.

Our services involve the storage and transmission of customers' proprietary information and protected health, financial, payment and other personal information of patients. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information, and because of the sensitivity of this information, the effectiveness of such security efforts is very important. The systems currently used for transmission and approval of credit card transactions, and the technology utilized in credit cards themselves, all of which can put credit card data at risk, are determined and controlled by the payment card industry, not by us. If our security measures are breached or fail as a result of third-party action, employee error, malfeasance or otherwise, someone may be able to obtain unauthorized access to customer or patient data. Improper activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our computer systems. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, and we may be unable to anticipate these techniques or to implement adequate preventive measures. Our security measures may not be effective in preventing these types of activities, and the security measures of our third-party data centers and service providers may not be adequate. If a breach of our security occurs, we could face damages for contract breach, penalties for violation of applicable laws or regulations, possible lawsuits by individuals affected by the breach and significant remediation costs and efforts to prevent future occurrences. In addition, whether there is an actual or a perceived breach of our security, the market perception of the effectiveness of our security measures could be harmed and we could lose current or potential customers.

We may be liable to our customers or third parties if we make errors in providing our services, and our anticipated net services revenue may be lower if we provide poor service.

The services we offer are complex, and we make errors from time to time. Errors can result from the interface of our proprietary technology applications and a customer's existing patient accounting system, or we may make human errors in any aspect of our service offerings. The costs incurred in correcting any material errors may be substantial and could adversely affect our operating results. Our customers, or third parties such as our customers' patients, may assert claims against us alleging that they suffered damages due to our errors, and such claims could subject us to significant legal defense costs and adverse publicity regardless of the merits or eventual outcome of such claims. In addition, if we provide poor service to a customer and the customer therefore realizes less improvement in revenue yield, the incentive fee payments to us from that customer will be lower than anticipated.

We offer our services in many jurisdictions and, therefore, may be subject to state and local taxes that could harm our business or that we may have inadvertently failed to pay.

We may lose sales or incur significant costs should various tax jurisdictions be successful in imposing taxes on a broader range of services. Imposition of such taxes on our services could result in substantial unplanned costs, would effectively increase the cost of such services to our customers and may adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed. For example, in 2008 Michigan began to impose a tax based on gross receipts in addition to tax based on net income.

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We may seek to expand into international markets in the future. We have no experience in providing services to customers outside of the United States. Expansion into international markets, if pursued, could expose us to additional risks that we do not face in the United States, which could have an adverse effect on our operating results.
To date, all customers for all of our service offerings have been located in the United States. We believe that increasing healthcare costs are a concern for other developed nations and that management of the health of a defined patient population is a cost effective means to control overall healthcare expenditures. We have received inquiries from government-related healthcare providers in other countries about our quality and total cost of care service offering. As a result, we are beginning to evaluate the level of potential interest in this service offering and the methods of delivering this solution to international customers. This process is in a very early stage and there is no assurance that our quality and total cost of care service offering can be successfully tailored to meet the specific requirements of healthcare providers outside the United States, that a market for this service will develop outside of the United States or that we will be able to serve this market efficiently.
We have no experience in providing services to customers outside of the United States. If we seek to expand into international markets in the future, such operations will be subject to a variety of legal, financial, operational, regulatory, economic and political risks that we do not face in the United States. We may not be successful in developing and implementing policies and strategies that would be effective in managing these risks in each country where we may seek do business. Our failure to manage these risks successfully could harm our operations and increase our costs, and put pressure on our business, financial condition and operating results.
Our growing operations in India expose us to risks that could have an adverse effect on our costs of operations.
We employ a significant number of persons in India and expect to continue to add personnel in India. While there are cost advantages to operating in India, significant growth in the technology sector in India has increased competition to attract and retain skilled employees and has led to a commensurate increase in compensation expense. In the future, we may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure in India. In addition, our reliance on a workforce in India exposes us to disruptions in the business, political and economic environment in that region. Maintenance of a stable political environment is important to our operations, and terrorist attacks and acts of violence or war may directly affect our physical facilities and workforce or contribute to general instability. Our operations in India require us to comply with local laws and regulatory requirements, which are complex and of which we may not always be aware, and expose us to foreign currency exchange rate risk. Our Indian operations may also subject us to trade restrictions, reduced or inadequate protection for intellectual property rights, security breaches and other factors that may adversely affect our business. Negative developments in any of these areas could increase our costs of operations or otherwise harm our business.
Negative public perception in the United States regarding offshore outsourcing and proposed legislation may increase the cost of delivering our services.
Offshore outsourcing is a politically sensitive topic in the United States. For example, various organizations and public figures in the United States have expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States. In addition, there has been recent publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective customers may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing would increase the cost of delivering our services if we had to relocate aspects of our services from India to the United States where operating costs are higher.
Legislation in the United States may be enacted that is intended to discourage or restrict offshore outsourcing. In the United States, federal and state legislation has been proposed, and enacted in several states, that could restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. For example, legislation has been proposed that would require offshore providers to identify where they are located. In addition, legislation has been enacted in at least one state that requires that state contracts for services be performed within the United States, while several other states provide a preference to state contracts that are performed within the state. It is possible that legislation could be adopted that would restrict U.S. private sector companies that have federal or state

government contracts, or that receive government funding or reimbursement, such as Medicare or Medicaid payments, from outsourcing their services to offshore service providers. Any changes to existing laws or the enactment of new legislation restricting offshore outsourcing in the United States may adversely affect our ability to do business, particularly if these changes are widespread, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Regulatory Risks
The healthcare industry is heavily regulated. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and negatively affect our business.
The healthcare industry is heavily regulated and is subject to changing political, legislative, regulatory and other influences. Many healthcare laws are complex, and their application to specific services and relationships may not be clear. In particular, many existing healthcare laws and regulations, when enacted, did not anticipate the services that we provide. There can be no assurance that our operations will not be challenged or adversely affected by enforcement initiatives. Our failure to accurately anticipate the application of these laws and regulations to our business, or any other failure to comply with regulatory requirements, could create liability for us, result in adverse publicity and negatively affect our business. Federal and state legislatures and agencies periodically consider proposals to revise aspects of the healthcare industry or to revise or create additional statutory and regulatory requirements. Such proposals, if implemented, could impact our operations, the use of our services and our ability to market new services, or could create unexpected liabilities for us. We are unable to predict what changes to laws or regulations might be made in the future or how those changes could affect our business or our operating costs.
Developments in the healthcare industry, including national healthcare reform, could adversely affect our business.
The healthcare industry has changed significantly in recent years and we expect that significant changes will continue to occur. The timing and impact of developments in the healthcare industry are difficult to predict. We cannot be sure that the markets for our services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in those markets. The federal healthcare reform legislation (known as the Patient Protection and Affordable Care Act (ACA) enacted in 2010 could encourage more companies to enter our market, provide advantages to our competitors and result in the development of solutions that compete with ours. Moreover, healthcare reform remains a major policy issue at the federal level, and constitutional challenges to or the repeal of the existing legislation and additional healthcare legislation in the future could have adverse consequences for us or the customers we serve. Other material changes, such as the required transition to the ICD-10 code set for diagnosis and inpatient hospital procedure coding by October 1, 2013, will impose significant system and business changes throughout the health care industry, and could be disruptive to our customers and our business.
If a breach of our measures protecting personal data covered by the Health Insurance Portability and Accountability Act or Health Information Technology for Economic and Clinical Health Act occurs, we may incur significant liabilities.

Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations that have been issued under it, which we refer to collectively as HIPAA, contain substantial restrictions and requirements with respect to the use and disclosure of individuals' protected health information. Under HIPAA, covered entities must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic protected health information maintained or transmitted by them or by others on their behalf. In February 2009 HIPAA was amended by the Health Information Technology for Economic and Clinical Health, or HITECH, Act to impose certain of the HIPAA privacy and security requirements directly upon business associates of covered entities. New regulations that took effect in late 2009 also require business associates to notify covered entities, who in turn must notify affected individuals and government authorities of data security breaches involving unsecured protected health information. Most of our customers are covered entities and we are a business associate to many of those customers under HIPAA and the HITECH Act as a result of our contractual obligations to perform certain functions on behalf of and provide certain services to those customers. Since the passage of the HITECH Act, enforcement of HIPAA violations has increased, as indicated by the announcement of a number of significant settlement agreements and/or sanctions by federal authorities, the pursuit of HIPAA violations by state attorneys general, and the roll-out of a new federal audit program for covered entities (which will in the future be extended to business associates).

We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with applicable laws and regulations regarding the protection of this data and properly responding to any security incidents. A knowing breach of the HITECH Act's

requirements could expose us to criminal liability. A breach of our safeguards and processes that is not due to reasonable cause or involves willful neglect could expose us to significant civil penalties and the possibility of civil litigation.

If we fail to comply with federal and state laws governing submission of false or fraudulent claims to government healthcare programs and financial relationships among healthcare providers, we may be subject to civil and criminal penalties or loss of eligibility to participate in government healthcare programs.

A number of federal and state laws, including anti-kickback restrictions and laws prohibiting the submission of false or fraudulent claims, apply to healthcare providers, physicians and others that make, offer, seek or receive referrals or payments

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for products or services that may be paid for through any federal or state healthcare program and, in some instances, any private program. These laws are complex and their application to our specific services and relationships may not be clear and may be applied to our business in ways that we do not anticipate. Federal and state regulatory and law enforcement authorities have recently increased enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other healthcare reimbursement laws and rules. From time to time, participants in the healthcare industry receive inquiries or subpoenas to produce documents in connection with government investigations. We could be required to expend significant time and resources to comply with these requests, and the attention of our management team could be diverted by these efforts. Furthermore, if we are found to be in violation of any federal or state fraud and abuse laws, we could be subject to civil and criminal penalties, and we could be excluded from participating in federal and state healthcare programs such as Medicare and Medicaid. The occurrence of any of these events could give our customers the right to terminate our managed service contracts with them and result in significant harm to our business and financial condition.

The federal healthcare anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to induce referrals, and some of these state laws are applicable to all patients regardless of whether the patient is covered under a governmental health program or private health plan. We seek to structure our business relationships and activities to avoid any activity that could be construed to implicate the federal healthcare anti-kickback law and similar laws. We cannot assure you, however, that our arrangements and activities will be deemed outside the scope of these laws or that increased enforcement activities will not directly or indirectly have an adverse effect on our business, financial condition or results of operations. Any determination by a federal or state agency or court that we have violated any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, could disqualify us from providing services to healthcare providers doing business with government programs, could give our customers the right to terminate our managed service contracts with them and, thus, could have a material adverse effect on our business and results of operations. Moreover, any violations by and resulting penalties or exclusions imposed upon our customers could adversely affect their financial condition and, in turn, have a material adverse effect on our business and results of operations.

There are also numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with the submission and payment of healthcare provider claims for reimbursement. In particular, the federal False Claims Act, or the FCA, prohibits a person from knowingly presenting or causing to be presented a false or fraudulent claim for payment or approval by an officer, employee or agent of the United States. In addition, the FCA prohibits a person from knowingly making, using, or causing to be made or used a false record or statement material to such a claim. Violations of the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs. The scope and implications of the amendments to the FCA pursuant to the Fraud Enforcement and Recovery Act of 2009, or FERA, have yet to be fully determined or adjudicated and as a result it is difficult to predict how future enforcement initiatives may impact our business. Pursuant to the 2010 healthcare reform legislation, a claim that includes items or services resulting from a violation of the federal anti-kickback law constitutes a false or fraudulent claim for purposes of the FCA.

These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. Errors created by our proprietary applications or services that relate to entry, formatting, preparation or transmission of claim or cost report information may be determined or alleged to be in violation of these laws and regulations. Any failure of our proprietary applications or services to comply with these laws and regulations could result in substantial civil or criminal liability and could, among other things, adversely affect demand for our services, invalidate all or portions of some of our managed service contracts with our customers, require us to change or terminate some portions of our business, require us to refund portions of our base fee revenues and incentive payment revenues, cause us to be disqualified from serving customers doing business with government payers, and give our customers the right to

terminate our managed service contracts with them, any one of which could have an adverse effect on our business.
Our failure to comply with debt collection and consumer credit reporting regulations could subject us to fines and other liabilities, which could harm our reputation and business.

The U.S. Fair Debt Collection Practices Act, or FDCPA, regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Certain of our accounts receivable activities may be subject to the FDCPA. Many states impose additional requirements on debt collection communications, and some of those requirements may be more stringent than the comparable federal requirements. Moreover, regulations governing debt collection are subject to changing interpretations that may be inconsistent among different jurisdictions. We are also subject to the Fair Credit Reporting Act, or FCRA, which regulates consumer credit reporting and which may impose liability on us to the extent that the adverse credit information reported on a consumer to a credit bureau is false or inaccurate. We could

incur costs or could be subject to fines or other penalties under the FCRA if the Federal Trade Commission determines that we have mishandled protected information. We or our customers could be required to report such breaches to affected consumers or regulatory authorities, leading to disclosures that could damage our reputation or harm our business, financial position and operating results.

Potential additional regulation of the disclosure of health information outside the United States may increase our costs.

Federal or state governmental authorities may impose additional data security standards or additional privacy or other restrictions on the collection, use, transmission and other disclosures of health information. Legislation has been proposed at various times at both the federal and the state levels that would limit, forbid or regulate the use or transmission of medical information pertaining to U.S. patients outside of the United States. Such legislation, if adopted, may render our operations in India impracticable or substantially more expensive. Moving such operations to the United States may involve substantial delay in implementation and increased costs.

Risks Related to Intellectual Property

We may be unable to adequately protect our intellectual property.

Our success depends, in part, upon our ability to establish, protect and enforce our intellectual property and other proprietary rights. If we fail to establish or protect our intellectual property rights, we may lose an important advantage in the market in which we compete. We rely upon a combination of patent, trademark, copyright and trade secret law and contractual terms and conditions to protect our intellectual property rights, all of which provide only limited protection. We cannot assure you that our intellectual property rights are sufficient to protect our competitive advantages. Although we have filed eight U.S. patent applications, we cannot assure you that any patents that will be issued from these applications will provide us with the protection that we seek or that any future patents issued to us will not be challenged, invalidated or circumvented. We have also been issued one U.S. patent, but we cannot assure you that it will provide us with the protection that we seek or that it will not be challenged, invalidated or circumvented. Legal standards relating to the validity, enforceability and scope of protection of patents are uncertain. Any patents that may be issued in the future from pending or future patent applications or our one issued patent may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any trademark registrations will be issued for pending or future applications or that any of our trademarks will be enforceable or provide adequate protection of our proprietary rights.

We also rely in some circumstances on trade secrets to protect our technology. Trade secrets may lose their value if not properly protected. We endeavor to enter into non-disclosure agreements with our employees, customers, contractors and business partners to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use of our technology, and adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and proprietary technology. Moreover, others may reverse engineer or independently develop technologies that are competitive to ours or infringe our intellectual property.

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition. Monitoring infringement of our intellectual property rights can be difficult and costly, and enforcement of our intellectual property rights may require us to bring legal actions against infringers. Infringement actions are inherently uncertain and therefore may not be successful, even when our rights have been infringed, and even if successful may require a substantial amount of resources and divert our management’s attention.

Claims by others that we infringe their intellectual property could force us to incur significant costs or revise the way we conduct our business.

Our competitors protect their intellectual property rights by means such as patents, trade secrets, copyrights and trademarks. We have not conducted an independent review of patents issued to third parties. Additionally, because patent applications in the United States and many other jurisdictions are kept confidential for 18 months before they are published, we may be unaware of pending patent applications that relate to our proprietary technology. Although we have not been involved in any litigation related to intellectual property rights of others, from time to time we receive letters from other parties alleging, or inquiring about, possible breaches of their intellectual property rights.

Any party asserting that we infringe its proprietary rights would force us to defend ourselves, and possibly our customers, against the alleged infringement. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights or interruption or cessation of our operations. The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Moreover, the risk of such a lawsuit will likely increase as our size and scope of our services and technology platforms increase, as our geographic presence and market share expand and as the number of

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competitors in our market increases.

Any such claims or litigation could:

- be time-consuming and expensive to defend, whether meritorious or not;
- require us to stop providing the services that use the technology that infringes the other party's intellectual property;
- divert the attention of our technical and managerial resources;
- require us to enter into royalty or licensing agreements with third parties, which may not be available on terms that we deem acceptable, if at all;
- prevent us from operating all or a portion of our business or force us to redesign our services and technology platforms, which could be difficult and expensive and may make the performance or value of our service offerings less attractive;
- subject us to significant liability for damages or result in significant settlement payments; or
- require us to indemnify our customers as we are required by contract to indemnify some of our customers for certain claims based upon the infringement or alleged infringement of any third party's intellectual property rights resulting from our customers' use of our intellectual property.

Intellectual property litigation can be costly. Even if we prevail, the cost of such litigation could deplete our financial resources. Litigation is also time-consuming and could divert management's attention and resources away from our business. Furthermore, during the course of litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could materially adversely affect our business. Some of our competitors may be able to sustain the costs of complex intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could significantly limit our ability to continue our operations and could harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our operating results and financial condition.

Risks Related to the Ownership of Shares of Our Common Stock

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our restated certificate of incorporation and amended and restated bylaws:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- provide for a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a supermajority stockholder vote;
- provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and
- require supermajority stockholder voting to effect certain amendments to our restated certificate of incorporation and amended and restated bylaws.

For additional information regarding these and other anti-takeover provisions, see "Description of Capital Stock — Anti-Takeover Effects of Our Charter and Bylaws and Delaware Law".

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We may not pay any cash dividends on our capital stock in the foreseeable future.
Although we paid cash dividends on our capital stock in July 2008 and September 2009, we may not pay cash dividends on our common stock in the foreseeable future. Any future dividend payments will be within the discretion of our board of directors and will depend on, among other things, our financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, provisions of applicable law and other factors that our board of directors may deem relevant. In addition, our revolving credit facility does not permit us to pay dividends without the lender’s prior consent. We may not generate sufficient cash from operations in the future to pay dividends on our common stock. See “Dividend Policy”.

