Accretive Health, Inc.
Form S-1/A
January 08, 2010

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As filed with the Securities and Exchange Commission on January 8, 2010

Registration No. 333-162186

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

Amendment No. 2
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ACCRETIVE HEALTH, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**7389**	**02-0698101**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code No.)*	*(I.R.S. Employer Identification No.)*

401 North Michigan Avenue
Suite 2700
Chicago, Illinois 60611
(312) 324-7820
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Mary A. Tolan
Founder, President and Chief Executive Officer
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective.

If any of the securities being registered on this form are offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act) please check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 12b2 of the Exchange Act.

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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the

Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated January 8, 2010

Shares

Common Stock

This is an initial public offering of shares of common stock of Accretive Health, Inc.

Accretive Health is offering of the shares to be sold in the offering. The selling stockholders identified in this prospectus are offering shares. Accretive Health will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share will be between $ and $. We have applied to list our common stock on the New York Stock Exchange under the symbol AH .

See Risk Factors beginning on page 11 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Accretive Health	$	$
Proceeds, before expenses, to the selling stockholders	$	$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from Accretive Health and the selling stockholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2010.

Goldman, Sachs & Co.	**Credit Suisse**
J.P. Morgan	**Morgan Stanley**
Baird	**William Blair & Company**

Prospectus dated , 2010.

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ACCRETIVE HEALTH results providers trust Building Trust Through: People A talented team with revenue cycle management skills & a focus on outstanding customer service. Process Standardized implementation process and continuing analysis using sophisticated analytics and proprietary algorithms. Technology Integrated Proprietary Technology Suite delivered as a web interface. Helping our customers achieve Improved Net Revenue Yield Increased Charge Capture More Efficient Revenue Cycle Operations

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Through and including , 2010 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including our consolidated financial statements and related notes, and the risk factors beginning on page 11, before deciding whether to purchase shares of our common stock. Unless the context otherwise requires, we use the terms Accretive Health , our company , we , us and our in this prospectus to refer to Accretive Health, Inc. and its subsidiaries.

Accretive Health

Overview

Accretive Health is a leading provider of healthcare revenue cycle management services. Our business purpose is to help U.S. healthcare providers to more efficiently manage their revenue cycle operations, which encompass patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections.

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. Our integrated technology and services offering, which we refer to as our solution, helps our customers realize sustainable improvements in their operating margins and improve the satisfaction of their patients, physicians and staff. Our solution is adaptable to the evolution of the healthcare regulatory environment, technology standards and market trends, and requires no up-front cash investment by our customers. As of September 30, 2009, we provided our integrated revenue cycle service offerings to 22 customers representing 53 hospitals and $12.0 billion in annual net patient revenue, as well as physicians billing organizations associated with several of these customers.

The revenue cycle operations of a typical healthcare provider often fail to capture and collect the total amounts contractually owed to it from third-party payors and patients for medical services rendered. Our solution spans our customers entire revenue cycle, unlike competing services that we believe address only a portion of the revenue cycle or focus solely on cost reductions. Through the implementation of our distinctive operating model that includes people, process and technology, our customers have historically achieved significant improvements in cash collections measured against the contractual amount due for medical services, which we refer to as net revenue yield, within 18 to 24 months of implementing our solution. Customers operating under mature managed service contracts typically realize 400 to 600 basis points in yield improvements in the third or fourth contract year. All of a customer s yield improvements during the period we are providing services are attributed to our solution because we assume full responsibility for the management of the customer s revenue cycle. Our methodology for measuring yield improvements excludes the impact of external factors such as changes in reimbursement rates from payors, the expansion of existing services or addition of new services, volume increases and acquisitions of hospitals or physician practices.

In assuming responsibility for the management and cost of a customer s revenue cycle operations, we supplement the existing staff involved in the customer s revenue cycle operations with seasoned Accretive Health personnel. We also seek to embed our technology, personnel, know-how and culture within each customer s revenue cycle activities with the expectation that we will serve as the customer s on-site operational manager beyond the contract s initial term. To date, we have experienced a contract renewal rate of 100% (excluding exploratory new services offerings, a consensual termination following a change of control and a customer reorganization). Coupled with the long-term nature of our managed service contracts and the fixed nature of the base fees under each contract, our historical renewal experience provides a core source of recurring revenue.

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Our net services revenue consists primarily of base fees and incentive fees. We receive base fees for managing our customers revenue cycle operations, net of any cost savings we share with those customers. Incentive fees represent our portion of the increase in our customers net revenue yield. We and our customers share financial gains resulting from our solution, which directly aligns our objectives and interests with those of our customers. We believe that over time, this alignment of interest fosters greater innovation and incentivizes us to improve our customer s revenue cycle operations.

A customer s net 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. In 2008, for example, approximately 80% of our net services revenue, and over 95% of our net income, was derived from customer contracts that were in place as of January 1, 2008. In 2008, we had net services revenue of $398.5 million, representing growth of 65.5% over 2007 and a compound annual growth rate of 53.0% since January 1, 2005. In addition, we were profitable for the years ended December 31, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, and our profitability increased in each of those periods.

Market Opportunity

We believe that current macroeconomic conditions will continue to impose financial pressure on healthcare providers and will increase the importance of managing their revenue cycles effectively and efficiently. We estimate that the market opportunity for our services which we define as the total amount of net patient revenue collected annually by U.S. hospitals and physicians billing organizations exceeds $750 billion. We expect this market opportunity will continue to grow. In addition, the continued operating pressures facing U.S. hospitals coupled with some of the themes underlying current healthcare reform proposals make the efficient management of the revenue cycle and collection of the full amount of payments due for patient services among the most critical challenges facing healthcare providers today.

We believe that the inability of healthcare providers to capture and collect the total amounts owed to them for patient services are caused by the following trends:

Complexity of Revenue Cycle Management. At most hospitals, there is a lack of standardization across operating practices, payor and patient payment methodologies, data management processes and billing systems.

Lack of Integrated Systems and Processes. Although interrelated, the individual steps in the revenue cycle are not operationally integrated across revenue cycle departments at many hospitals.

Increasing Patient Financial Responsibility for Healthcare Services. Hospitals are being forced to adapt to the need for direct-to-patient billing and collections capabilities as patients bear payment responsibility for an increasing portion of healthcare costs; however, we believe most hospitals are not very well prepared to address consumer needs regarding the patient s payment obligation.

Outdated Systems and Insufficient Resources to Upgrade Them. Many hospitals suffer from operating inefficiencies caused by outdated technology, increasingly complex billing requirements, a general lack of standardization of process and information flow, costly in-house services that could be more economically outsourced, and an increasingly stringent regulatory environment.

The Accretive Health Solution

Our solution is intended to address the full spectrum of revenue cycle operational issues faced by healthcare providers. We believe that our proprietary and integrated technology, management experience and well-developed processes are enhanced by the knowledge and experience we gain working with a wide range of customers and improve with each payor reimbursement or patient pay transaction. We deliver improved operating margins to our customers by helping them to improve their net revenue yield; increase their charge capture, which involves ensuring that all charges for medical treatment are included in the associated bill; and make their revenue cycle operations more efficient by implementing advanced technologies, streamlining operations and avoiding unnecessary re-work. While improvements in net revenue yield generally represent the majority of a customer s operating margin improvement, we are able to deliver additional margin improvement through improvements in charge capture and through revenue cycle cost reductions. We typically achieve revenue cycle cost reductions by implementing our proprietary technology and procedures, which reduce manual processes and duplicative work; migrating selected tasks to our shared operating facilities; and transferring certain third-party services, such as Medicaid eligibility review, to our own operations center, which allows us to leverage centralized processing capabilities to perform these tasks more efficiently. Improvements in charge capture are typically attributable to reduced payment denials by payors and identification of additional items that can be billed to payors based on the actual procedures performed. Because our managed service contracts align our interests with those of our customers, we are able, over time, to improve our margins along with those of our customers.

We employ a variety of techniques intended to achieve our objectives for our customer:

Gathering Complete Patient and Payor Information. We focus on gathering complete patient information and educating the patient as to his or her potential financial responsibilities before receiving care so the services can be recorded and billed to the appropriate parties. Our systems automatically measure the completeness and accuracy of up-front patient profile information and other data, as well as billing and collections throughout the lifecycle of each patient account. Our analyses of these data show that hospitals employing our services have increased the percentage of non-emergency in-patient admissions with complete information profiles to more than 90%, enabling fewer billing delays and reduced billing cycles.

Improving Claims Filing and Third-Party Payor Collections. We implement sophisticated analytics designed to improve claims filing and collection of claims from third-party insurance payors. By employing proprietary algorithms and modeling to determine how hospital staff involved in the revenue cycle should allocate time and resources across a pool of outstanding claims prioritized by level of risk, we can increase the likelihood that patient services will be reimbursed.

Identifying Alternative Payment Sources. We use various methods to find payment sources for uninsured patients and reimbursement for services not covered by third-party insurance. After a typical implementation period, we have been able to help our customers find a third-party payment source for approximately 85% of all admitted patients who identified themselves as uninsured.

Employing Proprietary Technology and Algorithms. Our service offerings employ a variety of proprietary data analytics and predictive modeling algorithms. Our systems are designed to streamline work processes through the use of proprietary algorithms that focus effort on those accounts deemed to have the greatest potential for improving net revenue yield or charge capture.

Using Analytical Capabilities and Operational Excellence. We draw on the experience that we have gained from working with many of the best healthcare provider systems in the United States to train hospital staffs about new and innovative revenue cycle management practices.

Our Strategy

Our goal is to become the preferred provider-of-choice for revenue cycle management services in the U.S. healthcare industry. Since our inception, we have worked with some of the largest and most prestigious healthcare systems in the United States, such as Ascension Health, the Henry Ford Health System and the Dartmouth-Hitchcock Medical Center. Going forward, our goal is to continue to expand the scope of our services to hospitals within our existing customers systems as well as to leverage our strong relationships with reference customers to continue to attract business from new customers. Key elements of our strategy include the following:

- delivering tangible, long-term results for our customers by providing services that span the entire revenue cycle;
- continuing to develop innovative approaches to increase the collection rate on patient-owed obligations for medical services received;
- enhancing and developing proprietary algorithms to identify potential errors and to make process corrections in the collection of reimbursements from third-party payors;
- expanding our shared services program;
- hiring, training and retaining our personnel;
- continuing to diversify our customer base; and
- developing enhanced service offerings that offer us long-term opportunities.

Risks Associated with Our Business

Our business is subject to a number of risks which you should be aware of before making an investment decision. Those risks are discussed more fully in Risk Factors beginning on page 11. For example:

- 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;
- hospitals affiliated with Ascension Health account for a majority of our net services revenue;
- we face competition from the internal revenue cycle management staff of hospitals as well as from a variety of external participants in the revenue cycle market;
- if we are unable to retain our existing customers, or if our customers fail to renew their managed service contracts with us upon expiration, our financial condition will suffer; and
- existing and prospective government regulation of the healthcare industry creates risks and challenges for our business.

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. Our website address is www.accretivehealth.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

Accretive Health, the Accretive Health logo, 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 prospectus are the property of Accretive Health.

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The Offering

Common stock offered by Accretive Health	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use approximately $ million of our net proceeds of this offering to pay the preferred stock liquidation preferences that will be paid in cash to the holders of our outstanding preferred stock concurrently with the conversion of such shares into shares of our common stock upon the closing of this offering. We intend to use the remainder of our net proceeds of this offering for general corporate purposes, which may include financing our growth, developing new services and funding capital expenditures, acquisitions and investments. We will not receive any proceeds from the shares sold by the selling stockholders. See Use of Proceeds for more information.
Risk Factors	You should read the Risk Factors section and other information included in this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Proposed New York Stock Exchange symbol	AH

The number of shares of our common stock to be outstanding after this offering is based on shares of common stock outstanding as of September 30, 2009 after giving effect to the assumptions in the following paragraph, and excludes:

- 833,334 shares of common stock issuable upon the exercise of warrants outstanding and exercisable as of September 30, 2009 at a weighted-average exercise price of $1.12 per share, which will remain outstanding after this offering if not exercised prior to this offering;

- 2,536,260 shares of common stock issuable upon the exercise of stock options outstanding and exercisable as of September 30, 2009 at a weighted-average exercise price of $22.89 per share, of which 1,158,408 shares with a weighted-average exercise price of $9.71 per share would be vested if purchased upon exercise of these options as of September 30, 2009;

- 69,703 shares of common stock available for future issuance under our equity compensation plans as of September 30, 2009; and

- an additional shares of our common stock that will be made available for future issuance under our equity compensation plans upon the closing of this offering.

Except as otherwise noted, all information in this prospectus:

assumes no exercise by the underwriters of their option to purchase up to an additional shares from us and the selling stockholders;

assumes that the shares to be sold in this offering are sold at the initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus;

gives effect to a -for-one split of our common stock to be effected prior to the closing of this offering;

gives effect to the automatic conversion of all outstanding shares of non-voting common stock into shares of voting common stock on a share-for-share basis upon the closing of this offering;

gives effect to the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock upon the closing of this offering, assuming an initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus;

gives effect to our assumed issuance of shares of common stock upon exercise of warrants that will be cancelled if not exercised prior to this offering, assuming an initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus;

gives effect to our issuance of shares of common stock to Financial Technology Partners, LLC and/or FTP Securities, LLC, whom we collectively refer to as FT Partners, contemporaneously with the closing of this offering, assuming an initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, which FT Partners has elected in writing to receive in partial satisfaction of a fee for financial advisory services in respect of this offering; and

gives effect to the restatement of our certificate of incorporation and amendment and restatement of our bylaws prior to the closing of this offering.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables summarize our consolidated financial data for the periods presented. The summary statements of operations for the three years ended December 31, 2008 are derived from our audited financial statements for the three years ended December 31, 2008 included elsewhere in this prospectus. The summary statements of operations for the nine months ended September 30, 2008 and 2009 and the summary balance sheet data as of September 30, 2009 are derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements have been prepared on the same basis as the audited financial statements and notes thereto and, in the opinion of our management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the information for the unaudited interim periods. Our historical results for prior interim periods are not necessarily indicative of results to be expected for a full year or for any future period.

The pro forma balance sheet data as of September 30, 2009 give effect to (1) the automatic conversion of all outstanding shares of non-voting common stock into shares of common stock upon the closing of this offering, (2) the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock upon the closing of this offering and (3) the assumed issuance of shares of common stock upon exercise of warrants that will be cancelled if not exercised prior to this offering. The pro forma as adjusted balance sheet data as of September 30, 2009 give effect to (1) the items described in the preceding sentence, (2) our issuance and sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, after deducting the estimated underwriting discount and offering expenses payable by us and the application of the net proceeds therefrom as described in Use of Proceeds , and (3) our issuance of shares of common stock to FT Partners contemporaneously with the closing of this offering, based on an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, which FT Partners has elected in writing to receive in partial satisfaction of a fee for financial advisory services in respect of this offering.

