

Accretive Health, Inc.  
Form 10-Q  
August 12, 2011

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

**Form 10-Q**

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2011**
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to**

**COMMISSION FILE NUMBER: 001-34746**

**ACCRETIVE HEALTH, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**02-0698101**

*(I.R.S. Employer  
Identification Number)*

**401 North Michigan Avenue**

**Suite 2700**

**Chicago, Illinois 60611**

*(Address of principal executive offices)*

**(312) 324-7820**

*(Registrant's telephone number, including area code)*

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

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

Class	Shares Outstanding as of: August 3, 2011
Common Stock, \$0.01 par value	97,510,126

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**Accretive Health, Inc.**

**FORM 10-Q**  
**For the period ended June 30, 2011**

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EX 31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
EX 31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
EX 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.
EX 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Accretive Health, Inc.**

**Condensed Consolidated Balance Sheets**

	June 30, 2011 (Unaudited)	December 31, 2010
(In thousands, except share and per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 150,297	\$ 155,573
Accounts receivable, net of allowance for doubtful accounts of \$1,746 and \$1,582 at June 30, 2011 and December 31, 2010, respectively	92,007	53,894
Prepaid taxes	24,454	11,436
Prepaid assets	2,678	1,900
Due from related party	1,288	1,283
Other current assets	4,007	1,659
Total current assets	274,731	225,745
Deferred income tax	11,405	11,405
Furniture and equipment, net	24,384	21,698
Goodwill	1,468	1,468
Other, net	1,203	2,303
Total assets	\$ 313,191	\$ 262,619
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 30,264	\$ 30,073
Accrued service costs	42,721	38,649
Accrued compensation and benefits	13,257	13,331
Deferred income tax	6,016	6,016
Other accrued expenses	5,894	6,062
Deferred revenue	19,335	21,857
Total current liabilities	117,487	115,988
Non-current liabilities:		
Other non-current liabilities	3,940	3,912

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Total non-current liabilities	3,940	3,912
Total liabilities	\$ 121,427	\$ 119,900
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2011 and December 31, 2010		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 97,439,681 and 94,826,509 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	974	948
Additional paid-in capital	200,151	159,780
Non-executive employee loans for stock option exercises		(41)
Accumulated deficit	(9,121)	(17,834)
Cumulative translation adjustment	(240)	(134)
Total stockholders' equity	191,764	142,719
Total liabilities and stockholders' equity	\$ 313,191	\$ 262,619

See accompanying notes to condensed consolidated financial statements

**Accretive Health, Inc.****Condensed Consolidated Statements of Income (Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands, except share and per share amounts)</b>			
Net services revenue	\$ 183,587	\$ 151,905	\$ 347,301	\$ 277,841
Costs of services	136,530	118,014	266,071	220,302
Operating margin	47,057	33,891	81,230	57,539
Other operating expenses:				
Infused management and technology	21,210	16,148	40,742	31,057
Selling, general and administrative	12,618	10,309	26,858	17,877
Total operating expenses	33,828	26,457	67,600	48,934
Income from operations	13,229	7,434	13,630	8,605
Interest income, net	6	2	15	10
Net income before provision for income taxes	13,235	7,436	13,645	8,615
Provision for income taxes	4,682	3,517	4,932	4,383
Net income	\$ 8,553	\$ 3,919	\$ 8,713	\$ 4,232
Net income per common share				
Basic	\$ 0.09	\$ 0.06	\$ 0.09	\$ 0.09
Diluted	0.08	0.04	0.09	0.05
Weighted average shares used in calculating net income per common share				
Basic	96,569,081	61,660,729	95,869,632	49,642,701
Diluted	101,064,774	92,734,255	100,246,198	90,734,198