Item 1B. Unresolved Staff Comments
None.
Item 2. Properties
We do not own any real estate property and lease our existing facilities.
As of December 31, 2011, our corporate headquarters occupy approximately 50,000 square feet in Chicago, Illinois under a lease expiring as to certain portions of the space in 2014 and other portions in 2020. In addition, we have a right of first offer to lease an additional 11,100 square feet of space on another floor in the same building. We also lease approximately 72,800 square feet of office space in another building in Chicago for a period of 11 years that houses our Chicago shared services center.
Our other leased facilities are in Kalamazoo, Michigan; Detroit, Michigan; Jupiter, Florida; Cape Girardeau, Missouri; and near New Delhi, India. Pursuant to our master services agreement with Ascension Health and the managed service contracts between us and our customers, we occupy space on-site at all hospitals where we provide our revenue cycle management services. We do not pay customers for our use of space provided by them. In general, we are not permitted to provide services to one customer from another customer’s site.
We believe that our current facilities are sufficient for our current needs. We intend to add new facilities or expand existing facilities as we add employees or expand our geographic markets, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.
Item 3. Legal Proceedings

From time to time, we have been and may again become involved in legal or regulatory proceedings arising in the ordinary course of our business. We are not presently a party to any material litigation or regulatory proceeding (including the proceedings set forth below in this Item 3) and are not aware of any pending or threatened litigation or regulatory proceeding against us which, individually or in the aggregate, could have a material adverse effect on our business, operating results, financial condition or cash flows.

On January 19, 2012, the State of Minnesota, by its Attorney General, filed a complaint against us in the United States District Court for the District of Minnesota alleging violations of federal and Minnesota state health privacy laws and regulations, Minnesota debt collection laws and Minnesota consumer protection laws resulting from, among other things, the theft in Minnesota in July 2011 of an employee's laptop that contained protected health information. We are cooperating with the Attorney General in an attempt to resolve this matter.

Item 4. Mine Safety Disclosures
Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities

Our common stock has traded on the New York Stock Exchange, or NYSE, under the symbol "AH" since May 20, 2010. Prior to that time, there was no public market for our common stock. The following table sets forth the high and low intraday sales prices per share of our common stock, as reported by the NYSE, for the periods indicated.

	Price Range	
	High	Low
2010		
Quarter ended June 30, 2010(1)	$15.21	$12.53
Quarter ended September 30, 2010	$13.34	$9.05
Quarter ended December 31, 2010	$16.25	$8.30
2011		
Quarter ended March 31, 2011	$27.97	$16.00
Quarter ended June 30, 2011	$30.65	$21.20
Quarter ended September 30, 2011	$32.82	$20.35
Quarter ended December 31, 2011	$29.10	$19.31

(1) Our common stock began trading on May 20, 2010.

The closing sale price per share of our common stock, as reported by the NYSE, on February 15, 2012 was $24.39. As of February 15, 2012 there were 80 holders of record for our common stock.

Dividend Policy

We did not pay any dividends during the fiscal years ended December 31, 2010 and 2011. We currently intend to retain earnings, if any, to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and agreements, provisions of applicable law, and other factors the board deems relevant.

Equity Compensation Plan Information

The Company maintains a 2006 Second Amended and Restated Stock Option Plan (the "2006 Plan"). In April 2010, the Company adopted a new 2010 Stock Incentive Plan (the "2010 Plan"), which became effective immediately prior to the closing of the IPO. The Company will not make any further grants under the 2006 Plan, and the 2010 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards and other stock-based awards. As of December 31, 2011, an aggregate of 15,521,829 shares were subject to outstanding options and restricted stock awards under both plans, and 4,566,765 shares were available for grant under the 2010 Plan. However, to the extent that previously granted awards under the 2006 Plan or 2010 Plan expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company, the number of shares available for future awards will increase, up to a maximum of 24,374,756 shares.

The information regarding securities authorized for issuance under the Company's stock option plans, which were also approved by the Company's stockholders, is set forth below, as of December 31, 2011:

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Equity Instruments	Weighted-Average Exercise Price of Outstanding Equity Instruments	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
2006 Amended and Restated Stock Option Plan	10,840,893	*	—
2010 Stock Incentive Plan (Options and RSA Outstanding)	4,680,936	*	4,566,765

Total	15,521,829	4,566,765

* See Note 9 to our consolidated financial statements contained elsewhere in this Annual Report on Form 10-K for the discussion of our stock options and restricted stock awards.

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Sales of Unregistered Securities and Use of Proceeds
Use of Proceeds from Initial Public Offering
The SEC declared the Registration Statement on Form S-1 (File No. 333-162186) related to our initial public offering effective on May 19, 2010. In the offering, which commenced on May 20, 2010 and closed on May 25, 2010, we registered 11,500,000 shares of our common stock at a price to the public of $12.00 per share. We sold 7,666,667 of the shares of our common stock in the offering, and the selling stockholders sold 3,833,333 shares. Goldman, Sachs & Co. and Credit Suisse Securities (USA) LLC were the joint book-running managers and representatives of the underwriters. The offering generated gross proceeds to us of $92.0 million, or $80.8 million net of underwriting discounts and offering expenses. The offering generated gross proceeds to the selling stockholders of $46.0 million, or $43.2 million net of underwriting discounts. We incurred $7.1 million of offering-related expenses, of which $2.9 million were incurred prior to December 31, 2009. Out of $7.1 million of offering expenses, $1.4 million was satisfied through the issuance of 115,000 shares of common stock to Financial Technology Partners LP and/or FTP Securities LLC in satisfaction of a fee for advisory services in respect of the initial public offering. Additionally, in conjunction with the offering, we issued 1,265,012 shares and paid $0.9 million in satisfaction of liquidation preference payments due to preferred shareholders, including certain directors, officers and their affiliates.
From the effective date of the registration statement through December 31, 2011, we did not use any of our proceeds from our initial public offering. There has been no change in the planned use of proceeds from the initial public offering as described in our Registration Statement on Form S-1 declared effective by the SEC on May 19, 2010.
Unregistered Sales of Equity Securities
Set forth below is information regarding our issuances of capital stock and our grants of warrants and options to purchase shares of capital stock, which were not registered under the Securities Act, since January 1, 2009. Also included is the consideration, if any, received by us for such shares, warrants and options and information relating to the section of the Securities Act, or rule of the Securities and Exchange Commission, under which exemption from registration was claimed.
(a) Warrant Grants and Exercises
Since January 1, 2009 through the date of our IPO, we granted warrants to Ascension Health to purchase an aggregate of 568,636 shares of voting common stock with exercise prices ranging from $0.003 per share to $13.02 per share. Of these warrants, 432,264 were issued to Ascension Health based upon the achievement of specified milestones relating to sales and marketing assistance that it provided to us. Since January 1, 2009, Ascension Health purchased an aggregate of 194,326 shares of voting common stock upon warrant exercises for aggregate consideration of $496. In connection with our initial public offering in May 2010, we issued 615,649 shares of common stock to Ascension Health upon its cashless exercise of outstanding supplemental warrants. In December 2010, we issued 3,266,668 shares of the common stock upon the exercise of a consulting warrant for aggregate consideration of $0.9 million.
The warrants and shares of voting common stock issued upon the exercise of the warrants described in this paragraph (a) of Item 5 were issued in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act as sales by an issuer not involving any public offering.
(b) Option Grants and Exercises
Since January 1, 2009 through November 19, 2010, the date our 2006 Plan and 2010 Plan were registered under the Securities Act, we granted options to purchase an aggregate of 9,478,249 shares of non-voting common stock, with exercise prices ranging from $10.52 to $14.71 per share, to employees, directors and consultants pursuant to our stock option plans. Since January 1, 2009 through November 19, 2010, we issued an aggregate of 175,320 shares of non-voting common stock upon exercise of vested options for aggregate consideration of $0.4 million. Our 2006 Plan permits the exercise of unvested options; until vested, shares issued upon exercise of unvested options remain subject to our right of repurchase.
The options and shares of non-voting common stock issuable upon the exercise of the options described in this paragraph (c) of Item 15 were issued pursuant to written compensatory plans or arrangements with our employees, directors and consultants in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 701 promulgated under the Securities Act. All recipients of options and shares pursuant to this

exemption either received adequate information about us or had access, through employment or other relationships, to such information. In some cases, the options and shares of non-voting common stock issuable upon the exercise of the options described in this paragraph (c) of Item 15 were issued in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act as sales by an issuer not involving any public offering.

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All of the foregoing securities are deemed restricted securities for purposes of the Securities Act. All certificates representing the issued shares of voting common stock and non-voting common stock described in paragraphs (a), (b) and (c) of Item 5 included appropriate legends setting forth that the securities had not been registered and the applicable restrictions on transfer.

(d) Issuance of Shares for Financial Advisory Services

Contemporaneously with the closing of our initial public offering in May 2010, we issued shares of common stock to Financial Technology Partners LP and/or FTP Securities LLC in partial payment of a fee due for financial advisory services provided in connection with that offering. The issuance of shares to Financial Technology Partners LP and/or FTP Securities LLC was exempt from registration under Section 4(2) of the Securities Act.

Stock Price Performance Graph

The following graph compares the change in the cumulative total return (including the reinvestment of dividends) on our common stock for the period from May 20, 2010, the date our shares of common stock began trading on the NYSE, to the change in the cumulative total return on the stocks included in the NYSE Composite Index and Morningstar Healthcare Services Index over the same period. The graph assumes an investment of $100 made in our common stock at a price of $12.00 per share, the opening sale price on May 20, 2010, our first day of trading following our IPO, and an investment in each of the other indices on May 20, 2010. We did not pay any dividends during the period reflected in the graph.

COMPARISON OF CUMULATIVE TOTAL RETURN

ASSUMES $100 INVESTED ON MAY 20, 2010
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DEC. 31, 2011

Company/Market/Peer Group	5/20/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011
Accretive Health, Inc.	$ 100.00	$ 94.29	$ 141.47	$ 241.68	$ 250.65	$ 184.83	$ 200.06
NYSE Composite Index	$ 100.00	$ 110.34	$ 121.30	$ 128.73	$ 128.32	$ 105.44	$ 116.82
Morningstar Health Information Services	$ 100.00	$ 103.60	$ 114.83	$ 136.84	$ 141.91	$ 143.49	$ 136.35

The comparisons shown in the graph above are based on historical data and we caution that the stock price performance shown in the graph above is not indicative of, and is not intended to forecast, the potential future performance of our common stock. The information in this “Performance Graph” section shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into such filing.

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Item 6. Selected Consolidated Financial Data

The following tables summarize our consolidated financial data for the periods presented. You should read the following selected consolidated financial data in conjunction with our financial statements and the related notes appearing at the end of this Annual Report on Form 10-K and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this Annual Report on Form 10-K.

We derived the statement of operations data for the years ended December 31, 2009, 2010 and 2011 and the balance sheet data as of December 31, 2010 and 2011 from our audited consolidated financial statements, which are included in this Annual Report on Form 10-K. We derived the statement of operations data for the years ended December 31, 2007 and 2008 and the balance sheet data as of December 31, 2007, 2008 and 2009 from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(In thousands, except share and per share data)				
Statement of Operations Data:					
Net services revenue	$240,725	$398,469	$510,192	$606,294	$826,276
Costs of services	197,676	335,211	410,711	478,276	630,449
Operating margin	43,049	63,258	99,481	128,018	195,827
Operating expenses:					
Infused management and technology	27,872	39,234	51,763	64,029	85,529
Selling, general and administrative	15,657	21,227	30,153	41,671	62,243
Total operating expenses	43,529	60,461	81,916	105,700	147,772
Income (loss) from operations	(480)	2,797	17,565	22,318	48,055
Net interest income (expense)(1)	1,710	710	(9)	29	22
Income before provision for income taxes	1,230	3,507	17,556	22,347	48,077
Provision for income taxes	456	2,264	2,966	9,729	18,913
Net income	$774	$1,243	$14,590	$12,618	$29,164
Net income (loss) per common share:					
Basic:	$0.01	$(0.19)	$0.17	$0.18	$0.30
Diluted:	0.01	(0.19)	0.15	0.13	0.29
Weighted-average shares used in computing net income (loss) per common share:					
Basic:	32,968,085	36,122,470	36,725,194	70,732,791	96,964,661
Diluted:	40,360,362	36,122,470	43,955,167	94,206,677	101,151,273
Other Operating Data (unaudited):					
Adjusted EBITDA(2)	$6,842	$12,220	$32,912	$45,024	$81,563

	As of December 31,				
	2007	2008	2009	2010	2011
	(In millions)				
Projected contracted annual revenue run rate(3)					
Net base fees for managed service contracts	$258 to $259	$363 to $365	$439 to $441	$563 to $566	$802 to $805
Incentive payments for managed service contracts	$38 to $42	$45 to $51	$59 to $67	$113 to $123	$133 to $147
Other services	$13 to $14	$13 to $14	$11 to $11	$22 to $24	$56 to $59

Total Projected contracted annual revenue run rate	$309 to $315	$421 to $430	$509 to $519	$698 to $713	$991 to $1,011

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	As of December 31,				
	2007	2008	2009	2010	2011
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$34,745	$51,656	$43,659	$155,573	$196,725
Working capital	8,010	(3,453)	(4,122)	109,757	190,717
Total assets	60,858	86,904	103,472	262,619	364,192
Total stockholders' equity	$15,910	$7,923	$21,279	$142,719	$238,089

(1) Interest income results from earnings associated with our cash and cash equivalents. Interest income declined subsequent to 2007 due to reductions in market interest rates. No debt or other interest-bearing obligations were outstanding during any of the periods presented. Interest expense for 2009 is a result of a $150 origination fee paid in connection with establishing our new revolving line of credit and has been shown net of interest income earned during the year.

(2) We define adjusted EBITDA as net income (loss) before net interest income (expense), income tax expense (benefit), depreciation and amortization expense and share-based compensation expense. Adjusted EBITDA is a non-GAAP financial measure and should not be considered as an alternative to net income, operating income and any other measure of financial performance calculated and presented in accordance with GAAP.
We believe adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

- adjusted EBITDA and similar non-GAAP measures are widely used by investors to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon financing and accounting methods, book values of assets, capital structures and the methods by which assets were acquired;
- securities analysts often use adjusted EBITDA and similar non-GAAP measures as supplemental measures to evaluate the overall operating performance of companies; and
- by comparing our adjusted EBITDA in different historical periods, our investors can evaluate our operating results without the additional variations of interest income (expense), income tax expense (benefit), depreciation and amortization expense and share-based compensation expense.

Our management uses adjusted EBITDA:

- as a measure of operating performance, because it does not include the impact of items that we do not consider indicative of our core operating performance;
- for planning purposes, including the preparation of our annual operating budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies; and
- in communications with our board of directors and investors concerning our financial performance.

We understand that, although measures similar to adjusted EBITDA are frequently used by investors and securities analysts in their evaluation of companies, adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

- adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect share-based compensation expense;
- adjusted EBITDA does not reflect cash requirements for income taxes;
- adjusted EBITDA does not reflect net interest income (expense); and
- other companies in our industry may calculate adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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To properly and prudently evaluate our business, we encourage you to review the GAAP financial statements included elsewhere in this Annual Report on Form 10-K, and not to rely on any single financial measure to evaluate our business.
The following table presents a reconciliation of adjusted EBITDA to net income, the most comparable GAAP measure:

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(In thousands)				
Net income	$774	$1,243	$14,590	$12,618	$29,164
Net interest (income) expense(a)	(1,710)	(710)	9	(29)	(22)
Provision for income taxes	456	2,264	2,966	9,729	18,913
Depreciation and amortization expense	1,307	2,540	3,921	6,157	8,312
EBITDA	$827	$5,337	$21,486	$28,475	$56,367
Stock compensation expense(b)	934	3,551	6,917	16,549	25,196
Stock warrant expense(b)	5,081	3,332	4,509	—	—
Adjusted EBITDA	$6,842	$12,220	$32,912	$45,024	$81,563

(a) See footnote 1 above.

(b) Stock compensation expense and stock warrant expense collectively represent the share-based compensation expense reflected in our financial statements. Of the amounts presented above, $928, $921 and $1,736 was classified as a reduction in net services revenue for the years ended December 31, 2007, 2008 and 2009, respectively. No such reduction was recorded for the years ended December 31, 2010 and 2011 as all warrants had been earned and therefore there was no stock warrant expense.

(3) We define Projected Contracted Annual Revenue Run-Rate (PCARR) as the expected total net services revenue for the subsequent 12 months for all healthcare providers for which we are providing services that are under contract. We believe that our Projected Contracted Annual Revenue Run-Rate is a useful measure of our overall business volume at a particular point in time and of changes in the volume of business over time because it eliminates the time impact associated with the signing of new contracts during a quarterly or annual period.

PCARR is calculated by accumulating our estimates of the next 12 months' base fees, cost saving sharing credits and incentive payments for each contract in place at the reporting date. Our base fee estimate is based on the contractual agreement with each customer relating to the services that we will provide and the costs that the customer was incurring for completing such activities prior to entering into its agreement with us. Our estimates for cost sharing credits and incentive payments are based on the Company's prior experiences regarding the level of cost reductions and increases in net revenue yield and its management's experience regarding potential reductions in total medical cost for a defined patient population, which are likely to be earned during each year a contract is in place given the level of infused management as well as the degree to which we have implemented our technology. We update these estimates regularly to incorporate changes in activities under management for a specific contract, and changes in our overall experience with our portfolio of contracts. There were no significant changes in our overall assumptions used in the calculation of PCARR as of December 31, 2011.