You should read this data together with our consolidated financial statements and related notes included elsewhere in this prospectus and the information under Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations .

	Fiscal Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
	(In thousands, except share and per share data)				
Statement of Operations Data:					
Net services revenue	$ 160,741	$ 240,725	$ 398,469	$ 293,218	$ 372,661
Costs of services	141,767	197,676	335,211	247,707	301,552
Operating margin	18,974	43,049	63,258	45,511	71,109
Operating expenses:					
Infused management and technology	18,875	27,872	39,234	27,734	38,054
Selling, general and administrative	8,777	15,657	21,227	14,662	23,379

Total operating expenses	27,652	43,529	60,461	42,396	61,433
Income (loss) from operations	(8,678)	(480)	2,797	3,115	9,676
Net interest income (expense)	1,359	1,710	710	684	(12)
Income (loss) before provision for income taxes	(7,319)	1,230	3,507	3,799	9,664

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	Fiscal Year Ended December 31, 2006	2007	2008	Nine Months Ended September 30, 2008 (Unaudited)	2009
	(In thousands, except share and per share data)				
Provision for income taxes		456	2,264	2,040	180
Net income (loss)	$ (7,319)	$ 774	$ 1,243	$ 1,759	$ 9,484
Net income (loss) per common share:					
Basic:	$ (0.89)	$ 0.04	$ (0.70)	$ (0.65)	$ 0.15
Diluted:	(1.02)	0.03	(0.73)	(0.68)	0.12
Weighted-average shares used in computing net income (loss) per common share:					
Basic:	6,611,975	8,410,226	9,214,916	9,193,700	9,356,553
Diluted:	6,611,975	10,296,011	9,214,916	9,193,700	11,261,361
Other Operating Data (unaudited):					
Adjusted EBITDA(1)	$ (7,125)	$ 6,842	$ 12,220	$ 9,541	$ 22,181
Net patient revenue under management (at period end) (in billions)	$ 4.1	$ 6.7	$ 9.2	$ 8.8	$ 12.0

	As of September 30, 2009 Actual	Pro Forma	Pro Forma As Adjusted
		(Unaudited) (In thousands)	
Balance Sheet Data:			
Cash and cash equivalents	$ 34,272		
Working capital	(10,138)		
Total assets	98,840		
Total stockholders equity	14,501		

(1) 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);
- although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for these replacements; and
- other companies in our industry may calculate adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

To properly and prudently evaluate our business, we encourage you to review the GAAP financial statements included elsewhere in this prospectus, and not to rely on any single financial measure to evaluate our business.

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The following table presents a reconciliation of adjusted EBITDA to net income (loss), the most comparable GAAP measure:

	Fiscal Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
	(In thousands)				
Net income (loss)	$ (7,319)	$ 774	$ 1,243	$ 1,759	$ 9,484
Net interest (income) expense	(1,359)	(1,710)	(710)	(684)	12
Provision for income taxes		456	2,264	2,040	180
Depreciation and amortization expense	626	1,307	2,540	1,412	2,839
EBITDA	$ (8,052)	$ 827	$ 5,337	$ 4,527	$ 12,515
Stock compensation expense(b)	844	934	3,551	1,753	5,309
Stock warrant expense(b)	83	5,081	3,332	3,261	4,357
Adjusted EBITDA	$ (7,125)	$ 6,842	$ 12,220	$ 9,541	$ 22,181

(a) 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 the nine months ended September 30, 2009 is a result of a $150 origination fee paid in connection with establishing our new revolving line of credit.

(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, $83, $928, $921, $877 and $1,584 was classified as a reduction in net services revenue for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, respectively.

RISK FACTORS

An investment in our common stock involves a high degree of risk. In deciding whether to invest, you should carefully consider the following risk factors. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment. When deciding whether to invest in our common stock, you should also refer to the other information in this prospectus, including our consolidated financial statements and related notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

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 majority 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 majority of our net services revenue each year since our formation. In the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, aggregate revenue from hospitals affiliated with Ascension Health were $142.6 million, $214.2 million, $281.7 million, $210.1 million and $233.7 million, respectively, representing 88.7%, 89.0%, 70.7%, 71.7% and 62.7% 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. In the year ended December 31, 2008, revenue from St. John Health (an affiliate of Ascension Health) was $69.1 million, equal to 17.3% of our total net services revenue, and revenue from Columbia St. Mary s Health System (another affiliate of Ascension Health) was $40.2 million, equal to 10.1% of our total net services revenue. In addition, another customer, which is not affiliated with Ascension Health, accounted for 10.6% of our total net services revenue in the year ended December 31, 2008 but less than 10% of our total net services revenue in the nine months ended September 30, 2009.

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 market for integrated revenue cycle management services that span the entire revenue cycle 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. Some hospitals may be reluctant or unwilling to implement our solution for a number of reasons, including failure to perceive the need for improved revenue cycle operations and lack of knowledge about the potential benefits our solution provides. Even if potential customers recognize the need for improved revenue cycle operations, they may not select an integrated, end-to-end revenue cycle solution such as ours because they previously have made

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investments in internally developed solutions and choose to continue to rely on their own internal revenue cycle management staff. As a result, the market for integrated, end-to-end revenue cycle 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 revenue cycle management solutions is highly competitive and we expect competition to intensify in the future. We face competition from the internal revenue cycle management staff of hospitals, as described above. We also compete with external participants in the revenue cycle market, including software vendors and other technology-supported revenue cycle management business process outsourcing companies; traditional consultants; and information technology outsourcers. 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.

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 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 solution, we utilize the customer s existing revenue cycle management and staff and layer our proprietary technology tools on top of the customer s existing patient accounting

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system. 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 solution 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.

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 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.

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 $16.2 million in 2004 to $398.5 million in 2008, and the number of our full-time employees increased from two at January 1, 2004 to 1,438 as of September 30, 2009. 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. 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

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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 prohibit 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.

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

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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 tools 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. For the year ended December 31, 2008, we recorded a tax provision of $2.3 million, of which $1.2 million was attributable to the Michigan gross receipts tax.

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 costs. 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.

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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.

National healthcare reform is currently a major policy issue at the federal level. The Obama administration has made healthcare reform a priority, and legislative proposals have passed the House of Representatives and Senate and are currently being reconciled. Some of the underlying themes of current reform proposals quality and cost, uninsured coverage and healthcare information technology are broadly targeted to drive greater efficiency in the U.S. healthcare system by, among other things, rewarding quality and coordination of care and promoting broader adoption of electronic medical records.

Although it is impossible to predict what healthcare reform legislation, if any, will be enacted, proposals currently being debated could have adverse consequences for the hospitals we serve and for us. Healthcare reform could, for example, result in additional or costly legal and regulatory requirements that are applicable to us and our customers, encourage more companies to enter our market, provide advantages to our competitors and result in the development of solutions that compete with ours. In addition, healthcare reform could result in an increase to the number or scope of federal or state charity care programs or community benefits programs, which may adversely affect our claim collection and recovery efforts.

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.

The 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 add provisions that will, beginning in 2010, impose certain of the HIPAA privacy and security requirements directly upon business associates of covered entities. When new regulations take effect in late 2009, both covered entities and their business associates will be required to notify individuals and government authorities of data security breaches involving unsecured protected health information. We may be viewed as a business associate of a covered entity under HIPAA and the HITECH 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. 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 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 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 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 evaluate our business relationships and activities to comply with the federal anti-kickback statute and similar laws, and we seek to structure our financial arrangements in a manner that is consistent with the requirements of applicable safe harbors to these laws. We cannot assure you, however, that our arrangements will be protected by such safe harbors or that such 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 that any of our activities or those of our vendors or customers violate 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.

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 physician 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 recent amendments 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.

These laws and regulations may change rapidly, and it is frequently unclear how they apply to our business. Errors created by our proprietary tools 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 tools 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.

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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 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 four patent applications, we cannot assure you that any patents will issue from these applications in a manner that gives us the protection that we seek, or that any future patents issued to us 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 issue in the future from pending or future patent applications 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.

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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 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 this Offering and Ownership of Shares of Our Common Stock

The trading price of our common stock is likely to be volatile, and you may not be able to sell your shares at or above the initial public offering price.

Our common stock has no prior trading history, and an active public market for these shares may not develop or be sustained after this offering. The initial public offering price for our common stock will be determined through negotiations with the representatives of the underwriters. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our shares following this offering. In addition, the trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors. In addition to the risks described in this section, factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in estimates of our financial results or recommendations by securities analysts;
- investors general perception of us; and
- changes in general economic, industry and market conditions.

In addition, if the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations.

Some companies that have had volatile market prices for their securities have had securities class actions filed against them. If a suit were filed against us, regardless of its merits or outcome, it would likely result in substantial costs and divert management s attention and resources. This could have a material adverse effect on our business, operating results and financial condition.

Our securities have no prior market and our stock price may decline after the offering.

Prior to this offering, there has been no public market for shares of our common stock. Although we have applied to list our common stock on the New York Stock Exchange, an active public trading market for our common stock may not develop or, if it develops, may not be maintained after this offering. For example, the New York Stock Exchange imposes certain securities trading requirements, including minimum trading price, minimum number of stockholders and minimum market capitalization. Our company and the representatives of the underwriters will negotiate to determine the initial public offering price. The initial public offering price may be higher than the trading price of our common stock following this offering. As a result, you could lose all or part of your investment.

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the contractual lock-up agreements described below expire and other restrictions on resale lapse, the trading price of our common stock could decline below the initial public offering price. Based on shares outstanding as of September 30, 2009, upon the closing of this offering, we will have outstanding shares of common stock. Of these shares, shares of common stock will be eligible for sale in the public market and shares of common stock will be subject to a 180-day contractual lock-up with the underwriters. Goldman, Sachs & Co. and Credit Suisse Securities (USA) LLC, acting as representatives of the underwriters,

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may permit our officers, directors, employees and current stockholders who are subject to the contractual lock-up to sell shares prior to the expiration of the lock-up agreements. Upon expiration of the contractual lock-up agreements with the underwriters, and based on shares outstanding as of September 30, 2009, an additional shares will be eligible for sale in the public market.

Some of our existing stockholders have demand and incidental registration rights to require us to register with the SEC up to shares of our common stock. If we register these shares of common stock, the stockholders would be able to sell those shares freely in the public market.

See Shares Eligible for Future Sale for further details regarding the number of shares eligible for sale in the public market after this offering.

Insiders will continue to have substantial control over us after this offering and will be able to determine substantially all matters requiring stockholder approval.

Upon the closing of this offering, our directors and executive officers and their affiliates will beneficially own, in the aggregate, approximately % of our outstanding common stock, assuming no exercise of the underwriters option to purchase additional shares. As a result, these stockholders will be able to determine substantially all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third-party from acquiring control over us. For information regarding the ownership of our outstanding stock by our executive officers and directors and their affiliates, see Principal and Selling Stockholders .

You will experience substantial dilution as a result of this offering and future equity issuances.

The initial public offering price per share is substantially higher than the pro forma net tangible book value per share of our common stock outstanding prior to this offering. As a result, investors purchasing common stock in this offering will experience immediate substantial dilution of $ per share. In addition, we have issued options to acquire common stock at prices significantly below the initial public offering price. To the extent outstanding options are ultimately exercised, there will be further dilution to investors in this offering. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of common stock. In addition, if the underwriters exercise their option to purchase additional shares, if outstanding warrants to purchase our common stock are exercised, or if we issue additional equity securities, you will experience additional dilution.

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, which will be in effect prior to the closing of this offering:

- authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;

- establish 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 .

We do not anticipate paying any cash dividends on our capital stock in the foreseeable future following the closing of this offering.

Although we paid a cash dividend on our capital stock in July 2008 and declared another cash dividend on our capital stock in August 2009, which was paid in September and October 2009, we do not expect to pay cash dividends on our common stock in the foreseeable future following the closing of this offering. 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, the revolving credit facility we entered into on September 30, 2009 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 .

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this prospectus regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words anticipate , believe , estimate , expect , intend , may , plan , project , will , would and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- our ability to attract and retain customers;
- our financial performance;
- the advantages of our solution as compared to those of others;
- our new quality/cost service initiative;
- our ability to establish and maintain intellectual property rights;
- our ability to retain and hire necessary employees and appropriately staff our operations; and
- our estimates regarding capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the Risk Factors section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

INDUSTRY AND MARKET DATA

We obtained the industry and market data in this prospectus from our own research as well as from industry and general publications, surveys and studies conducted by third parties. Industry and general publications, studies and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe that these publications, studies and surveys are reliable, we have not independently verified the data contained in them. In addition, while we believe that the results and estimates from our internal research are reliable, such results and estimates have not been verified by any independent source.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $ million, or $ million if the underwriters exercise their option to purchase additional shares in full, based on an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, and after deducting the estimated underwriting discount and offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

A $1.00 increase (decrease) in the assumed initial public offering price of $, the midpoint of the estimated price range shown on the cover of this prospectus, would increase (decrease) the net proceeds to us from this offering by $ million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

We intend to use approximately $ million of our net proceeds of this offering to pay the preferred stock liquidation preferences that will be paid in cash to the holders of our outstanding preferred stock concurrently with the conversion of such shares into shares of our common stock upon the closing of this offering. See Related Person Transactions Preferred Stock Liquidation Preferences for more information. We intend to use the remainder of our net proceeds of this offering for general corporate purposes, which may include financing our growth, developing new services and funding capital expenditures, acquisitions and investments. In addition, the other principal purposes for this offering are to:

- increase our visibility in the markets we serve;
- strengthen our balance sheet and increase the likelihood that we remain debt-free;
- create a public market for our common stock;
- facilitate our future access to the public capital markets;
- provide liquidity for our existing stockholders;
- improve the effectiveness of our equity compensation plans in attracting and retaining key employees; and
- enhance our ability to acquire complementary businesses or technologies.

Except for the preferred stock liquidation preference payments described above, we have not yet determined with any certainty the manner in which we will allocate our net proceeds. Our management will retain broad discretion in the allocation and use of our net proceeds of this offering. The amounts and timing of these expenditures will vary depending on a number of factors, including the amount of cash generated by our operations, competitive and technological developments, and the rate of growth, if any, of our business. For example, if we were to expand our operations more rapidly than anticipated by our current plans, a greater portion of the proceeds would likely be used for the development or enhancement of our proprietary technologies. Alternatively, if we were to engage in an acquisition that required a significant cash outlay, some or all of the proceeds might be used for that purpose.