See accompanying notes to condensed consolidated financial statements

**Accretive Health, Inc.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Operating activities:</b>		
Net income	\$ 8,713	\$ 4,232
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	4,114	2,562
Employee stock based compensation	11,338	5,542
Deferred income taxes		(2,277)
Excess tax benefits from equity-based awards	(16,902)	(1,284)
Changes in operating assets and liabilities:		
Accounts receivable	(38,113)	(19,051)
Prepaid taxes	3,505	3,199
Prepaid and other current assets	(2,618)	(368)
Accounts payable	187	3,795
Accrued service costs	4,072	6,258
Accrued compensation and benefits	(74)	(3,881)
Other accrued expenses	(193)	1,413
Accrued income taxes		2,617
Deferred rent expense	27	852
Deferred revenue	(2,522)	(5,948)
Net cash used in operating activities	(28,466)	(2,339)
<b>Investing activities:</b>		
Purchases of furniture and equipment	(4,260)	(2,357)
Acquisition of software	(2,521)	(2,646)
Collection (issuance) of note receivable	963	(757)
Net cash used in investing activities	(5,818)	(5,760)
<b>Financing activities:</b>		
Proceeds from the initial public offering, net of issuance costs		83,756
Liquidation preference payment		(866)
Proceeds from issuance of common stock from employees stock option exercises	12,156	166
Collection of non-executive employees notes receivable	41	55
Excess tax benefit from equity-based awards	16,902	1,284
Net cash provided by financing activities	29,099	84,395
Effect of exchange rate changes on cash	(91)	(81)

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Net increase (decrease) in cash and cash equivalents	(5,276)	76,215
Cash and cash equivalents at beginning of period	155,573	43,659
Cash and cash equivalents at end of period	\$ 150,297	\$ 119,874

See accompanying notes to condensed consolidated financial statements



**Accretive Health, Inc.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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

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 s core 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 s quality and total cost of care service offering, introduced in 2010, can enable 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.

The accompanying unaudited condensed consolidated financial statements reflect the Company s financial position as of June 30, 2011, the results of operations for the three and six months ended June 30, 2011 and 2010, and the cash flows of the Company for the six months ended June 30, 2011 and 2010. These financial statements include the accounts of Accretive Health, Inc. and its wholly owned subsidiaries. All significant intercompany accounts have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial reporting and as required by the rules and regulations of the U.S. Securities and Exchange Commission (the SEC ). Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the interim financial information have been included. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2011.

When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. For a more complete discussion of the Company s significant accounting policies and other information, the unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, included in the Company s Annual Report on Form 10-K filed with the SEC on March 18, 2011 (File No. 001-34746).

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

In October 2009, the FASB issued ASU No. 09-13, *Revenue Recognition Multiple Deliverable Revenue Arrangements*, or 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 is 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 condensed consolidated financial statements.

**Accretive Health, Inc.**

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

**NOTE 3 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.

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 but are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

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

The Company's financial assets are required to be measured at fair value on a recurring basis. These financial assets consist of cash equivalents totaling \$144.0 million, which are invested in highly liquid money market funds and treasury securities and 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.

**NOTE 4 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. Accordingly, for purposes of disclosure under ASC 280, *Segment Reporting*, the Company has only one operating segment and reporting unit. 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 43.9% and 53.8% of the Company's total net services revenue during the three months ended June 30, 2011 and 2010, respectively. The Company's aggregate net services revenue from these hospitals accounted for 46.4% and 56.3% of the Company's total net services revenue during the six months ended June 30, 2011 and 2010, respectively.

Additionally, 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 9.4% and 10.8% of the Company's total net services revenue in the three months ended June 30, 2011 and 2010, respectively. Henry Ford Health System's revenue accounted for 9.2% and 10.9% of the Company's total net services revenue in the six months ended June 30, 2011 and 2010. Fairview Health Systems, which is not affiliated with Ascension Health, with which the Company entered into a managed service contract in the first half of 2010, accounted for 13.8% and

**Accretive Health, Inc.**

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

10.6% of the Company's total net services revenue for the three months ended June 30, 2011 and 2010, respectively. Fairview Health Systems accounted for 14.4% and 5.8% of the Company's total net services revenue for the six months ended June 30, 2011 and 2010, respectively.

**NOTE 5 NET SERVICES REVENUE**

The Company's net services revenue consisted of the following for the three and six months ended June 30, 2011 and 2010 (in thousands):

<b>Three Months Ended June 30,</b>	<b>Six Months Ended June 30,</b>
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