All of our contracts have "evergreen" provisions that extend the term of our services automatically unless the customer provides notification of non-renewal. Therefore, unless a notice of non-renewal has been received, our PCARR calculation assumes that each contract in place at the reporting date will continue for at least the next 12 months. In the event that we receive a non-renewal notice from a customer, we reduce the PCARR calculation by the amount associated with that specific contract for any periods after the contract's then current end date. At December 31, 2011, PCARR includes approximately $40 million related to periods subject to assumed contract extensions.
PCARR is not a projection of expected revenues for specific future periods because any such projection would also need to include the additional revenue resulting from any future contracts signed with new customers subsequent to

the reporting date. Further, actual future revenues from existing customers may differ from the projected amounts used for purposes of calculating PCARR because the scope of services provided to existing customers may change and the incentive fees we earn may be more or less than we estimate depending on our ability to achieve projected increases in our customers' net revenue yield and projected reductions in total medical cost of the customers' patient population.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

Our Background

Accretive Health is a leading provider of services that help healthcare providers generate sustainable improvements in their operating margins and healthcare quality while also enhancing patient, physician and staff satisfaction across our three offerings - revenue cycle management, quality and total cost of care and physician advisory services. We deliver these results by implementing our distinctive operating model which leverages our extensive management expertise, leading-edge technology and process excellence.

Our integrated revenue cycle technology and services offering spans the entire revenue cycle. We help our revenue cycle customers increase the portion of the maximum potential patient revenue they receive, while reducing total revenue cycle costs.

To implement our solutions, we assume full responsibility for the management and cost of the operations we have contracted to manage and supplement the customer's existing staff involved in such operations with seasoned Accretive Health personnel. A customer's revenue improvements and cost savings generally increase over time as we deploy additional programs and as the programs we implement become more effective, which in turn provides visibility into our future revenue and profitability. We and our customers share financial gains resulting from our solutions, which directly aligns our objectives and interests with those of our customers. Both we and our customers benefit - on a contractually agreed-upon basis - from net revenue increases realized by the customers as a result of our services. The long-term nature of our managed service contracts and the fixed nature of the base fees under each contract provides a core source of recurring revenue.

Our quality and total cost of care solution can help our customers identify the individuals who are most likely to experience an adverse health event and, as a result, incur high healthcare costs in the coming year. This data allows providers to focus greater efforts on managing these patients within and across the delivery system, as well as at home, to create a better care experience.

Our physician advisory services offering assists hospitals navigate the path to compliant revenue by providing concurrent level of care classification reviews, as well as retrospective chart audits utilizing highly skilled physicians. This proactive case management increases our customer's compliance with the Centers for Medicare & Medicaid Services (CMS) and commercial payor policies and reduces their exposure to the risk of having to return previously recorded revenue

Our customers typically are multi-hospital systems, including faith-based or community healthcare systems, academic medical centers and independent ambulatory clinics, and their affiliated physician practice groups.

We believe that current macroeconomic conditions will continue to impose financial pressure on healthcare providers and will increase the importance of managing their operations effectively and efficiently and deliver better care at a lower cost. Additionally, the continued operating pressures facing U.S. hospitals coupled with some of the underlying themes of healthcare reform legislation enacted in March 2010 make the efficient management of the revenue cycle and quality and total cost of care initiatives, among the most critical challenges facing healthcare providers today.

Our corporate headquarters are located in Chicago, Illinois, and we operate shared services centers and offices in Michigan, Illinois, Missouri, Florida and India. As of December 31, 2011, we had 2,721 full-time employees and 342 part-time employees, and managed approximately 11,300 of our customers' employees who are involved in patient

registration, health management information, procedure coding, billing and collections. We refer to these functions collectively as the revenue cycle, and to the personnel involved in a customer's revenue cycle as revenue cycle staff. In evaluating our business performance, our management monitors various financial and non-financial metrics. On a monthly basis, our chief executive officer, chief financial officer and other senior leaders monitor our projected contracted annual revenue run rate (as described below), net patient revenue under management, aggregate net services revenue, revenue cycle operating costs, corporate-level operating expenses, cash flow and adjusted EBITDA. When appropriate, decisions are made regarding action steps to improve these overall operational measures. Our senior operational leaders also monitor the

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performance of each customer's revenue cycle, quality and total cost of care operations, and physician advisory services operations through ten to twelve hospital-specific operating reviews each year. Such reviews typically focus on planned and actual operating results being achieved on behalf of our customers, progress against our operating metrics and planned and actual operating costs for that site. During these regular reviews, our senior operational leaders communicate to the operating teams suggestions to improve contract and operations performance and monitor the results of previous efforts. In addition, our senior management also monitors our ability to attract, hire and retain a sufficient number of talented employees to staff our growing business, and the development and performance of our proprietary technology.

We define our projected contracted annual revenue run rate, or PCARR, as the total net services revenue we expect to receive during the subsequent twelve months from all customers under contract. We report PCARR as a range as it includes estimates concerning our relative success in achieving incentive based payments over the next 12 months. We believe that PCARR is a useful method to measure our overall business volume at a point in time and changes in the volume of our business over time because it eliminates the timing impact of contract signings within a specific quarterly or annual period.

By way of example, we generally expect that the annual revenues for our revenue cycle management services at contract maturity (which is generally reached in three and one-half to four years) for a representative hospital customer with $1 billion in net patient revenues will be approximately 5% of the provider's net patient revenue, or approximately $50 million, consisting of $40 million of base fees, net of cost savings shared with the customer, and $10 million of incentive fees. For the same representative hospital customer for our quality and total cost of care service offering, which we introduced in 2010, we currently expect that the annual revenues will be approximately $60 million, consisting of up to $10 million in base fees and up to $50 million in incentive fees. We generally expect our incentive fees to improve over time as we introduce additional aspects of our operating model and as our predictive analytics improve with additional customer-specific details. Therefore, we generally expect our PCARR for a specific customer engagement to increase annually until the contract is operating at maturity levels.

Seasonality

Our quarterly and annual net services revenue generally increased each period due to ongoing expansion in the number of hospitals subject to managed service contracts with us and increases in the amount of incentive payments earned. The timing of customer additions is not uniform throughout the year. We also experience fluctuations in incentive payments as a result of patients' ability to accelerate or defer elective procedures, particularly around holidays such as Thanksgiving and Christmas. Generally, incentive payments earned are lower in the first quarter of each year and higher in the fourth quarter of each year. As a result of incentive payment fluctuations, our adjusted EBITDA is typically lower in the first quarter of each fiscal year. For example, our adjusted EBITDA of $8.4 million for the quarter ended March 31, 2011 represented only 10% of our $81.6 million of adjusted EBITDA for the year ended December 31, 2011. We expect this seasonality to continue in our business and we believe that first quarter adjusted EBITDA will average approximately 10% of full fiscal year adjusted EBITDA for the foreseeable future; provided, however, that due to the factors described above, as well as other factors, some of which may be beyond our control, our actual results could differ materially from these estimates.

Net Services Revenue

We derive our net services revenue primarily from service contracts under which we manage our customers' revenue cycle or quality and total cost of care operations. Revenues from managed service contracts consist of base fees and incentive payments:

- Base fee revenues represent our contractually-agreed annual fees for managing and overseeing our customers' revenue cycle or quality and total cost of care operations. Following a comprehensive review of a customer's operations, the customer's base fees are tailored to its specific circumstances and the extent of the customer's operations for which we are assuming operational responsibility; we do not have standardized fee arrangements.
- Incentive payment revenues for revenue cycle management services represent the amounts we receive by increasing our customers' net patient revenue and identifying potential payment sources for patients who are uninsured and underinsured. These payments are governed by specific formulas contained in the managed service contract with each of our customers. In general, we earn incentive payments by increasing a customer's actual cash yield as a percentage

of the contractual amount owed to such customer for the healthcare services provided.

- Incentive payment revenues for quality and total cost of care services represent our share of the provider community cost savings for our role in providing the technology infrastructure and for managing the care coordination process.

In addition, we earn revenue from other services, which primarily include revenue from our physician advisory services offering, services provided in our quality and total cost of care business, and, to a lesser extent, our share of revenues associated with the collection of dormant patient accounts (more than 365 days old) under some of our service contracts.

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Some of our service contracts entitle customers to receive a share of the cost savings we achieve from operating their revenue cycle. This share is returned to customers as a reduction in subsequent base fees. Our services revenue is reported net of cost sharing, and we refer to this as our net services revenue.

The following table summarizes the composition of our net services revenue for the year ended December 31, 2011 on a percentage basis:

	Year Ended December 31, 2011	
Net base fees for managed service contracts	81	%
Incentive payments for managed service contracts	14	%
Other services	5	%
Total	100	%

Costs of Services

Under our managed service contracts, we assume responsibility for the costs necessary to conduct the customers' revenue cycle, physician advisory services or quality and total cost of care operations that we have contracted to manage. Costs of services consist primarily of:

- Salaries and benefits of the customers' employees engaged in activities which are included in our contract and who are assigned to work on-site with us. Under our contracts with our customers, we are responsible for the cost of the salaries and benefits for these employees of our customers. Salaries are paid and benefits are provided to such individuals directly by the customer, instead of adding these individuals to our payroll, because these individuals remain employees of our customers.
- Salaries and benefits of our employees in our shared services centers (these individuals are distinct from on-site "infused management" discussed below) and the non-payroll costs associated with operating our shared service centers.
- Costs associated with vendors that provide services integral to the customer's services we are contracted to manage.

Operating Margin

Operating margin is equal to net services revenue less costs of services. Our operating model is designed to improve margin under each managed service contract as the contract matures, for several reasons:

- We typically enhance the productivity of a customer's revenue cycle operations over time as we fully implement our technology and procedures and because any overlap between costs of our shared services centers and costs of hospital operations targeted for transition is generally concentrated in the first year of the contract.
- Incentive payments under each managed service contract generally increase over time as we deploy additional programs and the programs we implement become more effective and produce improved results for our customers.

Infused Management and Technology Expenses

We refer to our management and staff employees that we devote on-site to customer operations as infused management. Infused management and technology expenses consist primarily of the wages, bonuses, benefits, share based compensation, travel and other costs associated with deploying our employees on customer sites to guide and manage our customers' revenue cycle or population health management operations. The employees we deploy on customer sites typically have significant experience in revenue cycle operations, care coordination, technology, quality control or other management disciplines. The other significant portion of these expenses is an allocation of the costs associated with maintaining, improving and deploying our integrated proprietary technology suite and an allocation of the costs previously capitalized for developing our integrated proprietary technology suite.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of expenses for executive, sales, corporate information technology, legal, regulatory compliance, selected physician advisory services costs, finance and human resources personnel, including wages, bonuses, benefits and share-based compensation; fees for professional services; share-based expense for stock warrants; insurance premiums; facility charges; and other corporate expenses. Professional services consist primarily of external legal, tax and audit services. The costs of developing the processes and technology for our emerging quality and total cost of care service offering prior to November 2010 when we signed our inaugural client were also included in selling, general

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and administrative expenses for the year ended December 31, 2010. We expect selling, general and administrative expenses to increase in absolute dollars as we continue to add sales and marketing, information technology, human resources, finance, accounting and other administrative personnel as we expand our business.
Although we cannot predict future changes to the laws and regulations affecting us or the healthcare industry generally, we will efficiently implement associated changes to our compliance programs to minimize the effect on our selling, general and administrative expenses.
Interest Income (Expense)
Interest income is derived from the return achieved from our cash and cash equivalents. Interest expense for the year ended December 31, 2009 resulted from origination fees associated with our revolving line of credit, which we entered into on September 30, 2009.
Income Taxes
Income tax expense consists of federal and state income taxes in the United States and India. A large portion of our operations is conducted in Michigan, which in 2008 began to impose a tax based on gross receipts in addition to tax based on net income. Although we continued to pay the Michigan gross receipts tax in 2009, our effective tax rate declined to approximately 17% in 2009, principally due to the release of $3.5 million of valuation allowances for deferred tax assets. Our effective tax rate in 2010 was 44% due principally to the gross receipts taxes paid to the State of Michigan and, to a lesser extent, other states. In the summer of 2010, a change in legislation substantially reduced the requirement for us to pay taxes on any future gross receipts in Michigan. In 2011 our effective tax rate was approximately 39%. We expect our overall effective tax rate to be approximately 40% in future years and increase in absolute dollars as our income increases.
Application of Critical Accounting Policies and Use of Estimates
Our consolidated financial statements reflect the assets, liabilities and results of operations of Accretive Health, Inc. and our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Our consolidated financial statements have been prepared in accordance with GAAP.
The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base estimates on historical experience and on assumptions that we believe to be reasonable given our operating environment. Estimates are based on our best knowledge of current events and the actions we may undertake in the future. Although we believe all adjustments considered necessary for fair presentation have been included, our actual results may differ materially from our estimates.
We believe that the accounting policies described below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary to understand and evaluate the consolidated financial statements contained in this Annual Report on Form 10-K. For further information on our critical and other significant accounting policies, see Note 2 to our consolidated financial statements contained elsewhere in this Annual Report on Form 10-K.
Revenue Recognition
Our managed service contracts generally have an initial term of four to five years and various start and end dates. After the initial terms, these contracts renew annually unless canceled by either party. Revenue from managed service contracts consists of base fees and incentive payments.
We record revenue in accordance with the provisions of Staff Accounting Bulletin - Topic 13, Revenue Recognition. As a result, we only record revenue once there is persuasive evidence of an arrangement, services have been rendered, the amount of revenue has become fixed or determinable and collectibility is reasonably assured. We recognize base fee revenues on a straight-line basis over the life of the managed service contract. Base fees for contracts which are received in advance of services delivered are classified as deferred revenue in the consolidated balance sheets until services have been provided.
Some of our service contracts entitle customers to receive a share of the cost savings achieved from operating their revenue cycle. This share is credited to the customers as a reduction in subsequent base fees. Services revenue is

reported net of cost sharing and is referred to as net services revenue.

Our managed service contracts generally allow for adjustments to the base fee. Adjustments typically occur at 90, 180 or 360 days after the contract commences, but can also occur at subsequent dates as a result of factors including changes to the scope of operations and internal and external audits. All adjustments, the timing of which is often dependent on factors outside our control and which can increase or decrease revenue and operating margin, are recorded in the period the changes are known

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and collectibility of any additional fees is reasonably assured. Any such adjustments may cause our quarter-to-quarter results of operations to fluctuate. Adjustments may vary in direction, frequency and magnitude and generally have not materially affected our annual revenue trends, margin trends, and visibility.

We record revenue for incentive payments once the calculation of the incentive payment earned is finalized and collectibility is reasonably assured. We use a proprietary technology and methodology to calculate the amount of benefit each customer receives as a result of our services. Our calculations are based in part on the amount of revenue each customer is entitled to receive from commercial and private insurance carriers, Medicare, Medicaid and patients. Because the laws, regulations, instructions, payor contracts and rule interpretations governing how our customers receive payments from these parties are complex and change frequently, estimates of a customer's prior period benefits could change. All changes in estimates are recorded when new information is available and calculations are completed.

Incentive payments are based on the benefits a customer has received throughout the life of the managed service contract with us. Each quarter, we record the increase in the total benefits received to date. If a quarterly calculation indicates that the cumulative benefits to date have decreased, we record a reduction in revenue. If the decrease in revenue exceeds the amount previously paid by the customer, the excess is recorded as deferred revenue.

The revenue for the physician advisory services is recognized once each consultation has been completed and is recorded on a per-case basis.

Our services also include collection of dormant patient accounts receivable that have aged 365 days or more directly from individual patients. We share all cash generated from these collections with our customers in accordance with specified arrangements. We record as revenue our portion of the cash received from these collections when each customer's cash application is complete.

Accounts Receivable and Allowance for Doubtful Accounts

We assess our customers' creditworthiness as a part of our customer acceptance process. We maintain an estimated allowance for doubtful accounts to reduce our gross accounts receivable to the amount that we believe will be collected. This allowance is based on our historical experience, our continuing assessment of each customer's ability to pay, the length of time a balance has been outstanding and the status of any ongoing operations with each applicable customer.

We perform quarterly reviews and analyses of each customer's outstanding balance and assess, on an account-by-account basis, whether the allowance for doubtful accounts needs to be adjusted based on currently available evidence such as historical collection experience, current economic trends, past due status and changes in customer payment terms. We consider a receivable to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the agreement. In accordance with our policy, if collection efforts have been pursued and all avenues for collections exhausted, accounts receivable would be written off as uncollectible.

Software Development

We apply the provisions of Accounting Standards Codification, or ASC, 350-40, Intangibles — Goodwill and Other — Internal-Use Software, which requires the capitalization of costs incurred in connection with developing or obtaining internal use software. In accordance with ASC 350-40, we capitalize the costs of internally-developed, internal use software when an application is in the development stage. This generally occurs after the overall design and functionality of the application has been approved and our management has committed to the application's development. Capitalized software development costs consist of payroll and payroll-related costs for employee time spent developing a specific internal use software application or related enhancements, and external costs incurred that are related directly to the development of a specific software application.

Income Taxes

We record deferred tax assets and liabilities for future income tax consequences that are attributable to differences between the carrying amount of assets and liabilities for financial statement purposes and the income tax bases of such assets and liabilities. We base the measurement of deferred tax assets and liabilities on enacted tax rates that we expect will apply to taxable income in the year we expect to settle or recover those temporary differences. We recognize the effect on deferred income tax assets and liabilities of any change in income tax rates in the period that includes the

enactment date. We provide a valuation allowance for deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

As of December 31, 2008 and in all prior periods, a valuation allowance was provided for all of our net deferred tax assets. As a result of our improved operations, in 2009 we determined that it was no longer necessary to maintain a valuation allowance for all of our deferred tax assets.

At December 31, 2009, 2010, and 2011, the primary sources of our deferred taxes were:

- differences in timing of depreciation on fixed assets;
- the timing of revenue recognition arising from incentive payments;
- employee compensation expense arising from stock options and accrued bonuses; and
- costs associated with the issuance of warrants to purchase shares of our common stock.

We recognize the financial statement effects of a tax position only when it is more likely than not that the position will be sustained upon examination. Tax positions taken or expected to be taken that are not recognized under the pronouncement are recorded as liabilities. Interest and penalties relating to income taxes are recognized in our income tax provision in the statements of consolidated operations.