Although we may use a portion of the proceeds for the acquisition of, or investment in, companies, technologies or assets that complement our business, we have no present understandings, commitments or agreements to enter into any acquisitions or make any material investments. We cannot assure you that we will make any acquisitions or investments in the future.

Pending specific utilization of the net proceeds as described above, we intend to invest the net proceeds of the offering in short-term investment grade and U.S. government securities.

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DIVIDEND POLICY

We declared a cash dividend in the aggregate amount of $15.0 million, or $0.7203 per common-equivalent share, to holders of record as of July 11, 2008 of our common stock and preferred stock. In August 2009, we declared an additional cash dividend in the aggregate amount of $14.9 million, or $0.72 per common equivalent share, to holders of record as of September 1, 2009 of our common stock and preferred stock.

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 following the closing of this offering. 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, provisions of applicable law, and other factors the board deems relevant. On September 30, 2009, we entered into a $15 million revolving line of credit, which does not permit us to pay any future dividends without the lender s prior consent.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2009:

- on an actual basis;

- on a pro forma basis to reflect (1) the -for-one split of our common stock to be effected prior to the closing of this offering, (2) the automatic conversion of all outstanding shares of non-voting common stock into shares of common stock upon the closing of this offering, (3) the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock upon the closing of this offering and (4) the assumed issuance of shares of common stock upon exercise of warrants that will be cancelled if not exercised prior to this offering.

- on a pro forma as adjusted basis to reflect (1) the items described in the preceding bullet, (2) our issuance and sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, after deducting the estimated underwriting discount and offering expenses payable by us and the application of the net proceeds therefrom as described in Use of Proceeds , and (3) our issuance of shares of common stock to FT Partners contemporaneously with the closing of this offering, based on an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, which FT Partners has elected in writing to receive in partial satisfaction of a fee for financial advisory services in respect of this offering.

You should read this table together with our financial statements and the related notes appearing at the end of this prospectus and the Use of Proceeds and Management s Discussion and Analysis of Financial Condition and Results of Operations sections of this prospectus.

	September 30, 2009		
	Actual	Pro forma	Pro forma as adjusted
		(Unaudited)	
	(In thousands, except share and per share amounts)		
Cash and cash equivalents	$ 34,272		
Stockholders equity:			
Convertible preferred stock, $0.01 par value; 1,350,000 shares authorized and issuable in series, 1,299,541 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	13		
Preferred stock, $0.01 par value; no shares authorized, issued or outstanding, actual; 5,000,000 shares authorized and no shares issued or outstanding, pro forma and pro forma as adjusted			

Common stock, $0.01 par value:	
Common stock, 17,500,000 shares authorized, 8,203,299 shares issued and outstanding, actual; 17,500,000 shares authorized, shares issued and outstanding, pro forma; shares authorized, shares issued and outstanding, pro forma as adjusted	82

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	September 30, 2009		
	Actual	Pro forma	Pro forma as adjusted
		(Unaudited)	
	(In thousands, except share and per share amounts)		
Non-voting common stock, 8,000,000 shares authorized, 1,336,107 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	13		
Additional paid-in capital	50,095		
Non-executive employee loans for stock option exercises	(123)		
Accumulated deficit	(35,558)		
Cumulative translation adjustment	(21)		
Total stockholders equity	14,501		
Total capitalization	$ 14,501	$	$

A $1.00 increase (decrease) in the assumed initial public offering price of $, the midpoint of the estimated price range shown on the cover of this prospectus, would increase (decrease) each of additional paid-in capital and total stockholders equity in the pro forma as adjusted column by $ million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

The table above is based on the number of shares of common stock outstanding as of September 30, 2009, and excludes:

833,334 shares of common stock issuable upon the exercise of warrants outstanding and exercisable as of September 30, 2009 at a weighted-average exercise price of $1.12 per share, which will remain outstanding after this offering if not exercised prior to this offering;

2,536,260 shares of common stock issuable upon the exercise of stock options outstanding and exercisable as of September 30, 2009 at a weighted-average exercise price of $22.89 per share, of which 1,158,408 shares with a weighted-average exercise price of $9.71 per share would be vested if purchased upon exercise of these options as of September 30, 2009;

69,703 shares of common stock available for future issuance under our equity compensation plans as of September 30, 2009; and

an additional shares of our common stock that will be made available for future issuance under our equity compensation plans upon the closing of this offering.

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DILUTION

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share you will pay in this offering and the pro forma as adjusted net tangible book value per share of our common stock after this offering. Our pro forma historical net tangible book value as of September 30, 2009 was $ million, or $ per share of common stock. Our pro forma net tangible book value per share set forth below represents our total tangible assets less total liabilities and convertible preferred stock, divided by the number of shares of our common stock outstanding on September 30, 2009, after giving effect to (1) the -for-one split of our common stock to be effected prior to the closing of this offering, (2) the automatic conversion of all outstanding shares of non-voting common stock into shares of common stock upon the closing of this offering, (3) the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock immediately prior to the closing of this offering and (4) the assumed issuance of shares of common stock upon exercise of warrants that will be cancelled if not exercised prior to this offering.

After giving effect to (1) our issuance and sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, after deducting the estimated underwriting discount and offering expenses payable by us, and (2) our issuance of shares of common stock to FT Partners contemporaneously with the closing of this offering, based on an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, which FT Partners has elected in writing to receive in partial satisfaction of a fee for financial advisory services in respect of this offering, the pro forma as adjusted net tangible book value as of September 30, 2009 would have been $ million, or $ per share. This represents an immediate increase in net tangible book value to existing stockholders of $ per share. Accordingly, new investors who purchase shares of common stock in this offering will suffer an immediate dilution of their investment of $ per share. The following table illustrates this per share dilution to the new investors purchasing shares of common stock in this offering without giving effect to the option to purchase additional shares granted to the underwriters:

Assumed initial public offering price per share	$
Pro forma net tangible book value per share as of September 30, 2009	
Increase per share attributable to sale of shares of common stock in this offering	
Pro forma as adjusted net tangible book value per share after the offering	
Dilution per share to new investors	$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, would increase (decrease) the net tangible book value by $ million, the net tangible book value per share after this offering by $ per share and the dilution in net tangible book value per share to investors in this offering by $ per share, assuming that the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

If the underwriters exercise their option to purchase additional shares in full, the pro forma as adjusted net tangible book value will increase to $ per share, representing an immediate increase to existing stockholders of $ per share and an immediate dilution of $ per share to new investors. If any shares are issued upon exercise of outstanding options or warrants, you will experience further dilution.

The following table summarizes, on a pro forma basis as of September 30, 2009, the differences between the number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid by existing stockholders and by new investors purchasing shares of common stock in this offering. The calculation below is based on an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, before the deduction of the estimated underwriting discount and offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price
	Number	%	Amount (In thousands)	%	Per Share
Existing stockholders(1)		%	$	%	$
New investors					$
Total		100%	$	100%	

(1) Includes shares of common stock to be issued to FT Partners contemporaneously with the closing of this offering, based on an assumed initial public offering price of $ per share, the midpoint of the estimated price range shown on the cover of this prospectus, which FT Partners has elected in writing to receive in partial satisfaction of a fee for financial advisory services in respect of this offering.

The foregoing tables and calculations are based on the number of shares of our common stock outstanding as of September 30, 2009 after giving effect to (1) the -for-one split of our common stock to be effected prior to the closing of this offering, (2) the automatic conversion of all outstanding shares of non-voting common stock into shares of common stock upon the closing of this offering, (3) the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock and (4) the assumed issuance of shares of common stock upon exercise of warrants that will be cancelled if not exercised prior to this offering, and excludes:

- 833,334 shares of common stock issuable upon the exercise of warrants outstanding and exercisable as of September 30, 2009 at a weighted-average exercise price of $1.12 per share, which will remain outstanding after this offering if not exercised prior to this offering;

- 2,536,260 shares of common stock issuable upon the exercise of stock options outstanding and exercisable as of September 30, 2009 at a weighted-average exercise price of $22.89 per share, of which 1,158,408 shares with a weighted-average exercise price of $9.71 per share would be vested if purchased upon exercise of these options as of September 30, 2009;

- 69,703 shares of common stock available for future issuance under our equity compensation plans as of September 30, 2009; and

- an additional shares of our common stock that will be made available for future issuance under our equity compensation plans upon the closing of this offering.

The sale of shares of common stock to be sold by the selling stockholders in this offering will reduce the number of shares held by existing stockholders to , or % of the total shares outstanding, and will increase the number of shares held by new investors to , or % of the total shares outstanding. If the underwriters exercise their option to purchase additional shares in full, the shares held by existing stockholders will further decrease to , or % of the total shares outstanding, and the number of shares held by new investors will further increase to , or % of the total shares outstanding.

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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 prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

We derived the statement of operations data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet data as of December 31, 2007 and 2008 from our audited consolidated financial statements, which are included in this prospectus. We derived the statement of operations data for the years ended December 31, 2004 and 2005 and the balance sheet data as of December 31, 2004, 2005 and 2006 from our audited consolidated financial statements, which are not included in this prospectus. We derived the consolidated financial data for the nine months ended September 30, 2008 and 2009 and as of September 30, 2009 from our unaudited consolidated financial statements, which are included in this prospectus. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as our audited financial statements and include all adjustments, consisting of normal recurring adjustments and accruals, necessary for the fair statement of the financial information set forth in those statements. Our historical results for any prior period are not necessarily indicative of results to be expected for a full year or any future period.

	Fiscal Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
						(Unaudited)	
	(In thousands, except share and per share data)						
Statement of Operations Data:							
Net services revenue	$ 16,199	$ 111,201	$ 160,741	$ 240,725	$ 398,469	$ 293,218	$ 372,661
Costs of services	16,098	97,120	141,767	197,676	335,211	247,707	301,552
Operating margin	101	14,081	18,974	43,049	63,258	45,511	71,109
Operating expenses:							
Infused management and technology	2,082	13,037	18,875	27,872	39,234	27,734	38,054
Selling, general and administrative	4,629	4,230	8,777	15,657	21,227	14,662	23,379
Total operating expenses	6,711	17,267	27,652	43,529	60,461	42,396	61,433
Income (loss) from operations	(6,610)	(3,186)	(8,678)	(480)	2,797	3,115	9,676
Net interest income (expense)	379	626	1,359	1,710	710	684	(12)

Income (loss) before provision for income taxes	(6,231)	(2,560)	(7,319)	1,230	3,507	3,799	9,664
Provision for income taxes		105		456	2,264	2,040	180
Net income (loss)	$ (6,231)	$ (2,666)	$ (7,319)	$ 774	$ 1,243	$ 1,759	$ 9,484
Net income (loss) per common share:							
Basic:	$ (1.41)	$ (0.15)	$ (0.89)	$ 0.04	$ (0.70)	$ (0.65)	$ 0.15
Diluted:	(6.82)	(0.16)	(1.02)	0.03	(0.73)	(0.68)	0.12
Weighted-average shares used in computing net income (loss) per common share:							
Basic:	522,733	4,935,104	6,611,975	8,410,226	9,214,916	9,193,700	9,356,553
Diluted:	522,733	4,935,104	6,611,975	10,296,011	9,214,916	9,193,700	11,261,361
Other Operating Data (unaudited):							
Adjusted EBITDA(1)	$ (5,754)	$ (2,075)	$ (7,125)	$ 6,842	$ 12,220	$ 9,541	$ 22,181
Net patient revenue under management (at period end) (in billions)	$ 2.1	$ 2.4	$ 4.1	$ 6.7	$ 9.2	$ 8.8	$ 12.0

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	As of December 31,					As of September 30,
	2004	2005	2006	2007	2008	2009 (Unaudited)
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 12,925	$ 17,558	$ 20,782	$ 34,745	$ 51,656	$ 34,272
Working capital	4,494	7,817	(2,445)	8,010	(3,453)	(10,138)
Total assets	13,486	19,064	27,333	60,858	86,904	98,840
Total stockholders equity	$ 4,603	$ 8,535	$ 3,165	$ 15,910	$ 7,923	$ 14,501

(1) 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);

although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for these replacements; and

other companies in our industry may calculate adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

To properly and prudently evaluate our business, we encourage you to review the GAAP financial statements included elsewhere in this prospectus, and not to rely on any single financial measure to evaluate our business.

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The following table presents a reconciliation of adjusted EBITDA to net income (loss), the most comparable GAAP measure:

	Fiscal Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
						(Unaudited)	
	(In thousands)						
Net income (loss)	$ (6,231)	$ (2,666)	$ (7,319)	$ 774	$ 1,243	$ 1,759	$ 9,484
Net interest (income) expense(a)	(379)	(626)	(1,359)	(1,710)	(710)	(684)	12
Provision for income taxes		105		456	2,264	2,040	180
Depreciation and amortization expense	22	99	626	1,307	2,540	1,412	2,839
EBITDA	$ (6,588)	$ (3,088)	$ (8,052)	$ 827	$ 5,337	$ 4,527	$ 12,515
Stock compensation expense(b)			844	934	3,551	1,753	5,309
Stock warrant expense(b)	834	1,013	83	5,081	3,332	3,261	4,357
Adjusted EBITDA	$ (5,754)	$ (2,075)	$ (7,125)	$ 6,842	$ 12,220	$ 9,541	$ 22,181

(a) 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 the nine months ended September 30, 2009 is a result of a $150 origination fee paid in connection with establishing our new revolving line of credit.

(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, $83, $928, $921, $877 and $1,584 was classified as a reduction in net services revenue for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, respectively.

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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 prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, 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 prospectus 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 healthcare revenue cycle management services. Our business purpose is to help U.S. hospitals, physicians and other healthcare providers to more efficiently manage their revenue cycle operations, which encompass patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. Our integrated technology and services offering, which we refer to as our solution, spans the entire revenue cycle and helps our customers realize sustainable improvements in their operating margins and improve the satisfaction of their patients, physicians and staff. We enable these improvements by helping our customers increase the portion of the maximum potential patient revenue they receive, while reducing total revenue cycle costs.

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. To implement our solution, we assume full responsibility for the management and cost of a customer s revenue cycle operations and supplement the existing staff involved in the customer s revenue cycle with seasoned Accretive Health personnel. A customer s net 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. In 2008, for example, approximately 80% of our net services revenue, and over 95% of our net income, was derived from customer contracts that were in place as of January 1, 2008.

Our customers have historically achieved significant net revenue yield improvements within 18 to 24 months of implementing our solution, with customers operating under mature managed service contracts typically realizing 400 to 600 basis points in yield improvements in the third or fourth contract year. All of a customer s yield improvements during the period we are providing services are attributed to our solution because we assume full responsibility for the management of the customer s revenue cycle. Our methodology for measuring yield improvements excludes the impact of external factors such as changes in reimbursement rates from payors, the expansion of existing services or addition of new services, volume increases and acquisitions of hospitals or physician practices, which may impact net revenue but are not considered changes to net revenue yield. We and our customers share financial gains resulting from our solution, 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 yield increases realized by the customers as a result of our services. To date, we have experienced a contract renewal rate of 100% (excluding exploratory new services offerings, a consensual termination following a change of control and a customer reorganization). Coupled with the long-term nature of our managed service contracts and the fixed nature of the base fees under each contract, our historical renewal experience provides a core source of recurring revenue.

We believe that current macroeconomic conditions will continue to impose financial pressure on healthcare providers and will increase the importance of managing their revenue cycles effectively and efficiently. Additionally, the continued operating pressures facing U.S. hospitals coupled with some of the underlying themes of current healthcare reform proposals make the efficient management of the revenue cycle and collection of the full amount of payments due for patient services 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, Missouri, Florida and India. As of September 30, 2009, we had approximately 1,450 full-time employees and managed an additional 6,000 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 overall 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 performance of each customer s revenue cycle operations through ten to twelve hospital-specific operating reviews each year. Such reviews typically focus on planned and actual revenue cycle 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.

Net Services Revenue

We derive our net services revenue primarily from service contracts under which we manage our customers revenue cycle 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 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. Some contracts provide for customers to receive a percentage of the cost savings generated through implementation of specified techniques, such as moving selected client operations to our shared services centers. Our base fees are reported net of any costs savings that are shared with customers.

Incentive payment revenues 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.

In addition, we earn revenue from other services, which primarily include our share of revenues associated with the collection of dormant patient accounts (more than 365 days old) under some of our service contracts. We also receive revenue from other services provided to customers that are not part of our integrated service offerings, such as procedure-by-procedure fee schedule reviews, physician advisory services or consulting on the billing for individuals receiving emergency room treatment.

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

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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, 2008 and the nine months ended September 30, 2009 on a percentage basis:

	Year Ended December 31, 2008	Nine Months Ended September 30, 2009
Net base fees for managed service contracts	88%	86%
Incentive payments for managed service contracts	10%	12%
Other services	2%	2%
Total	100%	100%

See Results of Operations for more information.

Costs of Services

Under our managed service contracts, we assume responsibility for all costs necessary to conduct our customers revenue cycle operations. Costs of services consist primarily of the salaries and benefits of the customers employees engaged in revenue cycle activities and managed on-site by us, the salaries and benefits of our employees who are engaged in revenue cycle activities, the costs associated with vendors that provide services integral to the customers revenue cycle and the costs associated with operating our shared services centers.

Under our managed service contracts, we assume responsibility for all costs necessary to conduct our customers revenue cycle operations. Costs of services consist primarily of:

- Salaries and benefits of the customers employees engaged in revenue cycle activities and 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 revenue cycle.

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 revenue cycle 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 operations. The employees we deploy 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 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, 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. We expect selling, general and administrative expenses to increase in absolute dollars as we continue to add information technology, human resources, finance, accounting and other administrative personnel as we expand our business.

We also expect to incur additional professional fees and other expenses resulting from future expansion and the compliance requirements of operating as a public company, including increased audit and legal expenses, investor relations expenses, increased insurance expenses, particularly for directors and officers liability insurance, and the costs of complying with Section 404 of the Sarbanes-Oxley Act. While these costs may initially increase as a percentage of our net services revenue, we expect that in the future these expenses will increase at a slower rate than our overall business volume, and that they will eventually represent a smaller percentage of our net services revenue.

Although we cannot predict future changes to the laws and regulations affecting us or the healthcare industry generally, we do not expect that any associated changes to our compliance programs will have a material effect on our selling, general and administrative expenses.

Interest Income (Expense)

Interest income is derived from the return achieved from our cash balances. We invest primarily in highly liquid, short-term investments, primarily those insured by the U.S. government. Our return on our cash investments declined in 2008 and the nine months ended September 30, 2009 as a result of the general decrease in overall interest rates. Interest expense for the nine months ended September 30, 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. Although we have net operating loss carryforwards, our effective tax rate in 2008 was approximately 65%. This is due principally to the fact that 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. We expect our overall effective tax rate to be lower in 2009 and thereafter as the impact of the

Michigan gross receipts tax becomes less significant in relation to other income-based taxes. However, we expect our income tax expense to 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, SDI Acquisition, Inc., or SureDecisions, Accretive Health India Private Limited and Accretive Health India Services Private Limited. 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 prospectus. For further information on our critical and other significant accounting policies, see note 2 to our consolidated financial statements contained elsewhere in this prospectus.

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.

We record revenue in accordance with the provisions of Staff Accounting Bulletin 104. 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 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. All adjustments, which can increase or decrease revenue and operating margin, are recorded in the period the changes are known and collectibility 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 the prior period net revenue yield

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calculations 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.

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 Uncollectible Accounts

Base fees are billed to customers quarterly. Base fees received prior to when services are delivered are classified as deferred revenue. Accordingly, the timing of customer payments can result in short-term fluctuations in cash, accounts receivable and deferred revenue.

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 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 and changes in customer payment terms. 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* (formerly American Institute of Certified Public Accountants Statement of Position No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*), 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, and external costs incurred that are related directly to the development of a specific application.

Goodwill

Goodwill represents the excess purchase price over the net assets acquired for SureDecisions, which we acquired in May 2006. In accordance with ASC 350, *Intangibles Goodwill and Other* (formerly Statement of Financial Accounting Standards, or SFAS, No. 142, *Goodwill and Other Intangible Assets*), goodwill is not subject to amortization but is subject to impairment testing at least annually. Our annual impairment assessment date is the first day of our fourth quarter. We conduct our impairment testing on a company-wide basis because we have only one operating and reporting segment. Our impairment tests are based on our current business strategy in light of present industry and economic conditions and future expectations. As we apply our judgment to estimate future cash flows and an appropriate discount rate, the analysis reflects assumptions and uncertainties. Our

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estimates of future cash flows could differ from actual results. Our most recent impairment assessment did not result in goodwill impairment.

Impairments of Long-Lived Assets

We evaluate all of our long-lived assets, such as furniture, equipment, software and other intangibles, for impairment in accordance with ASC 360, *Property, Plant and Equipment* (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), 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 market value is required. This evaluation is significantly impacted by estimates and assumptions of future revenue, expenses and other factors, which are in turn affected by changes in the business climate, legal matters and competition. Our most recent assessment of intangible assets resulted in the impairment of customer relationships acquired as part of our SureDecisions acquisition in the amount of $0.1 million, which was recorded in 2008.

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 the second quarter of 2009 we determined that it was no longer necessary to maintain a valuation allowance for all of our deferred tax assets.

The primary sources of our deferred taxes are:

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

Beginning January 1, 2008, with the adoption of ASC 740-10, *Income Taxes Overall* (formerly Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), 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 and warrant grants using the fair value recognition provisions of ASC 718, *Compensation Stock Compensation*

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(formerly SFAS No. 123(R), *Share-Based Payment*). 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.

Restricted Stock Plan. Our restricted stock plan was adopted by our board of directors in March 2004 and amended in June 2004. As of September 30, 2009, there were 6,599,591 shares of common stock outstanding under our restricted stock plan, all of which were vested. We have made the following grants to employees, directors and consultants under the restricted stock plan:

In March 2004, we issued shares of common stock to our chief executive officer. The shares vested in 48 monthly installments beginning in November 2003. As a result, we recorded share-based compensation expense of $19,200 in each of 2006 and 2007.

In June 2004, we issued shares of common stock to certain employees and directors. In January 2005, we issued additional shares of common stock to a member of our board of directors. These shares vested on various schedules ranging from immediate vesting to vesting over a period of 48 months. As a result, we recorded share-based compensation expense of $30,896, $18,530, $2,328 and $2,328 in 2006, 2007 and 2008 and the nine months ended September 30, 2008, respectively.

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 902,374 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 is granted the right to purchase additional shares of common stock from time to time for $0.01 per share when Ascension Health s ownership interest in our company declines below 5% due to our issuance of additional stock or rights to purchase stock. The protection warrant agreement, and all purchase rights granted thereunder, expire on the closing of this offering. 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 2006, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, we granted Ascension Health the right to purchase 15,752, 58,175, 23,261, 23,525 and 31,318 shares of common stock for $0.01 per share, respectively, pursuant to the protection warrant agreement. We accounted for the costs associated with these purchase rights as a reduction in base fee revenues due to us from Ascension Health because Ascension Health was not required to provide us with any further services in connection with these grants. Accordingly, we reduced the amount of our base fee revenues from Ascension Health by $82,843, $928,108, $921,445, $877,424 and $1,583,752 in 2006, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, respectively. For additional information regarding our relationship with Ascension Health, see Related Person Transactions Transactions With Ascension Health .

Supplemental Warrant. Pursuant to a supplemental warrant agreement that became effective in November 2004, Ascension Health had the right to purchase up to 902,374 shares of our common stock based upon the achievement of specified milestones relating to its sales and marketing assistance. In May 2007, we amended and restated our supplemental warrant agreement with Ascension Health. This agreement gives Ascension Health the right to purchase up to 446,190 shares of common stock upon the achievement of specified milestones relating to its sales and marketing assistance. The purchase price for these shares

is equal to the most recent price per share paid for our common stock in a capital raising transaction or, if we have not had a capital raising transaction within the preceding six months, the exercise price of the employee stock options we have most recently granted. The supplemental warrant agreement, and all purchase rights thereunder, expire on the closing of this offering. Concurrently with the amendment and restatement of the supplemental warrant agreement, in May 2007, we sold 669,284 shares of our common stock to Ascension Health for $8.20 per share for an aggregate purchase price of $5,488,128. No share-based compensation expense was recorded in connection with this sale because the shares were issued at a purchase price equal to the fair market value of the common stock at that time and Ascension Health was not required to provide any services in connection with the issuance.

We recorded the costs associated with the purchase rights under the supplemental warrant agreement as marketing expense for the periods in which the purchase rights were earned. During December 2007, Ascension Health earned the right to purchase 223,095 shares of common stock for $17.36 per share, and we recorded $4,153,163 in selling, general and administrative expense. During March 2008, Ascension Health earned the right to purchase 111,548 shares of common stock for $40.17 per share, and we recorded $2,410,790 in marketing expense. During March 2009, Ascension Health earned the right to purchase 111,547 shares of common stock for $51.05 per share, and we recorded $2,772,953 in marketing expense.

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 contemplating that we would grant the consulting firm 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 consulting 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 warrant grant contemplated by the term sheet and granted the consulting firm a warrant to purchase 833,334 shares of our common stock for $1.12 per share, representing 5% of our equity at that time. In 2005, we recorded $483,334 in selling, general and administrative expense in conjunction with this warrant grant. The warrant expires on the earlier of January 15, 2015 or a change of control of our company.

We used the modified 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 2006, 2007, 2008 and the nine months ended September 30, 2009:

	Year Ended December 31,			Nine Months Ended
	2006	2007	2008	September 30, 2009 (Unaudited)
Future dividends				
Risk-free interest rate	3.9% to 5.2%	2.75% to 4.21%	3.45%	2.91%
Expected volatility	60%	50%	50%	50%
Expected life(1)	7.8 years	6.8 years	6.6 years	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 Plan. In December 2005, our board of directors approved a stock option plan, which provides for the grant of stock options to employees, directors and consultants. The plan was amended and restated in February 2006.

As of September 30, 2009, the plan permitted the issuance of a maximum of 3,544,862 shares of common stock and 69,703 shares were available for grant.

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

Prior to January 1, 2006, we accounted for share-based compensation using the intrinsic value method prescribed in Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, compensation expense for stock options was measured as the excess, if any, of the fair market value of our common stock at the measurement date (the date of grant for stock options) over the exercise price. Since we only granted employee stock options with an exercise price equal to fair market value on the date of grant, we did not record any compensation expense for stock option grants prior to January 1, 2006.

Effective January 1, 2006, we adopted the fair value recognition provisions of ASC 718 using the modified prospective transition method. Under this method:

compensation expense for share-based awards granted prior to January 1, 2006 is recognized over the remaining service period based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and

compensation expense for all share-based awards granted subsequent to December 31, 2005 is recognized over the service period based on the grant date fair value estimated in accordance with the provisions of ASC 718.

We use the modified 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 model during 2006, 2007, 2008 and the nine months ended September 30, 2009:

	Year Ended December 31,			Nine Months Ended
	2006	**2007**	**2008**	**September 30, 2009 (Unaudited)**
Future dividends				
Forfeitures	1.88% annually	7.5% annually	3.75% annually	3.75% annually
Risk-free interest rate	3.9% to 5.2%	2.3% to 5.5%	2.8 to 4.0%	1.6% to 3.2%
Expected volatility	60%	50%	50%	50%
Expected life	6.25 years	6.25 years	6.25 years	6.25 years

Since our stock is not actively traded, we estimated its expected volatility 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 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 aggregate 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 has not been in existence a sufficient period for us to use our historical experience to estimate expected life. Furthermore, data from other companies is not readily available. Therefore, we have estimated our stock options expected life using a simplified method based on the average of each option s vesting term and original contractual term. This methodology is set forth in Staff Accounting Bulletin No. 107 and its use is permitted by Staff Accounting Bulletin No. 110.

The estimated forfeiture rate is derived from our historical data and our estimates of the likely future actions of option holders.

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We will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to our own share-based compensation on a prospective basis, and incorporating these factors into the Black-Scholes pricing model. Higher volatility and longer expected lives result in an increase to 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 and selling, general and administrative expenses.

As of September 30, 2009, we had $19.1 million of total unrecognized share-based compensation cost related to employee stock options. We expect to recognize this cost over a weighted-average period of 2.7 years after October 1, 2009. The allocation of this cost between 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 we have used reasonable methodologies, approaches and assumptions in assessing and determining the fair value of our common stock for financial reporting purposes.

We determine the fair value of our common stock through periodic internal valuations that are approved by our board of directors. The fair value approved by our board is used for all option grants until such time as a new determination of fair value is 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 board considers 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;
- 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.