Share-Based Compensation Expense

Our share-based compensation expense results from issuances of shares of restricted common stock and grants of stock options and warrants to employees, directors, outside consultants, customers, vendors and others. We recognize the costs associated with option, restricted stock and warrant grants using the fair value recognition provisions of ASC 718, Compensation — Stock Compensation. Generally, ASC 718 requires the value of share-based payments to be recognized in the statement of operations based on their estimated fair value at date of grant amortized over the grant's vesting period.

Restricted Stock Plan. Our restricted stock plan was adopted by our board of directors in March 2004, amended in June 2004, August 2004 and February 2005. As of December 31, 2008, all shares of common stock outstanding under our restricted stock plan were vested. We did not record any share-based compensation expense in 2009, 2010, or 2011 relating to these issuances.

Ascension Health Stock and Warrants. In October 2004, Ascension Health became our founding customer. Since then, in exchange for its initial start-up assistance and subsequent sales and marketing assistance, we have issued common stock and granted warrants to Ascension Health, as described below:

- Initial Stock Issuance and Protection Warrant Agreement. In October and November 2004, we issued 3,537,306 shares of common stock to Ascension Health, then representing a 5% ownership interest in our company on a fully-diluted basis, and entered into a protection warrant agreement under which Ascension Health was granted the right to purchase additional shares of common stock from time to time for $0.003 per share when Ascension Health's ownership interest in our company declined below 5% due to our issuance of additional stock or rights to purchase stock. The protection warrant agreement expired on the closing of our initial public offering in May 2010. We made the initial stock grant and entered into the protection warrant agreement because Ascension Health agreed to provide us with an operational laboratory and related start-up consulting services in connection with our development of our initial revenue cycle management service offering.

In 2009, we granted Ascension Health the right to purchase 136,372 shares of common stock for $0.003 per share, pursuant to the protection warrant agreement. Accordingly, we reduced the amount of our base fee revenues from Ascension Health by $1.7 million in 2009. We accounted for the costs associated with these purchase rights as a reduction in base fee revenues due to us from Ascension Health because we could not reasonably estimate the fair value of the services provided by Ascension Health. There were no grants associated with this agreement during 2010 or 2011 and no costs were recorded. As of December 31, 2010 and 2011, there were no protection warrants outstanding and no additional warrant rights may be earned under this agreement. For additional information regarding these contract provisions, see "Related Person Transactions — Transactions With Ascension Health" caption included in our 2012 Proxy Statement.

- Supplemental Warrant. Pursuant to a supplemental warrant agreement that became effective in November 2004, Ascension Health had the right to purchase up to 3,537,306 shares of our common stock based upon the achievement of specified milestones relating to its sales and marketing assistance. The supplemental warrant agreement expired on the closing of our initial public offering in May 2010.

During March 2009, Ascension Health earned the right to purchase 437,264 shares of common stock for $13.02 per share, and we recorded $2.8 million in marketing expense. No warrants were earned during years ended December 31, 2010 and 2011. Ascension Health was issued 615,649 shares of common stock as a result of cashless exercise of outstanding supplemental warrants during the year ended December 31, 2010. The supplemental warrant with respect

to 437,264 shares of common stock expired in connection with our initial public offering.
As of December 31, 2010 and 2011, there were no supplemental warrants outstanding; no additional warrant rights may be earned under the Supplemental Warrant Agreement.

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Licensing and Consulting Warrant. In conjunction with the start of our business, in February 2004, we executed a term sheet with a consulting firm and its principal, Zimmerman LLC (formerly known as Zimmerman and Associates) and Michael Zimmerman, respectively, contemplating that we would grant to Mr. Zimmerman a warrant, with an exercise price equal to the fair market value of our common stock upon grant, to purchase shares of our common stock then representing 2.5% of our equity in exchange for exclusive rights to certain revenue cycle methodologies, tools, technology, benchmarking information and other intellectual property, plus up to another 2.5% of our equity at the time of grant if the firm's introduction of us to senior executives at prospective customers resulted in the execution of managed service contracts between us and such customers. In January 2005, we formalized the license and warrant grant contemplated by the term sheet and granted to Mr. Zimmerman a warrant to purchase 3,266,668 shares of our common stock for $0.29 per share, representing 5% of our equity at that time. In December 2010, Mr. Zimmerman and the trusts exercised the warrant rights in full to purchase 3,266,668 shares of our common stock for $0.29 per share. As of December 31, 2010 and 2011, the warrant was no longer outstanding and no additional warrant rights may be earned under this agreement.
We used the Black-Scholes option pricing model to determine the estimated fair value of the above purchase rights at the date earned.
The following table sets forth the significant assumptions used in the model during 2009:

	Year Ended December 31, 2009
Future dividends	—
Risk-free interest rate	2.91%
Expected volatility	50%
Expected life(1)	5.6 years

(1) Expected life applies to Ascension Health's supplemental warrant only, since the other warrants were fully vested upon grant.

Stock Option Plans. In December 2005, our board of directors approved a stock option plan, which provided for the grant of stock options to employees, directors and consultants. The plan was amended and restated in February 2006 and further amended in May 2007, October 2008, January 2009 and November 2009. In April 2010, we adopted a new 2010 stock incentive plan, or the 2010 plan, which became effective immediately prior to the closing of our initial public offering and, accordingly, no further stock option grants will be made 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 stock-based awards.
As of December 31, 2011, an aggregate of 15,521,829 shares were subject to outstanding options under both plans, and 4,566,765 shares were available for grant. In the third quarter of 2011, the Company began to grant restricted stock awards to its employees; no such awards were granted in the years ended December 31, 2009 and 2010. To the extent that previously granted awards under the 2006 plan or 2010 plan expire, terminate or are otherwise surrendered, cancelled, forfeited, or repurchased by us, the number of shares available for future awards under the 2010 plan will increase, up to a maximum of 24,374,756 shares. Under the terms of both plans, all options will expire if they are not exercised within ten years after the grant date. Substantially all of the options vest over four years at a rate of 25% per year on each grant anniversary date. Options granted under the 2006 plan can be exercised immediately upon grant, but upon exercise the shares issued are subject to the same vesting and repurchase provisions that applied before the exercise. Options granted under the 2010 plan cannot be exercised prior to vesting.
We use the Black-Scholes option pricing model to determine the estimated fair value of each option as of its grant date. These inputs are subjective and generally require significant analysis and judgment to develop.
The following table sets forth the significant assumptions used in the Black-Scholes model to calculate stock-based compensation expense for grants made during 2009, 2010 and 2011.

	Year Ended December 31,		
	2009	2010	2011
Future dividends	—	—	—

Risk-free interest rate	1.6% to 3.2%	1.6% to 2.6%	1.2% and 2.7%
Expected volatility	50%	50%	50%
Expected life	6.25 years	6.25 years	6.25 years
Forfeitures	4.25% annually	4.25% annually	4.25% annually

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As a newly public company, it is not practical for us to estimate the expected volatility of our share prices based on our limited public trading history. Therefore, we estimated the expected volatility by reviewing the historical volatility of the common stock of public companies that operate in similar industries or were similar in terms of stage of development or size and then projecting this information toward our future expected results. We used judgment in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies. We aggregated all employees into one pool for valuation purposes. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant.

The plan was not in existence a sufficient period for us to have used our historical experience to estimate expected life. Furthermore, data from other companies was not readily available. Therefore, we estimated our stock options' expected life using a simplified method based on the average of each option's vesting term and original contractual term.

An estimated forfeiture rate derived from our historical data and our estimates of the likely future actions of option holders was applied when recognizing the share-based compensation expense of the options.

We continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to our share-based compensation on a prospective basis, and in incorporating these factors into the Black-Scholes pricing model. Higher volatility and longer expected lives result in an increase to total share-based compensation expense determined at the date of grant. In addition, any changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period that the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the share-based compensation expense recognized in our consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share based compensation expense recognized in our consolidated financial statements. These adjustments will affect our infused management and technology expenses, cost of services and selling, general and administrative expenses.

For service-based equity awards, which represent all outstanding option and restricted stock grants as of December 31, 2011, compensation expense is recognized, net of forfeitures, using a straight-line method over the applicable vesting period. Quarterly, the stock based compensation expense is adjusted to reflect 100% of expense for options that vested during the period. The allocation of this cost between cost of services, selling, general and administrative expenses and infused management and technology expenses depends on the salaries and work assignments of the personnel holding these stock options.

Prior to our initial public offering, stock options represented the right to purchase shares of our non-voting common stock. All outstanding non-voting common stock converted into voting common stock on a share-for-share basis effective May 19, 2010, and accordingly, stock options to purchase non-voting common stock represent stock options to purchase voting common stock, with no other changes in their terms.

As of December 31, 2011 there was $81.7 million of total, unrecognized share-based compensation cost related to stock options and RSAs granted under the plans, which we expect to recognize over a weighted-average period of 2.9 years. The allocation of this cost between cost of services, selling, general and administrative expenses and infused management and technology expenses will depend on the salaries and work assignments of the personnel holding these stock options.

Determination of Fair Value. Valuing the share price of a privately-held company is complex. We believe that prior to our initial public offering we used reasonable methodologies, approaches and assumptions in assessing and determining the fair value of our common stock for financial reporting purposes. Prior to our initial public offering, we determined the fair value of our common stock through periodic internal valuations that were approved by our board of directors. The fair value approved by our board was used for all option grants until such time as a new determination of fair value was made. To date, and as permitted by our stock option plan, our chief executive officer has selected option recipients and determined the number of shares covered by, and the timing of, option grants.

Our stock valuations used a combination of the market-comparable approach and the income approach to estimate an enterprise value of our company at each valuation date. Our board considered the following factors when determining the fair value of our common stock:

- our financial condition, sales levels and results of operations during the relevant period;
- developments in our business;
- hiring of key personnel;
- forecasts of our financial results and market conditions affecting our industry;

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- market values, sales levels and results of operations for public companies that we consider comparable in terms of size, service offerings and maturity;
- the superior rights and preferences of outstanding securities that were senior to our common stock; and
- the illiquid nature of our common stock.

There is inherent uncertainty in the forecasts and projections that were used in our common stock valuations prior to our initial public offering. If we had made different assumptions and estimates than those described above, the amount of our share-based compensation expense, net income or loss and related per-share amounts could have been materially different.

For grants following the initial public offering, we utilized market-based share prices of our common stock in the Black-Scholes option pricing model to calculate the fair value of our common stock option awards. The Black-Scholes model involves a number of highly subjective estimates such as the length of time employees will retain their vested stock options before exercising them (the “expected term”), the estimated forfeitures over the applicable vesting period, and the estimated volatility of our common stock over the expected term.

Legal Proceedings

In the normal course of business, we are involved in legal proceedings or regulatory investigations. We evaluate the need for loss accruals using the requirements of ASC 450, Contingencies. When conducting this evaluation we consider factors such as the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. We record 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 reasonably be estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, then we record the minimum amount in the range as our loss accrual. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded.

Results of Operations

The following table sets forth consolidated operating results and other operating data for the periods indicated.

	Year Ended December 31,		
	2009	2010	2011
	(In thousands)		
Statement of Operations Data:			
Net services revenue	$510,192	$606,294	$826,276
Costs of services	410,711	478,276	630,449
Operating margin	99,481	128,018	195,827
Infused management and technology expense	51,763	64,029	85,529
Selling, general and administrative expense	30,153	41,671	62,243
Total operating expenses	81,916	105,700	147,772
Income from operations	17,565	22,318	48,055
Net interest income (expense)	(9)	29	22
Income before provision for income taxes	17,556	22,347	48,077
Provision for income taxes	2,966	9,729	18,913
Net income	$14,590	$12,618	$29,164
Operating Expense Details:			
Infused management and technology expense, excluding depreciation and amortization expense and share-based compensation expense	$45,365	$53,230	$70,158
Selling, general and administrative expense, excluding depreciation and amortization expense and share-based compensation expense	22,940	32,280	48,083
Depreciation and amortization expense(1)	3,921	4,866	6,265
Share-based compensation expense(2)	9,690	15,324	23,266
Total operating expenses	$81,916	$105,700	$147,772

(1) We allocate depreciation and amortization expense between infused management and technology expenses, selling, general and administrative expenses, and cost of services.

The following table summarized the composition of our depreciation and amortization expense for the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
	(In thousands)		
Depreciation and Amortization Expense Allocation Details:			
Infused management and technology expense	$2,440	$3,236	$3,994
Selling, general and administrative expense	1,481	1,630	2,271
Depreciation and amortization expense allocated to operating expenses	$3,921	$4,866	$6,265
Depreciation and amortization expenses allocated to costs of services(a)	—	1,291	2,047
Total depreciation and amortization expense	$3,921	$6,157	$8,312

(a) In 2010, as our shared services centers model adoption by customers increased, we started allocating a portion of our depreciation and amortization expense to cost of services.

(2) We allocate share-based expense between infused management and technology expenses, selling, general and administrative expenses, and cost of services. The following table summarized the composition of our share based compensation expense for the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
	(In thousands)		
Share-Based Compensation Expense Allocation Details:			
Infused management and technology expense	$3,959	$7,563	$11,377
Selling, general and administrative expense	5,731	7,761	11,889
Share-based compensation expense allocated to operating expenses(a)	$9,690	$15,324	$23,266
Share-based compensation expenses allocated to costs of services(b)	—	1,225	1,930
Total share-based compensation expense	$9,690	$16,549	$25,196

(a) For the year ended December 31, 2009, share-based compensation expense includes share-based compensation expense of $6,917 and warrant-related expense of $2,773. Additional warrant expense of $1,736 was classified as a reduction in base fee revenue for the year ended December 31, 2009. No warrant expense was recorded for the years ended December 31, 2010 and 2011.

(b) In 2010, as our shared services centers model adoption by customers increased, we started allocating a portion of our share-based compensation expense to cost of services.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2011

Net Services Revenue

The following table summarizes the composition of our net services revenue for the years ended December 31, 2010 and 2011:

	2010	2011
	(In thousands)	
Net base fees for managed service contracts	$518,243	$671,930
Incentive payments for managed service contracts	74,663	114,455
Other services	13,388	39,891
Total	$606,294	$826,276

Net services revenue increased by $220.0 million, or 36.3%, to $826.3 million for the year ended December 31, 2011 from $606.3 million for the year ended December 31, 2010. The largest component of the increase, net base fee revenue, increased by $153.7 million, or 29.7%, to $671.9 million for the year ended December 31, 2011 from $518.2 million for the year ended December 31, 2010, primarily due to an increase in the number of hospitals with which we had managed service contracts. In addition, incentive payment revenues increased by $39.8 million, or 53.3%, to $114.5 million for the year ended December 31, 2011 from $74.7 million for the year ended December 31, 2010, consistent with the increases that generally occur as our managed service contracts mature. All other revenues increased by $26.5 million, or 198.0%, to $39.9 million for the year ended December 31, 2011 from $13.4 million for the year ended December 31, 2010, as we continued to expand our specialized services such as physician advisory services. The vast majority of revenue that we recognized in 2011 and 2010 related to our revenue cycle management services. Our projected contracted annual revenue run rate at December 31, 2011 was $991 million to $1,011 million compared to $698 million to $713 million at December 31, 2010. Based on the midpoint of the two ranges, our projected contracted annual revenue run rate as of December 31, 2011 increased by $295 million, or 41.9%.

Costs of Services

Our costs of services increased by $152.2 million, or 31.8%, to $630.4 million for the year ended December 31, 2011 from $478.3 million for the year ended December 31, 2010. The increase in costs of services was primarily attributable to the increase in the number of hospitals for which we provide managed services.

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Operating Margin
Operating margin increased by $67.8 million, or 53.0%, to $195.8 million for the year ended December 31, 2011 from $128.0 million for the year ended December 31, 2010. However, the operating margin as a percentage of net services revenue expanded to 23.7% for the year ended December 31, 2011 from 21.1% for the year ended December 31, 2010, primarily due to increased levels of cost efficiencies in the performance of our managed service contracts, net of shared customer cost savings and an increased ratio of mature managed service contracts.
Operating Expenses
Infused management and technology expenses increased by $21.5 million, or 33.6%, to $85.5 million for the year ended December 31, 2011 from $64.0 million for the year ended December 31, 2010. The increase in infused management and technology expenses was primarily due to the increase in the number of our management personnel deployed at customer facilities, reflecting an increase in the number of hospitals with which we had managed service contracts. The growth in infused management also included costs associated with our new Quality and Total Cost of Care offering.
Selling, general and administrative expenses increased by $20.6 million, or 49.4%, to $62.2 million for the year ended December 31, 2011 from $41.7 million for the year ended December 31, 2010. The increase included $1.0 million of secondary offering costs, $2.0 million of additional public company costs, and $12.8 million associated with supporting the strong growth of our physician advisory offering, as well as increased sales and marketing personnel costs, net of share-based and depreciation expense. The share-based compensation expense and depreciation expense increased by $4.8 million for the year ended December 31, 2011 as compared to December 31, 2010, as discussed below.
We allocate share-based compensation expense and depreciation and amortization expense between cost of services, infused management expenses and selling, general and administrative expenses. In 2011 and 2010, the following amounts were allocated to operating expenses:

	Year Ended December 31,		Change		
	2010	2011	Amount	Percent	
	(In thousands)				
Share-Based Compensation Expense Allocation Details:					
Infused management and technology expense	$7,563	$11,377	$3,814	50.4	%
Selling, general and administrative expense	7,761	11,889	4,128	53.2	%
Share-based compensation expense allocated to operating expenses	$15,324	$23,266	$7,942	51.8	%
Depreciation and Amortization Expense Allocation Details:					
Infused management and technology expense	$3,236	$3,994	$758	23.4	%
Selling, general and administrative expense	1,630	2,271	641	39.3	%
Depreciation and amortization expense allocated to operating expenses	$4,866	$6,265	$1,399	28.8	%

- Share-based compensation expense increased $7.9 million, or 51.8%, to $23.3 million in the year ended December 31, 2011 from $15.3 million for the year ended December 31, 2010. The increase was due to additional option expense relating to stock option and restricted stock award grants during the current year and vesting of previously granted stock options associated with the continued increase in the number of employees.
- Depreciation and amortization expense increased by $1.4 million, or 28.8%, to $6.3 million for the year ended December 31, 2011 from $4.9 million for the year ended December 31, 2010, due to the addition of computer equipment, addition of various capabilities to our software tools, furniture and fixtures, and other property to support our growing operations.