From June 2005 to January 2008, we used the market approach to estimate our enterprise value. The market approach estimates the fair market value of a company by applying market multiples of publicly-traded firms in the same or similar lines of business to the results and projected results of the company being valued. When choosing companies for use in the market approach, we focused on businesses that provide outsourcing, consulting or technology services or that have high rates of growth. To obtain our preliminary enterprise value, we calculated the multiple of the market valuations of the comparable companies to their annual revenues and applied this multiple to our revenue run rate, defined as our total projected revenues for the next 12 months from existing customers. We then discounted the preliminary enterprise value by a percentage determined by our board to reflect our company s relative immaturity in relation to the comparable companies. This discount changed over time as we matured. The resulting value was then divided by the number of shares of common stock outstanding on a fully-diluted basis to obtain the fair value per share of common stock. We performed a new valuation in this manner each time we signed a managed service contract with a new customer.

For all valuations since January 2008, we used both the market approach and the income approach to estimate our aggregate enterprise value at each valuation date. The change in valuation method was in recognition that in 2007 we had achieved some significant milestones, particularly positive net income and positive adjusted EBITDA for the year, and that an initial public offering or other type of liquidity event would eventually be considered. When choosing companies to be used for the market approach since January 2008, we focused on businesses with high rates of growth and relatively low profitability that provide services to hospitals or other medical providers, or that provide business outsourcing solutions. The comparable companies have remained largely unchanged since January 2008. The income approach involves applying an appropriate risk-adjusted discount rate to projected debt-free cash flows, based on forecasted revenue and costs. The financial forecasts were based on assumed revenue growth rates that took into account our past experience and future expectations. We assessed the risks associated with achieving these forecasts and applied an appropriate cost of capital rate based on our board s view of our company s stage of development and risks, the experience of our directors in managing companies backed by private equity investors, and our management s review of academic research on this topic.

We averaged the two values derived under the market approach and the income approach and then added our current cash position and cash and tax benefits, assuming that all outstanding options and warrants were exercised, to create an enterprise value. Next, we allocated the enterprise value to our securities with rights and preferences that are superior to our common stock, using the option-pricing method set forth in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. We then discounted the remaining value by 10% to reflect the fact that our stockholders could not freely trade our common stock in the public markets. We based the 10% discount for lack of marketability primarily on the results of a study of this topic by Bajaj, Denis, Ferris and Sarin entitled Firm Value and Marketability Discounts (February 26, 2001). The resulting value was then divided by the number of shares of common stock outstanding on a fully-diluted basis to obtain the fair value per share of common stock.

Prior to this offering, stock options and certain warrants represented the right to purchase shares of our non-voting common stock. Upon the closing of this offering, all outstanding non-voting common stock will convert into voting common stock on a share-for-share basis, and thereafter stock options and warrants to purchase non-voting common stock will be stock options and warrants to purchase voting common stock, with no other changes in their terms. For all valuations prior to May 18, 2009, we determined the fair value of the voting common stock and applied it to the non-voting common stock without a discount.

Beginning on May 18, 2009, we refined our valuation methodology because of the increased potential for an initial public offering or company sale. We continued to use both the market approach and the income approach, but applied a discount to the fair value of the non-voting common stock and modified other variables as described below.

There is inherent uncertainty in these forecasts and projections. 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.

Information regarding share-based compensation from January 1, 2008 through September 30, 2009 is summarized in the table below:

Grant Period	Number of Shares of Common Stock Subject to Option and Warrant Grants
January 1, 2008 to January 31, 2008	52,105
February 1, 2008 to June 9, 2008	258,634
June 10, 2008 to September 2, 2008	98,250
September 3, 2008 to October 2, 2008	17,500
October 3, 2008 to January 16, 2009	79,000
January 17, 2009 to May 17, 2009	259,000
May 18, 2009 to July 17, 2009	88,500
July 18, 2009 to September 30, 2009	108,000

The analyses undertaken in determining the fair value of our common stock for all grants between January 1, 2008 and September 30, 2009 are summarized below. The methodology for the fair value determination made on September 4, 2007 is summarized above. All analyses since then used the market approach and the income approach summarized above, with the additional assumptions described below.

September 4, 2007 Fair Value Determination. For grants made between January 1, 2008 and January 31, 2008, we used $17.36 per share as the fair value of our common stock, based on a determination of fair value made by our board of directors on September 4, 2007. The market approach resulted in a value that was 1.5 times our annual revenue run rate as of the valuation date.

February 1, 2008 Fair Value Determination. On February 1, 2008, our board of directors determined that the fair value of our common stock was $40.17 per share. The market approach resulted in a value that was approximately 3.53 times our net services revenue for the third quarter of 2007. For the income approach, we forecasted our cash flows over a five-year period and assumed that our terminal value would approximate 12.5 times our adjusted EBITDA for the fifth future year. We obtained the present value of each year s cash flow by applying a 25% discount rate. Next, we averaged the values resulting from the income approach and the market approach and added our cash on hand at December 31, 2007 and the estimated cash and tax benefits that would occur assuming that all outstanding options and warrants were exercised. The resulting value represented our estimate of our enterprise value. We allocated 48.9% of the estimated enterprise value to securities with rights and preferences that are superior to our common stock, assuming a future volatility rate of 54.25% and that a liquidity event would occur in 18 months. We then reduced the remaining value attributable to common stock by 10% for non-marketability, and divided the result by the number of shares outstanding on a fully-diluted basis to arrive at the estimated fair value per share.

June 10, 2008 Fair Value Determination. On June 10, 2008, our board of directors determined that the fair value of our common stock was $47.19 per share. The increase in our value per share was due to increases in our estimated enterprise value under both the market approach and the income approach. We continued to apply a 50% weighting to each value and then to increase the result by the amount of our cash on hand and the anticipated cash and tax benefits from option and warrant exercises. The value determined by the market approach on June 10, 2008, which was approximately 3.52 times our net services revenue for the first quarter of 2008, was higher than the value determined on February 1, 2008 because of the increase in our net services revenue in the first quarter of 2008 as compared to the third quarter of 2007. For the income approach, we used the same discount rate and methodology as in the February 1, 2008 valuation and updated our cash flow projections to reflect our new

five-year plan. The percentage allocation of our estimated enterprise value to senior securities and common stock was unchanged from the prior valuation.

September 3, 2008 Fair Value Determination. On September 3, 2008, our board of directors determined that the fair value of our common stock was $58.65 per share. The increase in our value per share was due to increases in our estimated enterprise value under both the market approach and the income approach. We continued to apply a 50% weighting to each value and then to increase the result by the amount of our cash on hand and the anticipated cash and tax benefits from option and warrant exercises. The value determined by the market approach on September 3, 2008 was higher than the value determined on June 10, 2008 because of the increase in our net services revenue in the second quarter of 2008 as compared to the first quarter of 2008 and because we increased the net services revenue multiple from 3.52 to 3.78 to reflect increases in market prices of the comparable companies. For the income approach, we used the same discount rate and methodology as in the June 10, 2008 valuation, except that we discounted the projected cash flows and terminal value for three fewer months. The percentage allocation of our estimated enterprise value to senior securities and common stock was unchanged from the prior valuation.

October 3, 2008 Fair Value Determination. On October 3, 2008, our board of directors determined that the fair value of our common stock was $55.77 per share. There were no changes in the estimated enterprise value determined under the income approach. The board believed, however, that the significant decline in the market values of publicly traded securities that occurred during the month of September 2008 warranted a reduction in the net services revenue multiple from 3.78 to 3.40, resulting in a decrease in our estimated enterprise value under the market approach. All other aspects of the valuation methodology remained unchanged from the September 3, 2008 valuation.

January 17, 2009 Fair Value Determination. On January 17, 2009, our board of directors determined that the fair value of our common stock was $51.05 per share. The decrease in our value per share was primarily due to a decrease in our estimated enterprise value under the market approach. We continued to apply a 50% weighting to the estimated enterprise value determined under both the market approach and the income approach, and then to increase the result by the amount of our cash on hand and the anticipated cash and tax benefits from option and warrant exercises. The value determined by the market approach on January 17, 2009 was lower than the value determined on October 3, 2008, because we decreased the net services revenue multiple from 3.40 to 2.79 to reflect further declines in market prices of the comparable companies and our revenues decreased slightly in the third quarter of 2008 as compared to the second quarter of 2008. For the income approach, we used the same discount rate and methodology as in the October 3, 2008 valuation, except that we discounted the projected cash flows and terminal value for three fewer months. The percentage allocation of our estimated enterprise value to senior securities and common stock was unchanged from the prior valuation.

May 18, 2009 Fair Value Determination. On May 18, 2009, our board of directors determined that the fair value of our non-voting common stock was $50.89 per share. For the income approach, we developed new forecasts of our cash flows over a ten-year period rather than a five-year period. We based our projections for the first five years of this period based on our actual operating results for 2008 and our expected operating results for the years 2009 through 2013, and we assumed for the next five years of this period that we had made an orderly transition from a high-growth company to a mature growth company. To reflect that we were entering into a different stage of development, we decreased the discount rate applied to future expected cash flows from 25% to 18%. To estimate the terminal value in the tenth year we assumed a 5% long-term growth rate after the tenth year and used the Gordon growth model, which is a mathematical simplification of an earnings stream that is expected to grow at a constant rate. For the market approach, we used a similar group of six companies. In order

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to reduce the influence of outliers, however, the net services revenue multiple for the companies with the highest and lowest figures were weighted 10% each and the net services revenue multiple for the other four companies were weighted 20% each. To reflect our transition from a company with little or no profits toward a company with increasing profitability, the estimated enterprise value calculated under the income approach was weighted 67% and the estimated enterprise value calculated under the market approach was weighted 33%. The result was then increased by the present value of the cash that we expected would be realized if all options and warrants were exercised plus the present value of the associated tax savings we would achieve. We continued to allocated the adjusted enterprise value to our securities with rights and preferences that are superior to our common stock, as in prior valuations, and continued to discount the remaining value by 10% to reflect the fact that our stockholders could not freely trade our common stock in the public markets. We also applied an additional discount of 2% to the fair value of the voting common stock in order to determine the fair value of the non-voting common stock.

July 18, 2009 Fair Value Determination. On July 18, 2009, our board of directors determined that the fair value of our non-voting common stock was $52.15 per share. For the income approach, we updated the 10 year forecasts of our cash flows. The projection for the first five years of this period was updated for our actual operating results for 2009 and our expected operating results for the remainder of the year 2009 and through the year 2013. We continued to assume for the next five years of this period that we would make an orderly transition from a high-growth company to a mature growth company. We continued to apply an 18% discount rate to future expected cash flows. We also continued to estimate the terminal value in the tenth year by assuming a 5% long-term growth rate after the tenth year and the Gordon growth model. For the market approach, we continued to use the same group of six comparable companies as in the May 18, 2009 valuation. We also continued to use the same relative weighting methodology to estimate the aggregate enterprise value. The result was then increased by the present value of the cash that we expected would be realized if all options and warrants were exercised plus the present value of the associated tax savings we would achieve. The total adjusted enterprise value increased from $1,492 million to $1,543 million. We continued to allocate the adjusted enterprise value to our securities with rights and preferences that are superior to our common stock. This allocation accounted for the fact that we were actively considering an initial public offering. We continued to discount the remaining value by 10% to reflect the fact that our stockholders could not freely trade our common stock in the public markets. We also applied an additional discount of 2% to the fair value of the voting common stock in order to determine the fair value of the non-voting common stock.

November 17, 2009 Fair Value Determination. On November 17, 2009, our board of directors determined that the fair value of our non-voting common stock was $57.19 per share. For the income approach, we used the same ten-year forecasts of our cash flows that were used in the July 18, 2009 determination. We continued to apply an 18% discount rate to future expected cash flows. We also continued to estimate the terminal value in the tenth year by assuming a 5% long-term growth rate after the tenth year and continued to use the Gordon growth model. For the market approach, we added a company that provides healthcare information technology services (and had recently completed an initial public offering) to our group of comparable companies. We also expanded the market approach to consider each comparable company s operating earnings before income taxes, depreciation and amortization, along with each comparable company s net operating revenues. The aggregate market multiple for each factor was determined using the same relative weighting between comparable companies as in the July 18, 2009 valuation. The two aggregate market multiples were then given an equal weighting in deriving an overall market multiple. As in the July 18, 2009 valuation, the aggregate enterprise value was calculated with the income approach receiving a 67% weighting and the market approach receiving a 33% weighting. The aggregate enterprise value was then increased by the present value of the cash that we expected would be realized

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if all options and warrants were exercised plus the present value of the associated tax savings we would achieve. We continued to allocate the adjusted enterprise value to our securities with rights and preferences that are superior to our common stock with the allocation taking into account the fact that we are actively in the process of preparing for an initial public offering. We continued to discount the remaining value by 10% to reflect the fact that our stockholders could not freely trade our common stock in the public markets. We also applied an additional discount of 2% to the fair value of the voting common stock in order to determine the fair value of the non-voting common stock.

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* (formerly SFAS No. 5, *Accounting for 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.

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Results of Operations

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

	Fiscal Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
	(In thousands, except other operating data as indicated)				
Statement of Operations Data:					
Net services revenue	$ 160,741	$ 240,725	$ 398,469	$ 293,218	$ 372,661
Costs of services	141,767	197,676	335,211	247,707	301,552
Operating margin	18,974	43,049	63,258	45,511	71,109
Infused management and technology expense	18,875	27,872	39,234	27,734	38,054
Selling, general and administrative expense	8,777	15,657	21,227	14,662	23,379
Total operating expenses	27,652	43,529	60,461	42,396	61,433
Income (loss) from operations	(8,678)	(480)	2,797	3,115	9,676
Net interest income (expense)	1,359	1,710	710	684	(12)
Income (loss) before provision for income taxes	(7,319)	1,230	3,507	3,799	9,664
Provision for income taxes		456	2,264	2,040	180
Net income (loss)	$ (7,319)	$ 774	$ 1,243	$ 1,759	$ 9,484
Operating Expense Details:					
Infused management and technology expense, excluding depreciation and amortization expense and share-based compensation expense	$ 17,952	$ 26,375	$ 35,079	$ 25,704	$ 33,177
Selling, general and administrative expense, excluding depreciation and amortization expense and share-based compensation expense	8,230	10,760	16,879	11,143	17,335
Depreciation and amortization expense	626	1,307	2,540	1,412	2,839
Share-based compensation expense(1)	844	5,087	5,963	4,137	8,082
Total operating expenses	$ 27,652	$ 43,529	$ 60,461	$ 42,396	$ 61,433
Other Operating Data (unaudited):					
Net patient revenue under management (at period end) (in billions)	$ 4.1	$ 6.7	$ 9.2	$ 8.8	$ 12.0

(1) Share-based compensation expense includes share-based compensation expense and warrant-related expense, exclusive of warrant expense of $83, $928, $921, $877 and $1,584 which was classified as a reduction in base fee revenue for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, respectively.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2009

Net Services Revenue

The following table summarizes the composition of our net services revenue for the nine months ended September 30, 2008 and 2009:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
	(In thousands)	
Net base fees for managed service contracts	$ 258,911	$ 319,574
Incentive payments for managed service contracts	27,955	43,826
Other services	6,352	9,261
Total	$ 293,218	$ 372,661

Net services revenue increased $79.4 million, or 27.1%, to $372.7 million for the nine months ended September 30, 2009 from $293.2 million for the nine months ended September 30, 2008. The largest component of the increase, net base fee revenue, increased $60.7 million, or 23.4%, to $319.6 million for the nine months ended September 30, 2009 from $258.9 million for the nine months ended September 30, 2008, primarily due to an increase in the number of hospitals with whom we had managed service contracts from 43 as of September 30, 2008 to 53 as of September 30, 2009. Of the $60.7 million increase in net base fee revenues, $49.7 million was attributable to new managed service contracts entered into during the nine months ended September 30, 2009. In addition, incentive payment revenues increased by $15.8 million, or 56.8%, to $43.8 million for the nine months ended September 30, 2009 from $28.0 million for the nine months ended September 30, 2008, consistent with the increases that generally occur as our managed service contracts mature. All other revenues increased by $2.9 million, or 43.7%, to $9.3 million for the nine months ended September 30, 2009 from $6.4 million for the nine months ended September 30, 2008, 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. Net patient revenue under our management increased by $3.2 billion, or 36.1%, to $12.0 billion for the nine months ended September 30, 2009 from $8.8 billion for the nine months ended September 30, 2008.

Costs of Services

Our costs of services increased $53.8 million, or 21.7%, to $301.6 million for the nine months ended September 30, 2009 from $247.7 million for the nine months ended September 30, 2008. 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 $25.6 million, or 56.2%, to $71.1 million for the nine months ended September 30, 2009 from $45.5 million for the nine months ended September 30, 2008. The increase consisted primarily of:

- $15.9 million in additional incentive payments under managed service contracts;

an increase of $0.7 million in the operating margin associated with our other services, as a result of the continuing expansion of our dormant patient accounts receivable collection and other ancillary services; and a reduction of $9.7 million in revenue cycle operating costs under managed service contracts, net of customer cost sharing.

The above was partially offset by an increase of $0.7 million in costs related to the issuance of warrants to Ascension Health during the nine months ended September 30, 2009.

The increase in operating margin in absolute dollars was accompanied by an increase in operating margin as a percentage of net services revenue from 15.5% for the nine months ended September 30, 2008 to 19.1% for the nine months ended September 30, 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 $10.3 million, or 37.2%, to $38.1 million for the nine months ended September 30, 2009 from $27.7 million for the nine months ended September 30, 2008. 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 whom we had managed service contracts, as well as the items noted below.

Selling, general and administrative expenses increased $8.7 million, or 59.5%, to $23.4 million for the nine months ended September 30, 2009 from $14.7 million for the nine months ended September 30, 2008. The increase included $2.3 million of costs, or 26% of the increase, for enhancing our accounting systems, documenting internal controls, establishing an internal audit function and other costs associated with our preparation to be a public company. The increase also included additional research and development costs of $2.3 million, or 26% of the increase, to develop our new cost and quality initiative. The increase also included $2.5 million, or 30% of the increase, related to additional depreciation, amortization and share-based compensation expenses, as discussed below. The remaining increase of $1.6 million, or 18% of the increase, was primarily due to increases in our personnel costs to support our expanding customer base.

We allocate our operating expenses between the infused management expenses and selling, general and administrative expenses. During the nine months ended September 30, 2009, the following changes affected both categories:

Share-based compensation expense increased $3.9 million, or 95.4%, to $8.1 million for the nine months ended September 30, 2009 from $4.1 million for the nine months ended September 30, 2008 due to employee option grants and vesting of previously granted stock options associated with the continued expansion of our personnel and the increase in the fair market value of our stock, which increases the cost of option grants calculated using the provisions of ASC 718.

Depreciation expense increased $0.6 million, or 63.3%, to $1.4 million for the nine months ended September 30, 2009 from $0.9 million for the nine months ended September 30, 2008, due to the addition of computer equipment, furniture and fixtures, and other property to support our growing operations.

Amortization expense increased $0.9 million, or 163.2%, to $1.4 million for the nine months ended September 30, 2009 from $0.5 million for the nine months ended September 30, 2008. The majority of this increase resulted from amortization of internally developed software.

Operating Income (Loss)

Operating income increased $6.6 million, or 210.6%, to $9.7 million for the nine months ended September 30, 2009 from an operating income of $3.1 million for the nine months ended September 30, 2008. The increase in operating income was primarily due to net services revenue growing at a higher rate than operating expenses as a result of operating efficiencies.

Income Taxes

The tax expense decreased $1.8 million, or 91.2%, to $0.2 million for the nine months ended September 30, 2009 from $2.0 million for the nine months ended September 30, 2008. The reduction in 2009 tax expense was primarily due to the $3.5 million reduction of valuation allowance related to deferred tax assets recorded, net of a provision for state income taxes in the period.

Net Income

Net income increased $7.7 million, or 427.7% to $9.5 million for the nine months ended September 30, 2009 from net income of $1.8 million for the nine months ended September 30, 2008. The increase in net income was primarily due to the increase in operating income, offset by a decrease of $0.7 million in interest income.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2008

Net Services Revenue

The following table summarizes the composition of our net services revenue for the years ended December 31, 2007 and 2008:

	2007	2008
	(In thousands)	
Net base fees for managed service contracts	$ 212,086	$ 350,085
Incentive payments for managed service contracts	25,491	38,971
Other services	3,148	9,413
Total	$ 240,725	$ 398,469

Net services revenue increased $157.8 million, or 65.5%, to $398.5 million for the year ended December 31, 2008 from $240.7 million for the year ended December 31, 2007. The largest component of the increase, net base fee revenue, increased $138.0 million, or 65.1%, to $350.1 million for the year ended December 31, 2008 from $212.1 million for the year ended December 31, 2007, primarily due to an increase in the number of hospitals with whom we had managed service contracts from 34 as of December 31, 2007 to 46 as of December 31, 2008. Of the $138.0 million increase in net base fee revenues, $113.4 million was attributable to new managed service contracts entered into during 2008. In addition, incentive payment revenues increased by $13.5 million, or 52.9%, to $39.0 million for the year ended December 31, 2008 from $25.5 million for the year ended December 31, 2007. All other revenues increased by $6.3 million, or 203.2%, to $9.4 million for the year ended December 31, 2008 from $3.1 million for the year ended December 31, 2007, as we increased the number of customers using our dormant patient accounts receivable collection services and we began rolling out specialized services such as emergency room physician advisory services. Net patient revenue under our management increased by $2.5 billion, or 37.0%, to $9.2 billion for the year ended December 31, 2008 from $6.7 billion for the year ended December 31, 2007.

Costs of Services

Our costs of services increased $137.5 million, or 69.6%, to $335.2 million for the year ended December 31, 2008 from $197.7 million for the year ended December 31, 2007. 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 $20.2 million, or 46.9%, to $63.3 million for the year ended December 31, 2008 from $43.0 million for the year ended December 31, 2007. The increase consisted primarily of:

- $13.5 million in additional incentive payments under managed service contracts;
- an increase of $3.2 million in the margin associated with our services, primarily as a result of the increase in volume of late stage receivables collections and our rollout of physician advisory services; and
- a reduction of $3.5 million in revenue cycle operating costs under managed service contracts, net of customer cost sharing.

Operating margin as a percentage of net services revenue decreased in the year ended December 31, 2008 because, as a result of our significant growth during 2008, there was a higher proportion of managed service contracts in their initial contract year when improvements in net services revenue and reductions in revenue cycle operating costs are generally lower during 2008 than during 2007. Operating margin as a percentage of net services revenue decreased from 17.9% in the year ended December 31, 2007 to 15.9% in the year ended December 31, 2008.

Operating Expenses

Infused management and technology expenses increased $11.4 million, or 40.8%, to $39.2 million for the year ended December 31, 2008 from $27.9 million for the year ended December 31, 2007. 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 whom we had managed service contracts, as well as the items noted below.

Selling, general and administrative expenses increased $5.6 million, or 35.6%, to $21.2 million for the year ended December 31, 2008 from $15.7 million for the year ended December 31, 2007. Of the increase, $6.1 million was due to increases in our personnel costs necessary to support our expanding customer base. This was offset by a $1.7 million decrease in share-based compensation expense associated with stock warrants granted for assistance in obtaining new hospital customers. The remaining $1.2 million of the increase related to depreciation, amortization and share-based compensation expenses, as discussed below.

We allocate our operating expenses between the infused management expenses and selling, general and administrative expenses. During the year ended December 31, 2008, the following changes affected both categories:

- Share-based compensation expense increased $0.9 million, or 17.6%, to $6.0 million for the year ended December 31, 2008 from $5.1 million for the year ended December 31, 2007, due to employee option grants and vesting of previously granted stock options associated with the continued expansion of our personnel and the increase in the fair market value of our stock, which increases the cost of option grants calculated using the provisions of ASC 718, offset by a reduction in share-based compensation expense due to an increase in our estimate of forfeitures.
- Depreciation expense increased $0.5 million, or 100%, to $1.0 million for the year ended December 31, 2008 from $0.5 million for the year ended December 31, 2007, due to the addition of computer equipment, furniture and fixtures and other property to support our growing operations.

Amortization expense increased $0.7 million, or 87.5%, to $1.5 million for the year ended December 31, 2008 from $0.8 million for the year ended December 31, 2007. Of this increase,

$0.5 million related to the amortization of internally developed software, $0.1 million related to the write-off of the value assigned to relationships with customers acquired as a result of our SureDecisions acquisition that did not enter into managed service contracts with us, and $0.1 million related to recurring amortization of other intangible assets.

Operating Income (Loss)

Operating income increased $3.3 million to $2.8 million for the year ended December 31, 2008 from an operating loss of $0.5 million for the year ended December 31, 2007. The increase in operating income was primarily due to net services revenue growing at a higher rate than operating expenses as a result of operating efficiencies.

Income Taxes

We conduct a large portion of our operations in Michigan. In 2008, Michigan began to impose a tax based on gross receipts in addition to tax based on net income. For the year ended December 31, 2008, we recorded a tax provision of $2.3 million, of which $1.2 million was attributable to the Michigan gross receipts tax. As a result, our total tax provision was equal to 65% of pre-tax income for the year ended December 31, 2008, compared to 37% of pre-tax income for the year ended December 31, 2007.

Net Income

Net income increased $0.5 million, or 60.6%, to $1.2 million for the year ended December 31, 2008 from $0.8 million for the year ended December 31, 2007. The increase in net income was primarily due to the increase in operating income.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2007

Net Services Revenue

The following table summarizes the composition of our net services revenue for the years ended December 31, 2006 and 2007:

	2006	2007
	(In thousands)	
Net base fees for managed service contracts	$ 149,529	$ 212,086
Incentive payments for managed service contracts	9,784	25,491
Other services	1,428	3,148
Total	$ 160,741	$ 240,725

Net services revenue increased $80.0 million, or 49.8%, to $240.7 million for the year ended December 31, 2007 from $160.7 million for the year ended December 31, 2006. The largest component of the increase, net base fee revenue, increased $62.6 million, or 41.8%, to $212.1 million for the year ended December 31, 2007 from $149.5 million for the year ended December 31, 2006, primarily due to an increase in the number of hospitals with whom we had managed service contracts from 21 as of December 31, 2006 to 34 as of December 31, 2007. Of the $62.6 million increase in net base fee revenues, $40.9 million was attributable to new managed service contracts entered into during

2007. In addition, incentive payment revenues increased $15.7 million, or 160.2%, to $25.5 million for the year ended December 31, 2007 from $9.8 million for the year ended December 31, 2006. All other revenues increased $1.7 million, or 120.4%, to $3.1 million for the year ended December 31, 2007 from $1.4 million for the year ended December 31, 2006, primarily due to an increase in the number of customers using our dormant patient accounts receivable collection services. Net patient revenue under our management increased $2.6 billion, or 63.7% to $6.7 billion for the year ended December 31, 2007 from $4.1 billion for the year ended December 31, 2006.

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Costs of Services

Our costs of services increased $55.9 million, or 39.4%, to $197.7 million for the year ended December 31, 2007 from $141.8 million for the year ended December 31, 2006. 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 $24.1 million, or 126.9%, to $43.0 million for the year ended December 31, 2007 from $19.0 million for the year ended December 31, 2006. The increase consisted primarily of:

- $15.7 million in additional incentive payments under managed service contracts; and

- a reduction of $8.9 million in revenue cycle operating costs under managed service contracts, net of customer cost sharing.

The above increases were partially offset by an increase of $0.8 million in costs related to the issuance of warrants to Ascension Health during the year ended December 31, 2007.

In total, operating margin as a percentage of net services revenue increased from 11.8% in the year ended December 31, 2006 to 17.9% in the year ended December 31, 2007, primarily due to an increased ratio of mature managed service contracts to new managed service contracts.

Operating Expenses

Infused management and technology expenses increased $9.0 million, or 47.7%, to $27.9 million for the year ended December 31, 2007 from $18.9 million for the year ended December 31, 2006. 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 whom we had managed service contracts, as well as the items noted below.

Selling, general and administrative expenses increased $6.9 million, or 78.4%, to $15.7 million for the year ended December 31, 2007 from $8.8 million for the year ended December 31, 2006. Grants of stock warrants to Ascension Health and option grants accounted for $4.2 million of the increase, as noted below. The remaining $2.7 million of increase related to the increase in our personnel costs to support our expanding customer base.

We allocate our operating expenses between the infused management expenses and selling, general and administrative expenses. During the year ended December 31, 2007, the following changes affected both categories:

- Share-based compensation expense increased $4.2 million, or 525.0%, to $5.0 million for the year ended December 31, 2007 from $0.8 million for the year ended December 31, 2006, of which $4.1 million was due to grants of stock warrants to Ascension Health and the balance was attributable to increases in the costs associated with employee option grants and the vesting of previously granted stock options.

- Depreciation expense increased $0.2 million, or 66.7%, to $0.5 million for the year ended December 31, 2007 from $0.3 million for the year ended December 31, 2006, due to the addition of computer equipment, furniture and fixtures, and other property to support our growing operations.