Income Taxes
Tax expense increased by $9.2 million, to $18.9 million for the year ended December 31, 2011 from $9.7 million for the year ended December 31, 2010. The increase in 2011 income tax expense was primarily the result of the increase in taxable income during 2011, offset by the reduction in gross receipts tax liability in one of the states, where a large

portion of our operations is conducted, as a result of the legislative change which occurred in August 2010. Our tax provision for the year ended December 31, 2011 was equal to approximately 39% of our pre-tax income and differed from the federal statutory rate of 35% mainly due to the impact of certain state taxes.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2010

Net Services Revenue

The following table summarizes the composition of our net services revenue for the years ended December 31, 2009 and 2010:

	2009	2010
	(In thousands)	
Net base fees for managed service contracts	$434,281	$518,243
Incentive payments for managed service contracts	64,033	74,663
Other services	11,878	13,388
Total	$510,192	$606,294

Net services revenue increased by $96.1 million, or 18.8%, to $606.3 million for the year ended December 31, 2010 from $510.2 million for the year ended December 31, 2009. The largest component of the increase, net base fee revenue, increased by $84.0 million, or 19.3%, to $518.2 million for the year ended December 31, 2010 from $434.3 million for the year ended December 31, 2009, primarily due to an increase in the number of hospitals with which we had managed service contracts. Of the $84.0 million increase in net base fee revenues, $65.2 million was attributable to new managed service contracts entered into during 2010. In addition, incentive payment revenues increased by $10.6 million, or 16.6%, to $74.7 million for the year ended December 31, 2010 from $64.0 million for the year ended December 31, 2009, consistent with the increases that generally occur as our managed service contracts mature. All other revenues increased by $1.5 million, or 12.7%, to $13.4 million for the year ended December 31, 2010 from $11.9 million for the year ended December 31, 2009, as we increased the number of customers using our dormant patient accounts receivable collection services and continued to expand our specialized services such as emergency room physician advisory services. We recognized no revenue from our quality and total cost of care offering in 2010. Our projected contracted annual revenue run rate at December 31, 2010 was $698 million to $713 million compared to $509 million to $519 million at December 31, 2009. Based on the midpoint of the two ranges, our projected contracted annual revenue run rate as of December 31, 2010 increased by $192 million, or 37.3%.

Costs of Services

Our costs of services increased by $67.6 million, or 16.5%, to $478.3 million for the year ended December 31, 2010 from $410.7 million for the year ended December 31, 2009. The increase in costs of services was primarily attributable to the increase in the number of hospitals for which we provide managed services.

Operating Margin

Operating margin increased by $28.5 million, or 28.7%, to $128.0 million for the year ended December 31, 2010 from $99.5 million for the year ended December 31, 2009. The increase consisted primarily of:

- $10.6 million in additional incentive payments under managed service contracts;
- an increase of $16.5 million in the operating efficiencies associated with our revenue cycle operations including the impact of shared service center adoptions; and
- reduction of $1.7 million in costs related to the issuance of warrants to Ascension Health as there were no warrants issued to Ascension Health in the year ended December 31, 2010.

The increase in operating margin in absolute dollars was accompanied by an increase in operating margin as a percentage of net services revenue to 21.1% for the year ended December 31, 2010 from 19.5% for the year ended December 31, 2009, primarily due to an increased ratio of mature managed service contracts to new managed service contracts.

Operating Expenses

Infused management and technology expenses increased by $12.3 million, or 23.7%, to $64.0 million for the year ended December 31, 2010 from $51.8 million for the year ended December 31, 2009. The increase in infused management and technology expenses was primarily due to the increase in the number of our management personnel deployed at customer facilities, reflecting an increase in the number of hospitals with which we had managed service contracts, and an increase of $1.0 million in costs to operate our inaugural quality and total cost of care contract, as well as the items noted below.

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Selling, general and administrative expenses increased by $11.5 million, or 38.2%, to $41.7 million for the year ended December 31, 2010 from $30.2 million for the year ended December 31, 2009. The increase included $3.4 million to develop our new quality and total cost of care offering, $2.8 million for increases in sales and marketing personnel costs, $1.5 million for a provision for bad debt expense, and $1.3 million in costs related to becoming a public company. The increase also included $2.2 million of additional depreciation, amortization and share-based compensation expense as discussed below.

We allocate share-based compensation expense and depreciation and amortization expense between cost of services, infused management expenses and selling, general and administrative expenses. In 2010 and 2009, the following amounts were allocated to operating expenses:

	Year Ended December 31,		Change		
	2009	2010	Amount	Percent	
	(In thousands)		(In thousands)		
Share-Based Compensation Expense Allocation Details:					
Infused management and technology expense	$3,959	$7,563	$3,604	91.0	%
Selling, general and administrative expense	5,731	7,761	2,030	35.4	%
Share-based compensation expense allocated to operating expenses	$9,690	$15,324	$5,634	58.1	%
Depreciation and Amortization Expense Allocation Details:					
Infused management and technology expense	$2,440	$3,236	$796	32.6	%
Selling, general and administrative expense	1,481	1,630	149	10.1	%
Depreciation and amortization expense allocated to operating expenses	$3,921	$4,866	$945	24.1	%

- Share-based compensation expense, which includes both stock-based compensation expense and stock warrant expense, increased $5.6 million, or 58.1%, to $15.3 million in the year ended December 31, 2010 from $9.7 million for the year ended December 31, 2009. The increase was due to an additional $8.4 million of option expense relating to stock option grants during the current year and vesting of previously granted stock options associated with the continued increase in the number of employees, offset by a decrease in stock warrant expense charge of $2.8 million.
- Depreciation and amortization expense increased by $0.9 million, or 24.1%, to $4.9 million for the year ended December 31, 2010 from $3.9 million for the year ended December 31, 2009, due to the addition of computer equipment, furniture and fixtures, and other property to support our growing operations. Amortization expense increased mainly due to amortization of internally developed software.

Income Taxes

Tax expense increased by $6.8 million, to $9.7 million for the year ended December 31, 2010 from $3.0 million for the year ended December 31, 2009. The increase in 2010 tax expense was primarily due to the increase in taxable income during the period and release of deferred tax asset valuation allowance of $3.5 million in 2009. Our tax provision for the year ended December 31, 2010 was equal to approximately 44% of our pre-tax income and differed from the federal statutory rate of 35% mainly due to the impact of certain state taxes which are based on gross receipts, as compared to 17% for the year ended December 31, 2009. The 17% tax rate in 2009 was mainly due to the release of the tax valuation allowance in 2009.

Liquidity and Capital Resources

Our primary source of liquidity is our cash flows from operations. Given our current cash and cash equivalents, which consist primarily of demand deposits, highly liquid money market funds and treasury securities, and accounts receivable, we believe that we will have sufficient liquidity to fund our business and meet our contractual obligations for at least the next 12 months. We expect that the combination of our current liquidity and expected additional cash generated from operations will be sufficient for our planned capital expenditures, which are expected to consist primarily of capitalized software, and other investing activities, in the next 12 months.

Cash and cash equivalents increased by $41.2 million from $155.6 million at December 31, 2010 to $196.7 million at December 31, 2011, primarily as a result of cash flows from operations and proceeds from issuance of common stock

as a result of employees' stock option exercises. Cash and cash equivalents increased by $111.9 million from $43.7 million at December 31, 2009 to $155.6 million at December 31, 2010, primarily as a result of proceeds received from our initial public offering in May 2010 and cash flows from operations.

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Our receivables could be exposed to financial risks, such as credit risk and liquidity risk. Credit risk is the risk of financial loss to us if a counterparty fails to meet its contractual obligations. Liquidity risk is the risk that we will not be able to meet our obligations as they come due. We seek to limit our exposure to credit risk through efforts to reduce our customer concentration and our quarterly assessment of customer creditworthiness, and to liquidity risk by managing our cash flows.

Operating Activities

Cash flows generated by operating activities totaled $15.1 million, $32.0 million and $16.4 million for the years ended December 31, 2009, 2010, and 2011, respectively. While our net income increased by $16.5 million during the year ended December 31, 2011 as compared to the year ended December 31, 2010, our cash provided by operating activities was lower in 2011 than 2010 primarily due to the timing of payments from our customers and to our vendors.

Receivables from customers increased by $26.4 million during the year ended December 31, 2010 primarily due to the increased net services revenues and the timing of customer payments. Receivables from customers increased by $40.2 million during the year ended December 31, 2011, primarily due to the increased net services revenues and the timing of customer payments. Of the total increase, $20.4 million, or 50.7%, are less than 30 days old. The Company's trade receivables over 180 days old decreased from $10.9 million at December 31, 2010 to $2.7 million at December 31, 2011, net of bad debt reserves. The Company had $22.1 million and $33.5 million of accounts receivable from hospitals affiliated with Ascension Health as of December 31, 2010 and 2011, respectively.

Our net income plus our non-cash adjustments to net income for depreciation, amortization and share-based compensation increased by $5.4 million and $27.3 million during the years ended December 31, 2010 and December 31, 2011 as compared to the years ended December 31, 2009 and December 31, 2010, respectively, primarily due to the higher operating margin and employee stock-based compensation.

Excess tax benefits from equity-based awards of $24.1 million resulted in an equivalent increase in prepaid taxes, as these benefits could not be used in the current period because income taxes payable had already been reduced to $0 in the year ended December 31, 2011. Non-cash adjustments for excess tax benefits were $11.9 million in the year-ended December 31, 2010 due to warrant and stock option exercises.

Payables increased by $18.1 million for the year ended December 31, 2010 primarily due to growth in our business and decreased by $14.8 million during the year ended December 31, 2011 due to the timing of payments at year-end.

Accrued service costs increased by $4.2 million, $10.9 million and $10.2 million for the years ended December 31, 2009, 2010, and 2011, respectively, as we grew our customer base.

Deferred revenue increased by $9.3 million during the year ended December 31, 2011, primarily due to growth in our business and timing of customer payments.

Investing Activities

Cash used in investing activities was $7.2 million, $16.9 million and $11.7 million for the years ended December 31, 2009, 2010 and 2011, respectively. For all three years, use of cash primarily related to our purchases of furniture, fixtures, computer hardware, and other property to support the growth of our business as well as capitalization of internally developed software costs.

Financing Activities

Cash used in financing activities was $16.0 million for the year ended December 31, 2009, mostly due to the payment of dividends on all shares of common and preferred stock then outstanding. Cash provided by financing activities was $97.1 million for the year ended December 31, 2010, primarily due to the receipt of proceeds from our initial public offering in May 2010. Cash provided by financing activities was $36.9 million for the year ended December 31, 2011, primarily due to the receipt of proceeds from our employees' stock option exercises and the related favorable effect of approximately $24.1 million on our future tax liability.

Revolving Credit Facility

In September, 2011, we reduced our outstanding line of credit with the Bank of Montreal from $15 million to $3 million. The $3 million line of credit can only be utilized in the form of Letters of Credit and is secured by a $5 million demand deposit with the Bank of Montreal. The line of credit has an initial term of three years and is

renewable annually thereafter. As of December 31, 2011, we had outstanding letters of credit of approximately $2.5 million, which reduced the available line of credit to $0.5 million.

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Future Capital Needs

We intend to fund our future growth over the next 12 months with funds generated from operations and our net proceeds from our 2010 initial public offering. Over the longer term, we expect that cash flows from operations, supplemented by short-term and long-term financing, as necessary, will be adequate to fund our day-to-day operations and capital expenditure requirements. Our ability to secure short-term and long-term financing in the future will depend on several factors, including our future profitability, the quality of our accounts receivable, our relative levels of debt and equity, and the overall condition of the credit markets.

Contractual Obligations

The following table presents our obligations and commitments to make future payments under contracts, such as lease agreements, and under contingent commitments as of December 31, 2011:

	Year Ended December 31,					
	2012	2013	2014	2015	2016 and Beyond	Total
	(In thousands)					
Minimum lease payments	$3,690	$3,047	$3,209	$3,929	$19,182	$33,057
Total	$3,690	$3,047	$3,209	$3,929	$19,182	$33,057

We rent office space and equipment under a series of operating leases, primarily for our Chicago corporate office, shared service centers and India operations. Lease payments are amortized to expense on a straight-line basis over the lease term. As of December 31, 2011, the Chicago corporate office consisted of approximately 50,000 square feet in a multi-story office building.

Pursuant to the master services agreement between us and Ascension Health and our individual agreements with hospitals affiliated with Ascension Health that contract for our services, our fees are subject to adjustment in the event specified performance milestones are not met, which could result in a reduction in future fees payable to us by such hospitals but would not obligate us to refund any payments. These potential reductions in future fees are not reflected in the above table because the amounts cannot be quantified and because, based on our experience to date, we do not anticipate that there will be any permanent reduction in future fees under these provisions. For additional information regarding these contract provisions, see "Related Person Transactions — Transactions With Ascension Health" caption included in our 2012 Proxy Statement.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Recent Accounting Pronouncements

In 2009, the FASB issued ASU No. 09-13, Revenue Recognition — Multiple Deliverable Revenue Arrangements ("ASU 09-13"). ASU 09-13 updates the existing multiple-element revenue arrangements guidance currently included in FASB ASC 605-25. The revised guidance provides for two significant changes to the existing multiple element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue and related costs for multiple-element arrangements than under the previous guidance. This guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The revised multiple element revenue arrangements guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, however, early adoption is permitted, provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We adopted this ASU as of January 1, 2011. The adoption did not have a significant impact on our condensed consolidated financial statements.

In 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, and ASU no. 2011-12, Deferral of the Effective Date for Amendment to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two

separate, but consecutive statements. The current option to report other comprehensive income and its components in the statement of stockholders' equity will be eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. These ASUs are effective for interim annual reporting periods beginning after December 15, 2011 and retrospective application will be required.

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These ASUs will change our financial statement presentation of comprehensive income but will not impact net income, financial position, or cash flows.

In 2011, the FASB issued ASU No. 2011-08, Intangibles - Goodwill and Other: Testing Goodwill for Impairment, which intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The ASU is effective for the Company beginning with its first 2012 interim period, with early adoption permitted. We do not expect this adoption to have an impact on the consolidated financial statements.

Item 7A. Qualitative and Quantitative Disclosures about Market Risk

Interest Rate Sensitivity. Our interest income is primarily generated from interest earned on operating cash accounts. Our exposure to market risks related to interest expense is limited to outstanding letters of credit under our revolving line of credit, which bear interest at the greater of the bank-established prime commercial rate, a LIBOR plus 1% rate, or a rate that combines the characteristics of both. We do not enter into interest rate swaps, caps or collars or other hedging instruments.

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in the Indian rupee because a portion of our operating expenses are incurred by our subsidiary in India and are denominated in Indian rupees. However, we do not generate any revenues outside of the United States. For the years ended December 31, 2009, 2010, and 2011, 0.6%, 1.6%, and 1.5% respectively, of our expenses were denominated in Indian rupees. As a result, we believe that the risk of a significant impact on our operating income from foreign currency fluctuations is not substantial.

Item 8. Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act as of December 31, 2011. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives of ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. There is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. Based upon the evaluation described above our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Assessment of Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our Chief Executive and Chief Financial Officers and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles;

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- provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive and Chief Financial Officers, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011. In conducting this evaluation, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in Internal Control-Integrated Framework.

Based upon this evaluation and those criteria, management believes that, as of December 31, 2011, Accretive Health's internal control over financial reporting was effective.

Ernst and Young LLP, our independent registered public accounting firm, has audited our consolidated financial statements and the effectiveness of our internal control over financial reporting as of December 31, 2011. This report appears below.
Changes in Internal Control Over Financial Reporting
No changes in our internal control over financial reporting occurred during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholders
of Accretive Health, Inc.

We have audited Accretive Health, Inc.'s internal control over financial reporting as of December 31, 2011 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Accretive Health, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Accretive Health, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Accretive Health, Inc. as of December 31, 2011 and 2010 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of Accretive Health, Inc. and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 29, 2012

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Item 9B. Other Information
None
PART III

Item 10. Directors, Executive Officers and Corporate Governance
The information required by this item with respect to our directors and executive officers will be contained in our 2012 Proxy Statement under the caption “Information About Our Directors, Officers and 5% Stockholders” and is incorporated in this report by reference.
The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance will be contained in our 2012 Proxy Statement under the caption “Section 16(A) Beneficial Ownership Reporting Compliance” and is incorporated in this report by reference.
The information required by this item with respect to corporate governance matters will be contained in our 2012 Proxy Statement under the caption “Corporate Governance” and is incorporated in this report by reference.
Code of Ethics
We have adopted a code of business conduct and ethics that applies to our directors and officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) as well as our employees. Copies of our code of conduct are available without charge upon written request directed to Corporate Secretary, Accretive Health, Inc., 401 N. Michigan Avenue, Suite 2700, Chicago, Illinois 60611.

Item 11. Executive Compensation
Information required to be furnished by Item 402 of Regulation S-K and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K regarding executive compensation will be included in our 2012 Proxy Statement, and is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
The information required by this item with regard to security ownership of certain beneficial owners and management will be contained in our 2012 Proxy Statement under the caption “Information About Our Directors, Officers and 5% Stockholders -Security Ownership of Certain Beneficial Owners and Management” and is incorporated in this report by reference.
The information required by this item with regard to securities authorized for issuance under equity compensation plans will be contained in our 2012 Proxy Statement under the caption ‘‘Executive Compensation — Securities Authorized for Issuance under our Equity Compensation Plans” and is incorporated in this report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence
The information required by this item will be contained in our 2012 Proxy Statement under the captions “Related-Party Transactions” and “Corporate Governance” and is incorporated in this report by reference

Item 14. Principal Accountant Fees and Services
The information required by this item will be contained in our 2012 Proxy Statement under the caption ‘‘Ratification of the Selection of Independent Registered Public Accounting Firm” and is incorporated in this report by reference.

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 of Valuation and Qualifying Accounts Disclosure

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

ACCRETIVE HEALTH, INC.

December 31, 2011

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
	(In thousands)				
Allowance for Doubtful Accounts					
Year Ended December 31, 2011	$1,582	$1,881	$—	$(272)	$3,191
Year Ended December 31, 2010	$82	$1,500	$—	$—	$1,582
Year Ended December 31, 2009	$82	$—	$—	$—	$82
Deferred Tax Valuation Allowance					
Year Ended December 31, 2011	$157	$17			$174
Year Ended December 31, 2010	$139	$—	$18	$—	$157
Year Ended December 31, 2009	$3,629	$—	$—	$(3,490)	$139

All other supplemental schedules are omitted because of the absence of conditions under which they are required.

(3) Exhibits

Exhibit Number		Description
3.1		Restated Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
3.2		Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.4 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
4.1		Specimen Certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.1	*	Amended and Restated Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2	*	Form of Acknowledgement of Grant, used to evidence option grants under the Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.3	*	Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.4	*	Form of Restricted Stock Award Agreement under the Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 filed on September 29, 2009)

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Exhibit Number		Description
10.5		Third Amended and Restated Stockholders' Agreement, dated as of February 22, 2009, among the Registrant and the parties named therein, as amended (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 filed on March 9, 2011)
10.6		Form of Share Exchange Agreement, entered into in February 2009, with each of Etienne H. Deffarges, Steven N. Kaplan, Gregory N. Kazarian, The Shultz 1989 Family Trust, Spiegel Family LLC and John T. Staton Declaration of Trust (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.7		Lease Agreement, dated as of May 4, 2005, between the Registrant and Zeller Management Corporation, as amended by First Lease Amendment, dated as of January 30, 2007, and Second Lease Amendment, dated as of November 26, 2008 (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.8	+	Amended and Restated Master Services Agreement, dated as of December 13, 2007, between the Registrant and Ascension Health (incorporated by reference to Exhibit 10.8 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2	*	Employment Agreement, dated as of January 2004, between the Registrant and Mary A. Tolan, as amended (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.2	*	Employment Agreement, dated as of June 17, 2005, between the Registrant and John T. Staton, as amended (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.2	*	Offer Letter, dated December 9, 2003, between the Registrant and Gregory N. Kazarian, as amended (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.2	*	Form of Indemnification Agreement, entered into between the Registrant and each director and executive officer (incorporated by reference to Exhibit 10.20 to Amendment No. 1 to the Registration Statement on Form S-1 filed on November 19, 2009)
10.2	+	Credit Agreement, dated as of September 30, 2009, between the Registrant and Bank of Montreal (incorporated by reference to Exhibit 10.21 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2	+	Security Agreement, dated as of September 30, 2009, among the Registrant, Bank of Montreal and specified subsidiaries of the Registrant (incorporated by reference to Exhibit 10.22 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2	*	2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2	*	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.3	*	Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
21.1		Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
23.1		Consent of Ernst & Young LLP
31.1		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
31.2		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

32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

\+ Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

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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/ Mary A. Tolan
Mary A. Tolan
Founder, President and Chief Executive Officer

By: /s/ John T. Staton
John T. Staton
Chief Financial Officer and Treasurer

Date: February 29, 2012

Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mary A. Tolan Mary A. Tolan	Director, Founder, President and Chief Executive Officer (Principal Executive Officer)	February 29, 2012
/s/ John T. Staton John T. Staton	Chief Financial Officer and Treasurer (Principal Financial Officer)	February 29, 2012
/s/ James M. Bolotin James M. Bolotin	Corporate Controller (Principal Accounting Officer)	February 29, 2012
/s/ J. Michael Cline J. Michael Cline	Founder and Chairman of the Board	February 29, 2012
/s/ Edgar M. Bronfman, Jr. Edgar M. Bronfman, Jr.	Director	February 29, 2012
/s/ Steven N. Kaplan Steven N. Kaplan	Director	February 29, 2012
/s/ Stanley N. Logan Stanley N. Logan	Director	February 29, 2012
/s/ Denis J. Nayden Denis J. Nayden	Director	February 29, 2012
/s/ Arthur H. Spiegel, III Arthur H. Spiegel, III	Director	February 29, 2012
/s/ Mark A. Wolfson Mark A. Wolfson	Director	February 29, 2012

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Accretive Health, Inc.
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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, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the index at Item 15(a). These 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 29, 2012

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

	December 31, 2010	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$155,573	$196,725
Accounts receivable, net of allowance for doubtful accounts of $1,582 and $3,191 at December 31, 2010 and 2011, respectively	53,894	94,105
Prepaid taxes	11,436	6,026
Prepaid assets	1,900	4,004
Due from related party	1,283	1,294
Other current assets	1,659	3,432
Total current assets	225,745	305,586
Deferred income taxes	11,405	17,878
Furniture and equipment, net	21,698	25,073
Restricted cash	—	5,000
Goodwill	1,468	1,468
Other, net	2,303	9,187
Total assets	$262,619	$364,192
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$30,073	$15,210
Accrued service costs	38,649	48,889
Accrued compensation and benefits	13,331	15,763
Deferred income taxes	6,016	3,738
Accrued income taxes	—	153
Other accrued expenses	6,062	6,979
Deferred revenue	21,857	24,137
Total current liabilities	115,988	114,869
Non-current liabilities:		
Deferred revenue	—	7,055
Other non-current liabilities	3,912	4,179
Total non-current liabilities	3,912	11,234
Total liabilities	$119,900	$126,103
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized and no shares issued or outstanding at December 31, 2010 and December 31, 2011	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized, 94,826,509 shares issued and outstanding at December 31, 2010; 98,701,161 shares issued and 98,686,357 shares outstanding at December 31, 2011.	948	987
Additional paid-in capital	159,780	227,188
Non-executive employee loans for stock option exercises	(41)	—
Retained earnings (Accumulated deficit)	(17,834)	11,330
Cumulative translation adjustment	(134)	(1,037)
Treasury stock (14,804 shares of common stock held in treasury)	—	(379)
Total stockholders' equity	142,719	238,089

Total liabilities and stockholders' equity	$262,619	$364,192

See accompanying notes to consolidated financial statements

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Accretive Health, Inc.
Consolidated Statements of Income
(In thousands, except share and per share amounts)

	Year Ended December 31,		
	2009	2010	2011
Net services revenue	$510,192	$606,294	$826,276
Costs of services	410,711	478,276	630,449
Operating margin	99,481	128,018	195,827
Other operating expenses:			
Infused management and technology	51,763	64,029	85,529
Selling, general and administrative	30,153	41,671	62,243
Total operating expenses	81,916	105,700	147,772
Income from operations	17,565	22,318	48,055
Net interest income (expense)	(9)	29	22
Net income before provision for income taxes	17,556	22,347	48,077
Provision for income taxes	2,966	9,729	18,913
Net income	$14,590	$12,618	$29,164
Dividends on preferred shares	(8,044)	—	—
Net income applicable to common stockholders	$6,546	$12,618	$29,164
Net income per common share			
Basic	$0.17	$0.18	$0.30
Diluted	0.15	0.13	0.29
Weighted-average shares used in calculating net income per common share			
Basic	36,725,194	70,732,791	96,964,661
Diluted	43,955,167	94,206,677	101,151,273
Cash dividends declared per common share	$0.18	$—	$—

See accompanying notes to consolidated financial statements

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

	Convertible Preferred Stock Series A Shares	Series A Amount ($)	Convertible Preferred Stock Series D Shares	Series D Amount ($)	Series B Common Stock Shares	Series B Amount ($)	Series C Common Stock Shares	Series C Amount ($)	Common Stock Shares	Common Stock Amount ($)	Treasury Stock Shares	Treasury Stock Amount ($)	Additional Paid-In Capital ($)	Non-Executive Loans For Stock Option Exercises ($)	Retained Earnings (Accumulated Deficit) ($)	Cumulative Translation Adjustment ($)	Total ($)	Comprehensive Income ($)
Balance at December 31, 2008	32,317	—	1,267,224	13	31,992,535	82	4,985,189	13	—	—			38,401	(263)	(30,101)	(222)	7,923	1,011
Exercise of vested stock options	—	—	—	—	—	—	116,620	—	—	—			209	—	—	—	209	
Vesting of previously exercised options	—	—	—	—	—	—	161,210	—	—	—			215	—	—	—	215	
Issuance of class B common stock	—	—	—	—	164,397	—	—	—	—	—			—	—	—	—	—	
Repayments of amounts loaned to employees related to stock option exercises, net	—	—	—	—	—	—	—	—	—	—			—	143	—	—	143	
Share repurchases	—	—	—	—	—	—	(5,292)	—	—	—			(13)	—	—	—	(13)	
Issuance of stock warrants	—	—	—	—	—	—	—	—	—	—			4,509	—	—	—	4,509	
Compensation expense related to stock options	—	—	—	—	—	—	—	—	—	—			6,917	—	—	—	6,917	
Excess tax benefit from equity-based awards	—	—	—	—	—	—	—	—	—	—			1,539	—	—	—	1,539	
Currency translation adjustment	—	—	—	—	—	—	—	—	—	—			—	—	—	188	188	188
	—	—	—	—	—	—	—	—	—	—			—	—	(14,941)	—	(14,941)	—

Dividends declared																
Net income	—	—	—	—	—	—	—	—	—	—	—	—	14,590	—	14,590	14,590
Balance at December 31, 2009	32,317	—	1,267,224	13	32,156,932	82	5,257,727	13	—	—	51,777	(120)	(30,452)	(34)	21,279	14,778

See accompanying notes to consolidated financial statements

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Accretive Health, Inc.
Consolidated Statements of Stockholders' Equity - (Continued)
(In thousands, except share amounts)

	Convertible Preferred Stock Series A		Convertible Preferred Stock Series D		Series B Common Stock		Series C Common Stock		Common Stock		Treasury Stock	Additional Paid-In Capital	Non-Executive Loans For Stock Option Exercises	Retained Earnings (Accum Deficit)
	Shares	Amount ($)	Shares	Amount ($)	Shares	Amount ($)	Shares	Amount ($)	Shares	Amount ($)	Shares ($)	($)	($)	($)
Balance at December 31, 2009	32,317	—	1,267,224	13	32,156,932	82	5,257,727	13	—	—	—	51,777	(120)	(30,452
Issuance of Class B common stock	—	—	—	—	29,926	—	—	—	—	—	—	—	—	—
Exercise of vested stock options	—	—	—	—	—	—	33,320	—	517,375	5	—	1,248	—	—
Vesting of previously exercised options	—	—	—	—	—	—	81,830	—	23,806	—	—	169	—	—
Conversion to common stock	(32,317)	—	(1,267,224)	(13)	(32,186,858)	(82)	(5,372,877)	(13)	81,356,333	814	—	(706)	—	—
Issuance of shares in the initial public offering	—	—	—	—	—	—	—	—	7,666,667	77	—	86,403	—	—
Liquidation preference payment	—	—	—	—	—	—	—	—	1,265,012	13	—	(879)	—	—
IPO costs	—	—	—	—	—	—	—	—	115,000	1	—	(5,664)	—	—
Repayments of amounts loaned to employees related to stock option exercises	—	—	—	—	—	—	—	—	—	—	—	—	79	—
Exercise of stock warrants	—	—	—	—	—	—	—	—	3,882,316	38	—	896	—	—
Compensation expense related to	—	—	—	—	—	—	—	—	—	—	—	16,549	—	—

stock options													
Excess tax benefit from equity-based awards	—	—	—	—	—	—	—	—	—	—	9,987	—	—
Currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	—	—	—	—	12,618
Balance at December 31, 2010	—	—	—	—	—	—	—	94,826,509	948	—	159,780	(41)	(17,834

See accompanying notes to consolidated financial statements

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Accretive Health, Inc.
Consolidated Statements of Stockholders' Equity - (Continued)
(In thousands, except share amounts)

	Convertible Preferred Stock Series A / Series D / Series C Common Stock (Shares / Amount ($))	Common Stock Shares	Common Stock Amount ($)	Treasury Stock Shares	Treasury Stock Amount ($)	Additional Paid-In Capital ($)	Non-Executive Loans For Stock Option Exercises ($)	Retained Earnings (Accumulated Deficit) ($)	Cumulative Translation Adjustment ($)	Total ($)		Comprehensive Income ($)
Balance at December 31, 2010	—	94,826,509	948	—	—	159,780	(41)	(17,834)	(134)	142,719	12,518	12,518
Exercise of vested stock options	—	3,668,257	37	—	—	18,111	—	—	—	18,148		
Grant of restricted stock	—	239,254	2	—	—	—	—	—	—	2		
Forfeiture of restricted stock	—	(32,859)	—	—	—	—	—	—	—	—		
Repayments of amounts loaned to employees related to stock option exercises, net	—		—	—	—	—	41	—	—	41		
Compensation expense related to stock options	—		—	—	—	25,196	—	—	—	25,196		
Excess tax benefit from equity-based awards	—		—	—	—	24,101	—	—	—	24,101		
Treasury stock purchases for employee's tax withholding	—		—	(14,804)	(379)	—	—	—	—	(379)		
Currency translation adjustment	—		—	—	—	—	—	—	(903)	(903)		(903)
Net income	—		—	—	—	—	—	29,164	—	29,164		29,164
	—	98,701,161	987	(14,804)	(379)	227,188	—	11,330	(1,037)	238,089		28,261

Balance at
December
31, 2011

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
Operating activities	2009	2010	2011
Net income	$14,590	$12,618	$29,164
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	3,921	6,157	8,312
Employee stock based compensation	6,917	16,549	25,196
Expense associated with the issuance of stock warrants	4,509	—	—
Deferred income taxes	(3,552)	(3,736)	(8,751)
Excess tax benefit from equity-based awards	(1,539)	(11,910)	(24,101)
Changes in operating assets and liabilities:			
Accounts receivable	(7,313)	(26,374)	(40,221)
Prepaid taxes	(2,206)	3,939	29,543
Prepaid and other assets	528	(1,379)	(11,255)
Accounts payable	(6,113)	18,093	(14,818)
Accrued service costs	4,195	10,907	10,240
Accrued compensation and benefits	2,960	1,210	2,445
Other accrued expenses	(253)	3,517	1,038
Accrued income taxes	(1,168)	(41)	153
Deferred rent expense	—	3,199	126
Deferred revenue	(377)	(753)	9,335
Net cash provided by operating activities	15,099	31,996	16,406
Investing activities			
Purchases of furniture and equipment	(3,514)	(9,670)	(7,749)
Acquisition of software	(4,348)	(5,355)	(5,609)
Collection (issuance) of note receivable	618	(1,844)	1,706
Net cash used in investing activities	(7,244)	(16,869)	(11,652)
Financing activities			
Proceeds from initial public offering, net of issuance costs	—	83,756	—
Liquidation preference payment	—	(866)	—
Proceeds from issuance of common stock from warrant exercises	—	934	—
Proceeds from issuance of common stock from stock option exercises	214	1,253	18,148
Collection of non-executive employees' notes receivable	143	79	41
Excess tax benefit from equity-based awards	1,539	11,910	24,101
Deferred offering costs	(2,939)	—	—
Payment of dividends	(14,941)	—	—
Restricted cash	—	—	(5,000)
Other, net	(13)	—	(379)
Net cash provided by (used in) financing activities	(15,997)	97,066	36,911
Effect of exchange rate changes in cash	145	(279)	(513)
Net increase (decrease) in cash and cash equivalents	(7,997)	111,914	41,152
Cash and cash equivalents at beginning of period	51,656	43,659	155,573
Cash and cash equivalents at end of period	$43,659	$155,573	$196,725
Supplemental disclosures of cash flow information			
Taxes paid	8,254	9,460	1,683
Supplemental disclosures of noncash financing transactions			
Vesting of previously exercised stock options	215	169	—

See accompanying notes to consolidated financial statements

Accretive Health, Inc.
Notes to Consolidated Financial Statements

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 healthcare quality while also improving patient, physician and staff satisfaction. The Company enables these improvements by helping customers increase the portion of the maximum potential revenue received while reducing total costs.

The Company's revenue cycle management service offering helps U.S. healthcare providers to more efficiently manage their revenue cycles, which encompass patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. Accretive Health's physician advisory services offering assists hospitals navigate the path to compliant revenue by appropriately classifying a hospital visit as an in-patient or observation case for billing purposes. The Company's quality and total cost of care service offering enables healthcare providers to effectively manage the health of a defined patient population, which the Company believes is a future direction of the manner in which healthcare services will be delivered in the United States.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Stock Split

Immediately prior to the consummation of the initial public offering of the Company’s common stock in May 2010, the number of authorized common and preferred shares was increased to 500,000,000 and 5,000,000, respectively. In addition, all common share and per share amounts in the consolidated financial statements and notes thereto have been restated to reflect a stock split effective on May 3, 2010 whereby each share of common stock was reclassified into 3.92 shares of common stock.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

The Company regularly evaluates its accounting policies and estimates. In general, estimates are based on historical experience and on assumptions believed to be reasonable given the Company’s operating environment. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Actual results may differ from these estimates.

Revenue Recognition

The Company’s managed service contracts generally have an initial term of four to five years and various start and end dates. After the initial terms, these contracts renew annually unless canceled by either party. Revenue from managed service contracts consists of base fees and incentive payments.

The Company records net services revenue in accordance with the provisions of Staff Accounting Bulletin - Topic 13, Revenue Recognition. As a result, the Company only records revenue once there is persuasive evidence of an arrangement, services have been rendered, the amount of revenue has become fixed or determinable and collectibility is reasonably assured.

The Company recognizes base fee revenues on a straight-line basis over the life of the contract. Base fees for managed service contracts which are received in advance of services delivered are classified as deferred revenue in the consolidated balance sheets until services have been provided.