Amortization expense increased $0.5 million, or 166.7%, to $0.8 million for the year ended December 31, 2007 from $0.3 million for the year ended December 31, 2006, due to the amortization of internally developed software.

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Operating Loss

Operating loss decreased $8.2 million, or 94.5%, to $0.5 million for the year ended December 31, 2007 from $8.7 million for the year ended December 31, 2006. The decrease in operating loss was primarily due to net services revenue growing at a higher rate than costs of services and operating expenses as a result of operating efficiencies.

Income Taxes

In 2007, we had net taxable income and began recording a tax provision equal to 37% of pre-tax income.

Net Income

We had net income of $0.8 million for the year ended December 31, 2007 compared to a net loss of $7.3 million for the year ended December 31, 2006. The increase in net income was primarily due to the decrease in operating losses combined with a $0.4 million increase in interest income due to an increase in cash investments.

Selected Quarterly Financial Data

The following table sets forth selected unaudited consolidated quarterly operating data for each of the eleven quarters during the period from January 1, 2007 to September 30, 2009. In our management s opinion, the data have been prepared on the same basis as the audited consolidated financial statements included in this prospectus and reflect all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these data. You should read this information together with our consolidated financial statements and the related notes appearing elsewhere in this prospectus. Operating results for any fiscal quarter are not necessarily indicative of results for the full year. Historical results are not necessarily indicative of the results to be expected in future periods.

	Three Months Ended (In thousands)									
	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	June 30, 2009
	$ 49,699	$ 56,795	$ 64,611	$ 69,620	$ 86,357	$ 100,904	$ 105,956	$ 105,252	$ 112,467	$ 125,682
s	44,431	46,688	50,765	55,792	73,433	86,649	87,624	87,505	92,703	102,964
n	5,268	10,107	13,846	13,828	12,924	14,255	18,332	17,747	19,764	22,718
d	5,882	6,608	6,822	8,560	8,452	9,486	9,795	11,501	11,175	13,307
ve	2,478	2,564	3,139	7,476	5,696	3,946	5,020	6,565	8,816	6,492
	(3,092)	935	3,885	(2,208)	(1,224)	823	3,517	(319)	(227)	2,919
	457	393	383	477	264	169	251	26	44	39

s)										
n)	(2,635)	1,328	4,268	(1,731)	(960)	992	3,768	(293)	(183)	2,958
	(977)	492	1,583	(642)	26	600	1,414	224	454	(2,893
s)	$ (1,658)	$ 836	$ 2,685	$ (1,089)	$ (986)	$ 392	$ 2,354	$ (517)	$ (637)	$ 5,851

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, however. We did not add any new customers in the quarter ended December 31, 2008 and as a result our net services revenue were essentially unchanged from the prior quarter. We experience seasonal fluctuations in incentive payments as a result of variations in the number of days in certain months and patient deferral of elective procedures during the year-end holiday period.

Our costs of services generally increased each period due to increases in the number of revenue cycle staff persons under our management at customer sites. Our operating expenses have increased as a result of our hiring of additional employees to provide on-site management of our customers revenue cycle operations and our ongoing efforts to develop and enhance the technology that allows us to improve our customers net revenue. Operating margins are slightly depressed in quarters in which we add new customers that have not yet fully implemented our cost-reduction programs. In addition, beginning in the second half of 2008, we began to incur additional expenses to build the infrastructure necessary to become a public company. The ongoing decline in interest income for the periods presented is due to the reduction in market interest rates. The tax benefit in the quarter ended June 30, 2009 reflects the release of reserves for deferred tax assets of $3.6 million.

Selling, general and administrative expenses in the quarters ended December 31, 2007, March 31, 2008 and March 31, 2009 included $4.1 million, $2.4 million and $2.7 million, respectively, in share-based compensation expense associated with stock warrants granted for assistance in obtaining new hospital customers. Primarily as a result of these expenses, we incurred net losses in the quarters ended December 31, 2007 and March 31, 2008. We incurred a net loss in the quarter ended March 31, 2007 primarily due to the immaturity of our managed service contract portfolio and variations in the timing of quarterly incentive payments.

Liquidity and Capital Resources

Our primary source of liquidity is cash flows from operations. Given our current cash and cash equivalents, short-term investments and accounts receivable, we believe that we will have sufficient liquidity to fund our business and meet our contractual obligations for at least 12 months following the closing of this offering. 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.

Our cash and cash equivalents, consisting of demand deposits, increased $17.0 million, from $34.7 million at December 31, 2007 to $51.7 million at December 31, 2008, primarily due to cash generated by the growth in our business. Cash and cash equivalents decreased $17.4 million, from $51.7 million at December 31, 2008 to $34.3 million at September 30, 2009, primarily due to the payment of dividends, changes in accounts receivable and prepaid assets discussed below.

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 $1.6 million and $28.6 million for the nine months ended September 30, 2009 and September 30, 2008, respectively. Receivables from customers increased by $11.1 million during the nine months ended September 30, 2009 and decreased by $0.5 million during the nine months ended September 30, 2008, primarily due to increased net services revenue and the timing of customer payments. Prepaid assets increased by $4.9 million during the nine months ended September 30, 2009 due to a prepayment of 2009 estimated federal income taxes. Payables increased by $5.8 million for the nine months ended September 30, 2009 and by $7.6 million for the nine months ended September 30, 2008. The change in payables was primarily due to timing of our payments.

Cash flows generated by operating activities totaled $39.5 million for the year ended December 31, 2008, $11.8 million for the year ended December 31, 2007 and $6.0 million for the year ended December 31, 2006. The increases in cash provided by operations for the years ended December 31, 2007 and 2008 was primarily attributable to higher net services revenue and improved financial results due to growth in our business. Receivables from customers increased by $4.3 million during the year ended December 31, 2008 and by $15.1 million during the year ended December 31, 2007, in each case primarily due to increased net services revenue. Payables increased by $16.1 million during the year ended December 31, 2008 and by $8.3 million during the year ended December 31, 2007, and deferred revenue increased by $10.3 million during the year ended December 31, 2008 and by $6.6 million during the year ended December 31, 2007. The increases in payables and deferred revenue were primarily due to growth in our business.

Investing Activities

Cash used in investing activities was $4.5 million for the nine months ended September 30, 2009 and $3.7 million for the nine months ended September 30, 2008. Use of cash in these periods primarily related to the purchase of furniture and fixtures, computer hardware and software to support the growth of our business.

Cash flows used in investing activities was $6.1 million for the year ended December 31, 2008, $3.3 million for the year ended December 31, 2007 and $4.7 million for the year ended December 31, 2006. For all three years, use of cash primarily related to our purchase of furniture, fixtures, computer hardware, software and other property to support the growth of our business. In addition, we used $1.4 million in cash to acquire SureDecisions in May 2006.

Financing Activities

Cash used in financing activities was $14.6 million for the nine months ended September 30, 2009 as compared to $15.9 million for the nine months ended September 30, 2008. Cash used by financing activities was $16.3 million for the year ended December 31, 2008. These uses of cash are primarily due to the $15 million total dividend declared by our board of directors in July 2008 and the $0.72 per share dividend declared by our board of directors in August 2009. The 2009 dividend was paid on all outstanding shares of common and preferred stock and aggregated to $14.9 million. The reported figures are net of proceeds from stock option exercises and the repayment of non-executive employee loans. The net cash used in 2008 includes $1.5 million related to the repurchase of common stock from one of our initial employees. There were no such repurchases in 2009. Additionally, we incurred $2.2 million of costs related to our efforts to prepare for our initial public offering during the nine months ended September 30, 2009. No such costs were incurred in the nine months ended September 30, 2008.

Cash provided by financing activities was $5.4 million for the year ended December 31, 2007. This represented $5.5 million of proceeds from our sale of 669,284 shares of common stock to Ascension Health and an additional $0.6 million of proceeds from exercises of stock option, partially offset by our repurchases of common stock for $0.7 million.

Cash provided by financing activities was $2.0 million for the year ended December 31, 2006, reflecting $2.4 million of proceeds from exercises of stock options, partially offset by $0.4 million of loans we made to employees to facilitate their option exercises.

Revolving Credit Facility

On September 30, 2009, we entered into a $15 million revolving line of credit with the Bank of Montreal, which may be used for working capital and general corporate purposes. Any amounts outstanding under the line of credit will accrue interest at LIBOR plus 4% and are secured by substantially all of our assets. Advances under the line of credit are limited to a borrowing base and a cash deposit account which will be established at the time borrowings occur. The line of credit has an initial term of two years and is renewable annually thereafter. As of September 30, 2009, we had no amounts outstanding under this line of credit. The line of credit contains restrictive covenants which limit our ability to, among other things, enter into other borrowing arrangements and pay dividends.

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 this 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, 2008:

	Year Ended December 31,					
	2009	2010	2011	2012	2013 and beyond	Total
	(In thousands)					
Minimum lease payments	$ 1,218	$ 824	$ 758	$ 329	$ 792	$ 3,921
Total	$ 1,218	$ 824	$ 758	$ 329	$ 792	$ 3,921

We rent office space and equipment under a series of operating leases, primarily for our Chicago corporate office and India operations. Lease payments are amortized to expense on a straight-line basis over the lease term. As of December 31, 2008, the Chicago corporate office consisted of approximately 28,000 square feet in a multi-story office building. We have an option to cancel the lease effective November 30, 2011 if the landlord is unable, prior to December 31, 2010, to provide approximately 22,000 square feet of additional office space on an adjacent floor. If the landlord provides this additional office space and we do not concurrently exercise our option to return approximately 6,500 square feet of office space on a non-adjacent floor, the lease for all 50,000 feet will be extended until ten years and 90 days after the date we take possession of the additional 22,000 square feet of office space, and our minimum lease payments will increase by approximately $550,000 per year. See Business Facilities for additional information regarding our office leases.

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 .

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In June 2009, FASB issued ASC 105, *Generally Accepted Accounting Principles* (formerly SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*). ASC 105 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC 105 did not have an impact on our consolidated results.

In December 2007, FASB issued ASC 805, *Business Combinations* (formerly SFAS No. 141(R), *Business Combinations*). ASC 805 provides guidance in certain aspects of business combinations, with additional guidance provided defining the acquirer, recognizing and measuring the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, assets and liabilities arising from contingencies, defining a bargain purchase, and recognizing and measuring goodwill or a gain from a bargain purchase. In addition, under ASC 805, adjustments associated with changes in tax contingencies that occur after the measurement period, not to exceed one year, are recorded as adjustments to income. This statement is effective for all business combinations for which the acquisition date is on or after the beginning of an entity s first fiscal year that begins after December 15, 2008; however, the guidance in this standard regarding the treatment of income tax contingencies is retroactive to business combinations completed prior to January 1, 2009. We adopted ASC 805 on January 1, 2009. The adoption had no material impact on the Company s consolidated financial statements.

In April 2008, FASB issued an amendment to ASC 350, *Intangibles Goodwill and Other,* codified by ASC 350-30 (formerly FASB Staff Position, or FSP, SFAS 142-3, *Determination of the Useful Life of Intangible Assets*). ASC 350-30 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350. The intent of this amendment is to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC 805 and other United States generally accepted accounting principles. This amendment is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted ASC 350-30 on January 1, 2009. The adoption did not have an impact on our consolidated financial statements.

In June 2008, FASB issued an amendment to ASC 260, *Earnings Per Share*, codified as ASC 260-10 (formerly FSP Emerging Issues Task Force, or EITF, 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*). ASC 260-10 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. ASC 260-10 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We adopted ASC 260-10 effective January 1, 2009.

In April 2009, FASB issued an amendment to ASC 825, *Financial Instruments*, codified by ASC 825-10 (formerly FSP SFAS 107-1 and Accounting Principles Board, or APB, 28-1, *Interim Disclosures about Fair Value of Financial Instruments*). ASC 825-10, which amends ASC 825 (formerly SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*), requires publicly-traded companies, as defined in ASC 270, *Interim Reporting* (formerly APB Opinion No. 28, *Interim Financial Reporting*), to provide disclosures on the fair value of financial instruments in interim financial statements. Since ASC 825-10 requires only additional disclosures concerning the financial instruments, the adoption of ASC 825-10 effective June 30, 2009, did not have a material impact on our condensed consolidated financial statements.

In May 2009, FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*). ASC 855 establishes general standards of accounting for and disclosures of subsequent events that occur after the balance sheet date but prior to the issuance of financial statements. The statement requires additional disclosure regarding the date through which subsequent events have been evaluated by the entity as well as whether that date is the date the financial statements were issued. This statement became effective for our financial statements as of June 30, 2009.

In October 2009, FASB approved for issuance the Accounting Standards Update, or ASU, 2009-13 (formerly EITF 08-01, *Revenue Arrangements with Multiple Deliverables* (currently within the scope of ASC 605-25)). This statement provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASU 2009-13 introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact of adopting this pronouncement.

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 borrowings under our revolving line of credit, which bears interest at LIBOR plus 4%. To date, there have been no borrowings under this facility. 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 year ended December 31, 2008 and the nine months ended September 30, 2009, 0.7% and 0.5%, 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.

BUSINESS

Overview

Accretive Health is a leading provider of healthcare revenue cycle management services. Our business purpose is to help U.S. hospitals, physicians and other healthcare providers to more efficiently manage their revenue cycle operations, which encompass patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. Our integrated technology and services offering, which we refer to as our solution, spans the entire revenue cycle and helps our customers realize sustainable improvements in their operating margins and improve the satisfaction of their patients, physicians and staff. We enable these improvements by helping our customers increase the portion of the maximum potential patient revenue they receive while reducing total revenue cycle costs.

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 seek to develop strategic, long-term relationships with our customers and focus on providers that we believe understand the value of our operating model and have demonstrated success in both clinical and operational outcomes. As of September 30, 2009, we provided our integrated revenue cycle service offerings to 22 customers representing 53 hospitals and $12.0 billion in annual net patient revenue, as well as physicians billing organizations associated with several of these customers.

Grounded in sophisticated analytics, our solution spans our customers entire revenue cycle. This helps set us apart from competing services, which we believe address only a portion of the revenue cycle. We are not a traditional outsourcing company focused solely on cost reductions. Through the implementation of our distinctive operating model that includes people, processes and technology, our customers can generate significant and sustainable revenue cycle improvements. Our service offerings are adaptable to the evolution of the healthcare regulatory environment, technology standards and market trends, and require no up-front cash investment by our customers.