Some of the Company's service contracts entitle customers to receive a share of the cost savings achieved from operating their revenue cycle. This share is credited to the customers as a reduction in subsequent base fees. Services revenue is reported net of cost sharing and is referred to as net services revenue.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

The Company’s managed service contracts generally allow for adjustments to the base fee. Adjustments typically occur at 90, 180 or 360 days after the contract commences, but can also occur at subsequent dates as a result of factors including changes to the scope of operations and internal and external audits. All adjustments, the timing of which is often dependent on factors outside of the Company’s control and which can increase or decrease revenue and operating margin, are recorded in the period the changes are known and collectibility of any additional fees is reasonably assured. Any such adjustments may cause the Company’s quarter-to-quarter results of operations to fluctuate.

The Company records revenue for incentive payments once the calculation of the incentive payment earned is finalized and collectibility is reasonably assured. The Company uses a proprietary technology and methodology to calculate the amount of benefit each customer receives as a result of the Company’s services. The Company’s calculations are based in part on the amount of revenue each customer is entitled to receive from commercial and private insurance carriers, Medicare, Medicaid and patients. Because the laws, regulations, instructions, payor contracts and rule interpretations governing how the Company’s customers receive payments from these parties are complex and change frequently, estimates of a customer’s prior period benefits could change. All changes in estimates are recorded when new information is available and calculations are completed.

Incentive payments are based on the benefits a customer has received throughout the life of the contract. Each quarter, the Company records its share of the increase in the cumulative benefits the customer has received to date. If a quarterly calculation indicates that the cumulative benefits to date have decreased, the Company records a reduction in revenue. If the decrease in revenue exceeds the amount previously paid by the customer, the excess is recorded as deferred revenue.

The revenue for the physician advisory services is recognized once each consultation has been completed and is recorded by the Company on a per-case basis.

The Company’s services also include collection of dormant patient accounts receivable that have aged 365 days or more directly from individual patients. The Company shares all cash generated from these collections with its customers in accordance with specified arrangements. The Company records as revenue its portion of the cash received from these collections when each customer’s cash application is complete.

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 Company's outstanding letters of credit are secured by a $5 million demand deposit with the Bank of Montreal. The $5 million demand deposit is presented as "restricted cash" in the Company's consolidated balance sheet.

Accounts Receivable and Allowance for Doubtful Accounts

Base fees and incentive payments are billed to customers quarterly. Base fees received prior to when services are delivered are classified as deferred revenue.

The Company assesses its customers’ creditworthiness as a part of its customer acceptance process. The Company maintains an estimated allowance for doubtful accounts to reduce its gross 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 and the status of any ongoing operations with each applicable customer.

The Company performs quarterly reviews and analyses of each customer’s outstanding balance and assesses, on an account-by-account basis, whether the allowance for doubtful accounts needs to be adjusted based on currently available evidence such as historical collection experience, current economic trends, past due status and changes in customer payment terms. The Company considers a receivable to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement. In accordance with the Company’s policy, if collection efforts have been pursued and all avenues for collections exhausted, accounts receivable would be written off as uncollectible.

Accrued Service Costs

Accrued service costs represent estimated amounts due to customers and vendors for hospital operating costs for which the Company has not yet received invoices and other costs directly related to managed service contracts.

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 observability of 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.

Accretive Health, Inc.
Notes to Consolidated Financial Statements

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 Company's financial assets which are required to be measured at fair value on a recurring basis consist of cash equivalents, which are invested in highly liquid money market funds and accordingly classified as level 1 assets in the fair value hierarchy.

Furniture and Equipment

Furniture and equipment are stated at cost, less accumulated depreciation determined on the straight-line method over the estimated useful lives of the assets as follows:

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

Software Development

The Company applies the provisions of Accounting Standards Codification ("ASC") 350-40, Intangibles — Goodwill and Other — Internal Use Software, which requires the capitalization of costs incurred in connection with developing or obtaining internal use software. In accordance with ASC 350-40, the Company capitalizes the costs of internally-developed, internal use software when an application is in the development stage. This generally occurs after the overall design and functionality of the application has been approved and management has committed to the application's development. Capitalized software development costs consist of payroll and payroll-related costs for employee time spent developing a specific internal use software application or related enhancements, and external costs incurred that are related directly to the development of a specific software application.

Goodwill

Goodwill represents the excess purchase price over the net assets acquired for a business that the Company acquired in May 2006. In accordance with ASC 350, Intangibles — Goodwill and Other, goodwill is not subject to amortization but is subject to impairment testing at least annually. The Company's annual impairment assessment date is the first day of the fourth quarter. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the Company's reporting unit exceeds the carrying amount, the goodwill of the reporting unit is considered not impaired. There was no goodwill impairment during the years ended December 31, 2009, 2010 and 2011.

Foreign Currency

The functional currency of each entity included in the consolidated financial statements is its respective local currency, which is also the currency of the primary economic environment in which it operates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying consolidated statements of operations.

The assets and liabilities of the subsidiaries which use a functional currency other than the U.S. dollar are translated into U.S. dollars at the rate of exchange prevailing on the balance sheet dates. Revenues and expenses are translated into U.S. dollars at the average exchange rate during each month. Resulting translation adjustments are included in the cumulative translation adjustment in the consolidated balance sheets.

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Accretive Health, Inc.
Notes to Consolidated Financial Statements

Impairments of Long-Lived Assets

The Company evaluates all of its long-lived assets, such as furniture, equipment, software and other intangibles, for impairment in accordance with ASC 360, Property, Plant and Equipment, when events or changes in circumstances warrant such a review. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an adjustment to fair value is required.

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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in 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 available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes the financial statement effects of a tax position only when it is more likely than not that the position will be sustained upon examination. Tax positions taken or expected to be taken that are not recognized under the pronouncement are recorded as liabilities. Interest and penalties relating to income taxes are included in the income tax provision in the statements of consolidated operations.

Share-Based Compensation

Share-based compensation expense results from awards of restricted common stock and grants of stock options and warrants to employees, directors, outside consultants, customers, vendors and others. The Company recognizes the costs associated with option and warrant grants using the fair value recognition provisions of ASC 718, Compensation — Stock Compensation. Generally, ASC 718 requires the value of all share-based payments to be recognized in the statement of operations based on their estimated fair value at date of grant amortized over the grant's vesting period. The Company uses the straight-line method to amortize compensation costs over the grants' respective vesting periods. The Company does not currently have a plan to use its treasury shares, so all option exercises result in the issuance of new shares.

Legal Proceedings

In the normal course of business, the Company is involved in legal proceedings or regulatory investigations. The Company evaluates the need for loss accruals using the requirements of ASC 450, Contingencies. When conducting this evaluation, the Company considers factors such as the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. 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 reasonably be estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, then the Company records the minimum amount in the range as its loss accrual. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Standards and Disclosures

In 2009, the FASB issued ASU No. 09-13, Revenue Recognition — Multiple Deliverable Revenue Arrangements ("ASU 09-13"). ASU 09-13 updates the existing multiple-element revenue arrangements guidance currently included in ASC 605-25. The revised guidance provides for two significant changes to the existing multiple element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes are likely to result in earlier recognition of revenue and related costs for multiple-element arrangements than under the previous guidance. This guidance also significantly expands the disclosures required for multiple-element

revenue arrangements. The revised multiple element revenue arrangements guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, however, early adoption is permitted, provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company adopted this ASU as of January 1, 2011. The adoption did not have a significant impact on the Company’s consolidated financial statements.

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Accretive Health, Inc.
Notes to Consolidated Financial Statements

In 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, and ASU No. 2011-12, Deferral of the Effective Date for Amendment to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The current option to report other comprehensive income and its components in the statement of stockholders' equity will be eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. These ASUs are effective for interim annual reporting periods beginning after December 15, 2011 and retrospective application will be required. These ASUs will change the Company's financial statement presentation of comprehensive income but will not impact net income, financial position, or cash flows.

In 2011, the FASB issued ASU No. 2011-08, Intangibles - Goodwill and Other: Testing Goodwill for Impairment, which intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The ASU is effective for the Company beginning with its first 2012 interim period, with early adoption permitted. The Company does not expect this ASU, when adopted, to have an impact on the consolidated financial statements.

3. Net Services Revenue

The Company's net services revenue consisted of the following for each of the three years ending December 31 (in thousands):

	2009	2010	2011
Net base fees for managed service contracts	$434,281	$518,243	$671,930
Incentive payments for managed service contracts	64,033	74,663	114,455
Other services	11,878	13,388	39,891
Total	$510,192	$606,294	$826,276

4. Accounts Receivable and Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts was as follows for the three years ending December 31 (in thousands):

	2009	2010	2011
Beginning balance	$82	$82	$1,582
Provision	—	1,500	1,881
Write-offs and adjustments	—	—	(272)
Ending balance	$82	$1,582	$3,191

5. Cash and Cash Equivalents

As of December 31, 2010 and 2011 the Company's cash equivalents consist of highly liquid money market funds and are accordingly 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. The following table summarizes assets that are measured at fair value and are categorized using the fair value hierarchy (in thousands):

	December 31,	
	2010	2011
Cash	$30,686	$3,709
Level 1 assets		
Money market funds with maturities of less than 90 days	124,887	193,016
Total	$155,573	$196,725

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Accretive Health, Inc.
Notes to Consolidated Financial Statements

6. Infused Management and Technology Expenses
Infused management and technology expenses consist primarily of the wages, bonuses, benefits, share-based compensation, travel and other costs associated with deploying the Company's employees on customer sites to guide and manage customers' revenue cycle operations or quality and total cost of care operations. The employees that the Company deploys on customer sites typically have significant experience in revenue cycle operations, technology, quality control or other management disciplines. The other significant portion of these expenses is an allocation of the costs associated with maintaining, improving and deploying the Company's integrated proprietary technology suite and an allocation of the amortization relating to the capitalized software development costs.

7. Segments and Concentrations
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. For purposes of disclosure under ASC 280, Segment Reporting, 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 customers are affiliated with a single healthcare system, Ascension Health. Pursuant to the Company's master services agreement with Ascension Health, the Company provides services to Ascension Health's affiliated hospitals that execute separate contracts with the Company. The Company's aggregate net services revenue from these hospitals accounted for 60.3%, 50.7% and 40.8% of the Company's total net services revenue during the years ended December 31, 2009, 2010 and 2011, respectively. The Company had $22.1 million and $33.5 million of accounts receivable from hospitals affiliated with Ascension Health as of December 31, 2010 and 2011, respectively.
Henry Ford Health System, which is not affiliated with Ascension Health, with which the Company entered into a managed service contract in 2009, accounted for 9.2%, 11.3%, and 7.7% of the Company's total net services revenue in the years ended December 31, 2009, 2010 and 2011, respectively. Furthermore, Fairview Health Services, which is not affiliated with Ascension Health, with which the Company entered into a managed service contract in 2010, accounted for 10.7% and 12.2% of the Company's total net services revenue for the years ended December 31, 2010 and 2011. No other non-Ascension Health customer accounted for more than 10% of the Company's total net services revenue in any of the years presented in the consolidated statement of operations.

8. Furniture and Equipment
Furniture and equipment consist of the following (in thousands):

	December 31,	
	2010	2011
Construction in progress	$464	$62
Capitalized software	20,270	27,661
Computer equipment	5,750	8,561
Leasehold improvements	6,376	7,593
Other equipment	1,017	1,107
Office furniture	2,163	2,520
	36,040	47,504
Less accumulated depreciation and amortization	(14,342)	(22,431)
Total	$21,698	$25,073

Net furniture and equipment located in India accounted for approximately 6.9% and 7.0% of total net assets at December 31, 2010 and 2011, respectively.

The Company recorded $3.9 million, $6.1 million and $8.3 million of depreciation and amortization expense related to its furniture, equipment and capitalized software for the years ended December 31, 2009, 2010, and 2011, respectively.

Accretive Health, Inc.
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9. Stockholders' Equity
Preferred Stock
In conjunction with its initial public offering in May 2010, the Company restated its certificate of incorporation and authorized 5,000,000 shares of preferred stock with a par value $0.01. The preferred stock may be issued from time to time in one or more series, each of which may have distinctive designations as determined by the Company’s board of directors prior to the issuance of the preferred shares. Each series of preferred stock may have no, limited, or full voting powers and other special rights, conversion features, redemption features, dividend participation criteria, qualifications, limitations, and restrictions as stated and expressed in board resolutions providing for the issuance of such series of preferred stock. As of December 31, 2010 and 2011, the Company does not have any shares of preferred stock outstanding.
Conversion of Preferred Stock to Common Stock
In conjunction with the initial public offering in May 2010, 32,317 shares of Series A preferred stock and 1,267,224 shares of Series D preferred stock were converted into 43,796,598 shares of common stock. Additionally, in May 2010, the preferred shareholders exercised their right to receive an amount in cash or shares equal to the pre-determined liquidation preference amount. The Company issued 1,265,012 shares and paid $0.9 million in satisfaction of liquidation preference payments due to preferred shareholders.
Common Stock
In May 2010, the Company completed its initial public offering, in which the Company sold 7,666,667 shares of common stock and selling stockholders sold 3,833,333 shares of common stock at an offering price of $12.00 per share. The offering resulted in net proceeds to the Company of $80.8 million after underwriting discounts and offering expenses, of which $2.9 million were incurred prior to December 31, 2009. The Company also issued 115,000 shares of common stock to a vendor for services performed in connection with the offering. In addition, in connection with the offering, the Company restated its certificate of incorporation and authorized 500,000,000 shares of common stock, par value $0.01. Each share of common stock is entitled to one vote. In connection with the initial public offering, 32,186,858 shares of Series B common stock and 5,372,877 shares of Series C common stock were reclassified as 37,559,735 shares of common stock.

In March 2011, the Company completed a public offering in which 7,475,000 shares of common stock were sold by certain selling stockholders at an offering price of $23.50 per share. The Company did not sell any securities nor did it receive any of the proceeds from the sale of the shares. The offering generated gross proceeds to the selling stockholders of $175.7 million, or $167.8 million net of underwriting discounts. The Company incurred approximately $1.0 million of expenses relating to this offering, which is included in selling, general and administrative expenses in the consolidated statements of income.
Dividends
During the year ended December 31, 2009, the Company paid a cash dividend in the aggregate amount of $14.9 million, or $0.18 per common equivalent share, to holders of record as of September 1, 2009 of the Company’s common stock and preferred stock.
Warrants
Supplemental Warrants
Effective in October 2004, the Company entered into a Supplemental Warrant Agreement with Ascension Health, its founding customer, which provided for the right to purchase up to 3,537,306 shares of Series B common stock based upon the achievement of specified milestones relating to the customer’s sales and marketing assistance. In May and September 2007, the Company and Ascension Health agreed to amend and restate the Supplemental Warrant Agreement to reduce the number of shares covered by the warrant to 1,749,064 and to extend the period of time covered by the Supplemental Warrant Agreement. The measurement date for each purchase right earned under the warrant was the date when the founding customer’s performance was complete, which was the date that the Company entered into a managed service contract with a customer for which the founding customer provided marketing assistance. The purchase price of the shares is equal to the most recent per share price of the Company’s Series B

common stock in a capital raising transaction or, if there has not been a capital raising transaction within the preceding six months, the exercise price of the Company's most recently granted employee stock options.

During March 2009, the founding customer earned the right to purchase 437,264 shares of Series B common stock under the Amended Supplemental Warrant Agreement. The warrants have an exercise price of $13.02 per share. The Company recorded $2.8 million as marketing expenses during the year ended December 31, 2009 in conjunction with the issuance of this warrant.

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Accretive Health, Inc.
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The Company's founding customer was issued 615,649 shares of common stock as a result of cashless exercise of outstanding supplemental warrants during the year ended December 31, 2010. The supplemental warrant with respect to 437,264 shares of common stock issued in March 2009, expired on the date of the Company's initial public offering. No warrants were earned during the year ended December 31, 2010; no supplemental warrants were outstanding as of December 31, 2010 and no additional warrant rights may be earned in the future.

Protection Warrants

Effective November 2004, the Company entered into a Protection Warrant Agreement with Ascension Health whereby the Company granted the customer anti-dilution rights by entering into an agreement whereby Ascension Health is granted warrants to purchase the Company's Series B common stock from time to time at an exercise price of $0.003 per share when the customer's original ownership percentage declines as a result of the Company offering more common share equivalents.

In the year ended December 31, 2009, warrants to purchase 136,372 shares of Series B common stock were earned under the Protection Warrant. None were earned in 2010 or 2011. As a result of these grants, revenue recorded was reduced by $1.7 million during the year ended December 31, 2009.

During the year ended December 31, 2009, Ascension Health purchased 164,396 shares of the Company's Series B common stock for $0.003 per share, pursuant to the Protection Warrant Agreement. As of December 31, 2010, there were no protection warrants outstanding and no additional warrant rights may be earned under this Agreement in the future.

Consulting Warrant

In January 2005, the Company granted a consulting firm and its principal a warrant to purchase 3,266,668 shares of the Company's Series C common stock for $0.29 per share, representing 5.0% of the Company's equity at that time in exchange for exclusive rights to certain revenue cycle methodologies, tools, technology, benchmarking information and other intellectual property. In December 2010, the consulting firm and its principal exercised the warrant in full to purchase 3,266,668 shares of the Company's common stock for $0.29 per share. As of December 31, 2010, the consulting warrant was no longer outstanding and no additional warrant rights may be earned under this agreement.

The Company used the Black-Scholes option pricing model to determine the estimated fair value of all of the above warrants at the date granted. The significant assumptions used in the model were:

	Year Ended December 31,		
	2009	2010	2011
Future dividends	—	—	—
Risk-free interest rate	2.91%	—	—
Expected volatility	50%	—	—
Expected life	5.6 years	—	—

Share Based Compensation

The Company maintains a 2006 Amended and Restated Stock Option Plan, as amended (the "2006 Plan"). In April 2010, the Company adopted a new 2010 Stock Incentive Plan (the "2010 Plan"), which became effective immediately prior to the closing of the initial public offering. The Company will not make any further grants under the 2006 Plan, and the 2010 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards (RSA) and other stock-based awards. As of December 31, 2011, the Company had an aggregate of 15,521,829 shares subject to outstanding options and RSAs under both plans, and 4,566,765 shares were available for grant under the 2010 plan. However, to the extent that previously granted awards under the 2006 Plan or 2010 Plan expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company, the number of shares available for future awards will increase, up to a maximum of 24,374,756 shares.

Under the terms of both plans, all awards will expire if they are not exercised within ten years after the grant date. Substantially all of the options vest over four years at a rate of 25% per year on each grant date anniversary. Options granted under the 2006 plan could be exercised immediately upon grant, but upon exercise the shares issued are subject to the same vesting and repurchase provisions that applied before the exercise. Options granted under the 2010

plan cannot be exercised prior to vesting.

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Notes to Consolidated Financial Statements

The Company uses the Black-Scholes option pricing model to determine the estimated fair value of each option as of its grant date. These inputs are subjective and generally require significant analysis and judgment to develop. The following table sets forth the significant assumptions used in the Black-Scholes model and the calculation of stock-based compensation cost during 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
Future dividends	—	—	—
Risk-free interest rate	1.6% to 3.2%	1.6% to 2.6%	1.2% to 2.7%
Expected volatility	50%	50%	50%
Expected life	6.25 years	6.25 years	6.25 years
Forfeitures	4.25% annually	4.25% annually	4.25% annually

As a newly public company, it is not practicable for the Company to estimate the expected volatility of the share price based on its limited public trading history. Therefore, the Company's management estimated the expected volatility of the share price by reviewing the historical volatility of the common stock 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. Judgment was used in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies.

All employees were aggregated into one pool for valuation purposes. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant.

The plan has not been in existence a sufficient period for the Company's historical experience to be used when estimating expected life. Furthermore, data from other companies is not readily available. Therefore, the expected life of each stock option was calculated using a simplified method based on the average of each option's vesting term and original contractual term.

An estimated forfeiture rate derived from the Company's historical data and its estimates of the likely future actions of option holders has been applied when recognizing the stock-based compensation cost of the options.

Total share-based compensation cost recognized for the years ended December 31, 2009, 2010, and 2011 was $6.9 million, $16.5 million and $25.2 million, respectively, with related income tax benefits of approximately $2.8 million, $6.6 million and $10.1 million, respectively. As of December 31, 2011 there was $81.7 million of total, unrecognized share-based compensation cost related to stock options and RSAs granted under the plans, which the Company expects to recognize over a weighted-average period of 2.9 years.

Accretive Health, Inc.
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Stock Options
The following table sets forth a summary of option activity under the plans for the years ended December 31, 2009, 2010, and 2011:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2009	8,159,519	$3.77	7.9	$85,342
Granted	2,757,720	13.37		
Exercised — vested	(116,620)	1.80		
Exercised — non-vested	(4,900)	0.80		
Cancelled	(136,220)	1.33		
Forfeited	(457,405)	9.50		
Outstanding at December 31, 2009	10,202,094	$6.16	7.5	$86,074
Granted	6,763,529	14.06		
Exercised — vested	(550,695)	2.28		
Cancelled	(107,904)	10.93		
Forfeited	(557,620)	11.76		
Outstanding at December 31, 2010	15,749,404	$9.45	7.5	$107,120
Granted	4,438,261	26.19		
Exercised — vested	(3,668,257)	4.95		
Cancelled	(32,927)	12.79		
Forfeited	(1,123,732)	14.87		
Outstanding at December 31, 2011	15,362,749	$14.96	7.6	$138,632
Outstanding, vested and exercisable at December 31, 2011	5,809,883	$7.74	5.9	$88,728

The weighted-average grant date fair value of options granted in the years ended December 31, 2009, 2010, and 2011 was $6.77, $7.19 and $13.10 per share, respectively. The total intrinsic value of the options exercised in the years ended December 31, 2009, 2010, and 2011 was $1.4 million, $6.6 million, and $71.6 million, respectively. The total fair value of options vested in the years ended December 31, 2009, 2010, and 2011 was $5.4 million, $8.0 million and $19.2 million, respectively.
Restricted Stock Awards

In the third quarter of 2011, the Company began to grant restricted stock awards to its employees; no such awards were granted in the years ended December 31, 2009 and 2010. A summary of the restricted stock activity during the year ended December 31, 2011 is shown below:

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)
Outstanding at January 1, 2011	—	$ —	
Granted	239,254	26.34	
Vested	(47,315)	27.20	
Forfeited	(32,859)	27.20	

Outstanding and Unvested at December 31, 2011	159,080	$ 25.90	9.7

The total fair value of RSAs vested in year ended December 31, 2011 was $1.2 million. The Company's restricted stock award agreements allow employees to surrender 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 year ended December 31, 2011 employees surrendered to the Company 14,804 shares of stock which the Company recorded at a cost of approximately $0.4 million. As of December 31, 2011 the Company holds 14,804 shares of its common stock in treasury.

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Notes to Consolidated Financial Statements

10. 401(k) 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 $16,500 in 2011, 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 plan. In 2009, 2010 and 2011, employees who were Directors, Vice President, or higher levels were excluded from the matching contribution feature of the plan. For the years ended December 31, 2009, 2010, and 2011, total Company contributions to the plan were $0.2 million, $0.3 million, and $0.4 million, respectively.

11. Operating Leases

The Company rents office space and equipment under operating leases, primarily for its Chicago corporate office, shared service centers and India operations. 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. As of December 31, 2011, the Chicago corporate office consisted of approximately 50,000 square feet in a multi-story office building under a lease expiring as to certain portions of the space in 2014 and other portions in 2020. In 2010, the Company substantially expanded its Chicago corporate headquarters. As a result of the build-out of additional space, the Company was entitled to approximately $2.5 million of tenant improvement allowance from the landlord. The payments from the landlord are included in Other Non-Current Liabilities in the consolidated balance sheet as of December 31, 2011 and are amortized on a straight-line basis over the duration of the lease. Approximately $0.9 million of the tenant allowance was recorded as a note receivable as the amount would not be available to the Company until 2013. In addition, the Company has a right of first offer to lease an additional 11,100 square feet of space on another floor in the same building. The Company also leases approximately 72,800 square feet of office space in another building in Chicago for a period of 11 years that houses the Company's Chicago shared services center.

Total rent expense was $1.5 million, $2.0 million and $3.0 million for the years ended December 31, 2009, 2010, and 2011, respectively.

At December 31, 2011, the aggregate minimum lease commitments under all noncancelable operating leases are as follows (in thousands):

2012	$3,690
2013	3,047
2014	3,209
2015	3,929
2016 and Beyond	19,182
Total	$33,057

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Accretive Health, Inc.
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12. Income Taxes

For the years ended December 31, 2009, 2010, and 2011, the Company's current and deferred income tax expense attributable to income from continuing operations are as follows (in thousands):

	Current	Deferred	Total
Year ended December 31, 2009			
U.S. federal	$4,377	$(3,206)	$1,171
State and local	2,095	(339)	1,756
Foreign	137	(98)	39
	$6,609	$(3,643)	$2,966
Year ended December 31, 2010			
U.S. federal	$10,454	$(3,340)	$7,114
State and local	2,881	(283)	2,598
Foreign	157	(140)	17
	$13,492	$(3,763)	$9,729
Year ended December 31, 2011			
U.S. federal	$23,759	$(7,917)	$15,842
State and local	3,689	(831)	2,858
Foreign	216	(3)	213
	$27,664	$(8,751)	$18,913

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

	2009	2010	2011
Federal statutory tax rate	35 %	35 %	35 %
Increase (reduction) in income tax rate resulting from:			
State and local income taxes, net of federal benefits	6	9	5
Change in the valuation allowance	(23)	—	—
India tax holiday	(2)	(2)	(1)
Meals and entertainment and other permanent differences	1	1	1
Alternative minimum tax	—	(1)	—
Anti-dilution warrants issued to customers	—	—	—
Other, net	—	2	(1)
Actual tax rate	17 %	44 %	39 %

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The following table sets forth the Company's net deferred tax assets (liabilities) as of December 31, 2010 and 2011 (in thousands):

	2010	2011
Deferred tax assets:		
Alternative minimum tax credit carryover	$113	$—
Accrued bonus	—	2,402
Net operating loss carryforwards	152	176
Employee stock compensation	10,111	15,477
Stock warrants	268	207
Bad debt	579	1,249
Research and development credit	101	288
Minimum alternative tax	238	242
Charitable contributions	—	134
Other	—	71
Total gross deferred tax assets	11,562	20,246
Less valuation allowance	(157)	(174)
Net deferred tax assets	11,405	20,072
Deferred tax liabilities:		
Deferred revenue	(2,388)	(49)
Fixed assets and intangibles	(3,628)	(5,883)
Total deferred tax liabilities	(6,016)	(5,932)
Net deferred tax asset	$5,389	$14,140

During the year ended December 31, 2009 the Company reduced the valuation allowance recorded against the Company's net deferred tax assets due to a change in the estimate of the future realization of the net deferred tax assets. The reduction resulted in a tax benefit of $3.5 million.

At December 31, 2011, the Company has cumulative state net operating carryforwards of approximately $0.2 million which are available to offset future state taxable income in future periods through 2027.

The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiary that arose in 2011 because the Company considers these earnings to be indefinitely reinvested outside of the United States. As of December 31, 2009, 2010, and 2011, the undistributed earnings of this subsidiary were $0.7 million, $1.3 million, and $1.8 million respectively.

The 2009, 2010 and 2011 current tax provision includes $0.1 million, $0.2 million, and $0.2 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 were approximately $0.3 million, $0.4 million, and $0.5 million for the years ended December 31, 2009, 2010, and 2011, respectively. The majority of these benefits are set to decrease after the year ending December 31, 2014 and gradually expire after the year ending December 31, 2018.

The Company's uncertain tax positions as of December 31, 2011, totaled $0.8 million. The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

Unrecognized tax benefits as of December 31, 2009	$305
Increases in positions taken in a current period	325
Increases (decreases) in positions taken in prior period	—
Unrecognized tax benefits as of December 31, 2010	$630
Increases in positions taken in a current period	190
Increases (decreases) in positions taken in prior period	—
Decreases due to lapse of statute of limitations	(10)
Unrecognized tax benefits as of December 31, 2011	$810

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Accretive Health, Inc.
Notes to Consolidated Financial Statements

As of December 31, 2011, approximately $0.7 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 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 2007 through 2010 are currently open for examination. State jurisdictions vary for open tax years. The statute of limitations for most states ranges from 3 to 6 years. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company recorded adjustments to interest and potential penalties related to these unrecognized tax benefits during 2011, and in total, as of December 31, 2011, the Company has recorded a liability for interest and potential penalties of $0.1 million. The Company anticipates changes to the reserves within the next 12 months to be related only to interest.

13. Legal Proceedings

From time to time, the Company has been and may again become involved in legal or regulatory proceedings arising in the ordinary course of the Company's business. 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 protected health information. The Company is cooperating with the Attorney General in an attempt to resolve this matter.

14. Earnings Per Common Share

Earnings per share (“EPS”) is calculated in accordance with ASC 260, Earnings Per Share. The guidance in ASC 260 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Under the two-class method, earnings are allocated between common stock and participating securities. The accounting guidance also states that the presentation of basic and diluted earnings per share is required only for each class of common stock and not for participating securities. Prior to the initial public offering in 2010, the Company’s Series B and Series C common stock had equal participation rights and therefore the Company has presented earnings per common share for Series B and Series C common stock as one class.

Net income per common share and weighted-average shares used in calculating net income per common share have been restated for all historical periods to reflect a 3.92-for-one stock split effective on May 3, 2010.

The Company’s Series A and Series D convertible preferred stock automatically converted to shares of common stock in connection with the Company’s initial public offering. Additionally, the unvested share-based payment awards that contained non-forfeitable rights to dividends were immaterial as of December 31, 2010 and December 31, 2011. Accordingly, for periods ended after the initial public offering, the two-class computation method is no longer applicable.

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Accretive Health, Inc.
Notes to Consolidated Financial Statements

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended December 31, 2011		
	2009	2010	2011
Net income as reported	$14,590	$12,618	$29,164
Less: Distributed earnings available to participating securities	8,174	—	—
Less: Undistributed earnings available to participating securities	—	—	—
Numerator for basic earnings per share - Undistributed and distributed earnings available to common shareholders	6,416	12,618	29,164
Add: Undistributed earnings allocated to participating securities	—	—	—
Less: Undistributed earnings reallocated to participating securities	—	—	—
Numerator for diluted earnings per share - Undistributed and distributed earnings available to common shareholders	$6,416	$12,618	29,164
Denominator for basic earnings per share - Weighted-average common shares	36,725,194	70,732,791	96,964,661
Effect of dilutive securities	7,229,973	23,473,886	4,186,612
Denominator for diluted earnings per share - Weighted-average common shares adjusted for dilutive securities	43,955,167	94,206,677	101,151,273
Earnings per share:			
Basic net income per share	$0.17	$0.18	$0.30
Diluted net income per share	0.15	0.13	0.29

Because of their anti-dilutive effect, 47,338,312, 9,176,289 and 2,731,075 common share equivalents, comprised of convertible preferred shares, unvested restricted stock, and stock options and warrants, have been excluded from the diluted earnings per share calculation for the years ended December 31, 2009, 2010, and 2011, respectively.

15. Revolving Credit Facility and Other Commitments

In September, 2011 the Company reduced its outstanding line of credit with the Bank of Montreal from $15 million to $3 million. The $3 million line of credit can only be utilized by the Company in the form of Letters of Credit and is secured by a $5 million demand deposit with the Bank of Montreal. Any amounts outstanding under the line of credit accrue interest at the greater of the bank-established prime commercial rate, a LIBOR plus 1% rate, or a rate that combines the characteristics of both. The line of credit has an initial term of three years and is renewable annually thereafter. As of December 31, 2011, the Company had outstanding letters of credit of approximately $2.5 million, which reduced the available line of credit to $0.5 million.
From time to time the Company makes commitments regarding its performance under certain portions of its managed service contracts. In the event that the Company does not meet any of these performance requirements, it may incur expenses to remedy the performance issue. The Company reviews its compliance with its contractual performance commitments on a quarterly basis. As of December 31, 2011, the Company met all of its performance commitments and, as a result, did not incur any liabilities for potential obligations.

16. Due from Related Party

Pursuant to the acquisition of a business in May 2006, the sellers, a majority of which are now employees of the Company, are obligated to indemnify the Company for federal and state income taxes related to periods up to and including the date of the acquisition. The net amount due to the Company related to this indemnity was $1.3 million as of December 31, 2010 and 2011 and is presented as due from related party in the consolidated balance sheets.

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Accretive Health, Inc.
Notes to Consolidated Financial Statements

17. Quarterly Financial Information (Unaudited)
Unaudited summarized financial data by quarter for the years ended December 31, 2010 and 2011 is as follows:

	Quarter Ended							
	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011
		(In thousands, except share and per share data)						
Net services revenue	$125,937	$151,905	$158,424	$170,029	$163,714	$183,587	$218,893	$260,082
Operating margin	23,648	33,891	32,152	38,327	34,173	47,057	48,995	65,602
Income from operations	1,172	7,434	4,481	9,232	401	13,229	12,228	22,197
Net income	$314	$3,919	$2,858	$5,528	$160	$8,553	$7,270	$13,181
Net income per common share								
Basic	$—	$0.06	$0.03	$0.06	$—	$0.09	$0.07	$0.13
Diluted	—	0.04	0.03	0.06	—	0.08	0.07	0.13

EXHIBIT INDEX

Exhibit Number		Description
3.1		Restated Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
3.2		Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.4 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
4.1		Specimen Certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.1	*	Amended and Restated Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.2	*	Form of Acknowledgment of Grant, used to evidence option grants under the Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.3	*	Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.4	*	Form of Restricted Stock Award Agreement under the Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.5		Third Amended and Restated Stockholders’ Agreement, dated as of February 22, 2009, among the Registrant and the parties named therein, as amended (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 filed on March 9, 2011)
10.6		Form of Share Exchange Agreement, entered into in February 2009, with each of Etienne H. Deffarges, Steven N. Kaplan, Gregory N. Kazarian, The Shultz 1989 Family Trust, Spiegel Family LLC and John T. Staton Declaration of Trust (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.7		Lease Agreement, dated as of May 4, 2005, between the Registrant and Zeller Management Corporation, as amended by First Lease Amendment, dated as of January 30, 2007, and Second Lease Amendment, dated as of November 26, 2008 (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.8	+	Amended and Restated Master Services Agreement, dated as of December 13, 2007, between the Registrant and Ascension Health (incorporated by reference to Exhibit 10.8 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.17	*	Employment Agreement, dated as of January 2004, between the Registrant and Mary A. Tolan, as amended (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.18	*	Employment Agreement, dated as of June 17, 2005, between the Registrant and John T. Staton, as amended (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.19	*	Offer Letter, dated December 9, 2003, between the Registrant and Gregory N. Kazarian, as amended (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed on September 29, 2009)
10.20	*	Form of Indemnification Agreement, entered into between the Registrant and each director and executive officer (incorporated by reference to Exhibit 10.20 to Amendment No. 1 to the Registration Statement on Form S-1 filed on November 19, 2009)
10.21	+	Credit Agreement, dated as of September 30, 2009, between the Registrant and Bank of Montreal (incorporated by reference to Exhibit 10.21 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)

10.22	+	Security Agreement, dated as of September 30, 2009, among the Registrant, Bank of Montreal and specified subsidiaries of the Registrant (incorporated by reference to Exhibit 10.22 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.23	*	2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.24	*	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
10.25	*	Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)

Exhibit Number	Description
21.10	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
23.10	Consent of Ernst & Young LLP
31.10	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
31.20	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
32.10	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
32.20	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

* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

\+ Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

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