To implement our solution, we assume full responsibility for the management and cost of a customer s revenue cycle operations and supplement the customer s existing revenue cycle staff with seasoned Accretive Health personnel. We collaborate with our customers revenue cycle employees with the objective of educating and empowering them so that over time they can deliver improved results using our tools. Once implemented, our technology, processes and services are deeply embedded in a hospital s day-to-day operations, touching each key step of the revenue cycle. We and our customers share financial gains resulting from our solution, 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 patient revenue increases and cost savings realized by the customers as a result of our services. We believe that, over time, this alignment of interests fosters greater innovation and incentivizes us to improve our customers revenue cycle operations.

The revenue cycle operations of a typical hospital, physician or other healthcare provider often fail to capture and collect the total amounts contractually owed to it from third-party payors and patients for medical services rendered, leading to significant bad debt write-offs, uncompensated care, payment denials by payors and corresponding administrative write-offs, as well as lost revenue for missed charges. Fitch Ratings estimates that in 2008 and the three months ended June 30, 2009 (the most recent date available), uncompensated care (including bad debt write-offs, charity care and uninsured discounts) averaged 19% and 20% of net patient revenue at U.S. hospitals, respectively. We generally deliver operating margin improvements to our customers through a combination of improvements in collections, which we refer to as net revenue yield, charge capture, which involves ensuring that all charges for medical treatment are included in the associated bill, and revenue cycle cost reductions. Our customers have historically achieved significant net revenue yield improvements within 18 to 24 months of implementing our operating model, with customers subject to mature managed service contracts typically realizing 400 to 600 basis points in yield improvements in the third or fourth contract year. All of a customer s yield improvements during the period we are providing services are attributed to our solution because we assume full responsibility for the management of the customer s revenue cycle. Our methodology for measuring yield improvements excludes the impact of external factors such as changes in reimbursement rates from payors, the expansion of existing services or addition of new services, volume increases and acquisitions of hospitals or physician practices, which may impact net revenue but are not considered changes to net revenue yield. Improvements in charge capture and collections are typically attributable to reduced payment denials by payors, identification of additional items that can be billed to payors based on the actual procedures performed, identification of insurance for a higher percentage of otherwise uninsured patients, and improved collections of patient balances after insurance. Revenue cycle cost reductions are typically achieved through operating efficiencies, including streamlining work flow, automating processes and centralizing vendor activities. Specific sources of margin improvement vary among customers.

We have developed and refined our solution based in part on information, processes and management experience garnered through working with many of the largest and most prestigious hospitals and healthcare systems in the United States. We seek to embed our technology, personnel, know-how and culture within each customer s revenue cycle activities with the expectation that we will serve as the customer s on-site operational manager beyond the managed service contract s initial term, which typically ranges from four to five years. To date, we have experienced a contract renewal rate of 100% (excluding exploratory new service offerings, a consensual termination following a change of control and a customer reorganization). Coupled with the long-term nature of our managed service contracts and the fixed nature of the base fees under each contract, our historical renewal experience provides a core source of recurring revenue.

Our net services revenue consist primarily of base fees and incentive fees. We receive base fees for managing our customers revenue cycle operations, net of any cost savings we share with those customers. Incentive fees represent our portion of the increase in our customers net patient revenue resulting from our services. We generate a portion of our operating margin as a result of the difference between the fixed base fees and the variable costs of the revenue cycles that we manage. Incentive fees are a smaller portion of overall revenue than base fees but generally contribute directly to operating margin, thus significantly impacting our profitability. We monitor each customer s revenue cycle performance through periodic operating reviews. A customer s net 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. In 2008, for example, approximately 80% of our net services revenue, and over 95% of our net income, was derived from customer contracts that were in place as of January 1, 2008. In 2008, we had net services revenue of $398.5 million, representing growth of 65.5% over 2007 and a compound annual growth rate of 53.0% since 2005. In addition, we were profitable for the years ended December 31, 2007 and 2008 and the nine months ended September 30, 2008 and 2009, and our profitability increased in each of these periods.

Market Opportunity

We believe that current macroeconomic conditions will continue to impose financial pressure on healthcare providers and will increase the importance of managing their revenue cycles effectively and efficiently. The market opportunity for our services which we define as the total amount of net patient revenue collected annually by U.S. hospitals and physicians billing organizations exceeds $750 billion, calculated as follows. There are more than 2,200 acute care hospitals in the United States within our target market (with more than $250 million in annual net patient revenue each, or part of larger hospital systems), representing a market opportunity of approximately $510 billion in annual net patient revenue. In addition, there are more than 2,500 smaller hospitals (with less than $250 million in annual net patient revenue each), representing a market opportunity of approximately $130 billion in annual net patient revenue, and large physicians billing organizations, representing an additional market opportunity of more than $115 billion in annual net patient revenue.

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According to the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, expenditures for hospitals and physician and clinical services are expected to increase between 2009 and 2018 at annual rates of approximately 6.4% and 5.4%, respectively. Population growth, longer life expectancy, the increasing prevalence of chronic illnesses (such as diabetes and obesity) and the over-utilization of certain healthcare services is expected to put increasing pressure on hospitals, physicians and other healthcare providers to operate more efficiently. American Hospital Association surveys indicate that approximately 43% of hospitals had a negative operating margin during the first quarter of 2009 and approximately 77% of hospitals had reduced capital spending. As the scope of healthcare services expands and financial pressures mount, hospitals are demanding both greater effectiveness and improved efficiency in the management of their revenue cycle operations. We believe that efficient management of the revenue cycle and collection of the full amount of payments due for patient services are among the most critical challenges facing healthcare providers today.

We believe that the inability of healthcare providers to capture and collect the total amounts owed to them for patient services is caused by the following trends:

Complexity of Revenue Cycle Management. At most hospitals, there is a lack of standardization across operating practices, payor and patient payment methodologies, data management processes and billing systems. In general, after a patient receives healthcare services, the hospital must coordinate payment with two or more parties, including third-party insurance companies, federal and state government payors, private charities and individual payors. Hospitals also face a growing population of uninsured patients, whom healthcare providers have an ethical and legal obligation to treat.

Lack of Integrated Systems and Processes. Although interrelated, the individual steps in the revenue cycle are not operationally integrated across revenue cycle departments at many hospitals. Multiple tasks and milestones must be completed properly by personnel in various departments before a hospital or physician can be reimbursed for patient services. It is often difficult for a single organization to acquire and coordinate all the knowledge and experience necessary to identify and eliminate inefficiencies within the revenue cycle. Even if all steps are performed flawlessly, the time required to receive full payment for services creates long billing cycles. With frequent changes in the reimbursement rules imposed by third-party payors, the billing and collections cycle often is not timely and error-free, further lengthening the time before payment is actually received by the healthcare provider.

Increasing Patient Financial Responsibility for Healthcare Services. Hospitals are being forced to adapt to the need for direct-to-patient billing and collections capabilities as patients bear payment responsibility for an increasing portion of healthcare costs. Hospitals have traditionally focused on collecting payments from insurance companies and from state and federal payors, and typically are less familiar with the processes necessary to collect payments from patients at the point of service, including the use of alternative payment options. Patient billing is often confusing and payment instructions are often unclear. Moreover, hospitals generally do not utilize consumer segmentation techniques to formulate effective revenue collection approaches to patients. As a result, hospitals generally write-off a high percentage of patient-owed bills, resulting in increases in bad debt and uncompensated care.

Outdated Systems and Insufficient Resources to Upgrade Them. Many hospitals suffer from operating inefficiencies caused by outdated technology, increasingly complex billing requirements, a general lack of standardization of process and information flow, costly in-house services that could be more economically outsourced, and an increasingly stringent regulatory environment. Hospitals often lack the breadth and depth of data available to payors, and this lack of information may contribute to the filing of less accurate claims with third-party insurance payors and unfavorable resolutions of disputed claims. In addition, the endowments of most hospitals have significantly declined, motivating them to make their revenue cycle operations more efficient.

National healthcare reform is currently a major policy issue at the federal level. The Obama administration has made healthcare reform a priority, and legislative proposals have passed the House of Representatives and Senate and are currently being reconciled. Some of the underlying themes of current reform proposals are broadly targeted to driving greater efficiency in the U.S. healthcare system by, among other things, rewarding quality and coordination of care and promoting broader adoption of electronic medical records. Although it is impossible to predict what healthcare reform legislation, if any, will be enacted, we believe healthcare reform could create new business opportunities for us by increasing the need for services such as those that we provide. For example, as a result of more complex reimbursement models and reduced fee-for-service reimbursement, healthcare providers may turn to outsourcing to extract more out of their existing revenue cycles. The increased attention to quality measures and risk/reward reimbursement models under some reform proposals could also create more interest in our service offerings.

The Accretive Health Solution

Our solution is intended to address the full spectrum of revenue cycle operational issues faced by healthcare providers, including:

- the increasingly complex and challenging payor environment;
- a lack of fully integrated end-to-end revenue cycle management expertise;
- the consequences of increasing patient responsibility for their healthcare costs;
- the difficulty and associated expense of a single organization acquiring and coordinating the knowledge and experience necessary to efficiently manage the revenue cycle;
- ongoing attrition of revenue cycle staff; and
- frequent patient confusion and frustration with financial obligations and billing.

The revenue cycle operations of a typical hospital, physician or other healthcare provider fail to capture and collect the total amounts owed to them from third-party payors and patients for medical services rendered, leading to significant bad debt write-offs, uncompensated care, payment denials by payors and corresponding administrative write-offs, as well as lost revenue for missed charges. Fitch Ratings estimates that in 2008 and the three months ended June 30, 2009 (the most recent date available), uncompensated care (including bad debt write-offs, charity care and uninsured discounts) averaged 19% and 20% of net patient revenue at U.S. hospitals, respectively.

We deliver operating margin improvements to our customers through a combination of improvements in net revenue yield, charge capture and revenue cycle cost reductions. Improvements in charge capture and collections are typically attributable to reduced payment denials by payors, identification of additional items that can be billed to payors based on the actual procedures performed, identification of insurance for a higher percentage of otherwise uninsured patients, and improved collections of patient balances after insurance. Revenue cycle cost reductions are typically achieved through operating efficiencies, including streamlining work flow, automating processes and centralizing vendor activities. Specific sources of margin improvement vary among customers.

Our customers have historically achieved significant net revenue yield improvements within 18 to 24 months of implementing our operating model, with customers operating under mature managed service contracts typically realizing 400 to 600 basis points in yield improvements in the third or fourth contract year. During the assessment phase of the customer relationship, we identify specific areas for improvement in net revenue yield and begin implementation immediately upon execution of a managed service contract. While improvements in net revenue yield generally represent the majority of a customer s operating margin improvement, we generally are able to deliver additional margin improvement through revenue cycle cost reductions. Because our managed service contracts align our interests with those of our customers, we are able, over time, to improve our margins along with those of our customers.

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We believe that our proprietary and integrated technology, management experience and well-developed processes are enhanced by the knowledge and experience we gain working with a wide range of customers and improve with each payor reimbursement or patient pay transaction. Our proprietary technology applications include workflow automation and direct payor connection capabilities that enable revenue cycle staff to focus on problem accounts rather than on manual tasks, such as searching payor websites for insurance and benefits verification for all patients. We employ technology that identifies and isolates specific cases requiring review or action, using the same interface for all users, to automate a host of tasks that otherwise can consume a significant amount of staff time. We use real-time feedback from our customers to improve the functionality and performance of our technology and processes and incorporate these improvements into our service offerings on a regular basis. We strive to apply operational excellence throughout the entire revenue cycle.

We adapt our solution to the hospital s organizational structure in order to minimize disruption to existing staff and to make our services transparent to both patients and physicians. The experience and knowledge of the senior management personnel we provide to our customers can improve the performance of their in-house revenue cycle staff. Our objective is to improve the operating performance of our customers, thus generating incentive fees for ourselves, by:

Improving Net Revenue Yield. We help our customers improve their net revenue yield. Through the use of our proprietary technologies and methodologies, we precisely calculate each customer s improvement in net revenue yield. This calculation compares the customer s actual cash collections for a given instance of care to the maximum potential cash receipts that the customer should have received from the instance of care, which we refer to as the best possible net compliant revenue. We aggregate these calculations for all instances of care and compare the result to the aggregate calculation for the year before we began to provide our services to the customer. We receive a share of each customer s improvement in net revenue yield.

Increasing Charge Capture. We help our customers increase their charge capture by implementing optimization techniques and related processes. We utilize sophisticated analytics and artificial intelligence software to help improve the accuracy of claims filings and the resolution of disputed claims from third-party insurance payors. We also overlay a range of capabilities designed to reduce missed charges, improve the clinical/reimbursement interface and produce bills that comply with third-party payor requirements and applicable healthcare regulations.

Making Revenue Cycle Operations More Efficient. We help our customers make their revenue cycle operations more efficient by implementing advanced technologies, streamlining operations, avoiding unnecessary re-work and improving quality. We also can reduce the costs of third-party services, such as Medicaid eligibility review, by transferring the work to our own internal operations. For some customers, we are able to reduce operating costs further by transferring selected internal operations to our centralized shared services centers located in the United States and India.

We employ a variety of techniques intended to achieve this objective:

Gathering Complete Patient and Payor Information. We focus on gathering complete patient information and validating insurance coverage and benefits so the services can be recorded and billed to the appropriate parties. For scheduled healthcare services, we educate the patient as to his or her potential financial responsibilities before receiving care. Our systems maintain an automated electronic scorecard, which measures the efficiency of up-front data capture, billing and collections throughout the life cycle of any given patient account. These scorecards are analyzed in the aggregate, and the results are used to help improve work flow processes and operational decisions for our customers. Our analyses of data measured by our systems show that hospitals employing our services have increased the percentage of non-emergency in-patient admissions with complete information profiles to more than 90%, enabling fewer billing delays, increased charge capture and reduced billing cycles.

Improving Claims Filing and Third-Party Payor Collections. Based on our customers experience, and on industry sources, hospitals typically do not collect 100% of the amounts they are contractually owed by insurance companies. Through our proprietary technology and process expertise, we identify, for each patient encounter, the amount our customer should receive from a payor if the applicable contract with the payor and patient policies are followed. Over time, we compare these amounts with the actual cash collected to help identify which payors, types of medical treatments and patients represent various levels of payment risk for a customer. Using proprietary algorithms and analytics, we consider actual reimbursement patterns to predict the payment risk associated with a customer s claims to its payors, and we then direct increased attention and time to the riskiest accounts. Our experience is that this approach significantly increases the likelihood that a customer will be reimbursed the amounts it is contractually owed for providing its services.

Identifying Alternative Payment Sources. We use various methods to find payment sources for uninsured patients and reimbursement for services not covered by third-party insurance. Our patient financial screening technology and methodologies often identify federal, state or private grant sources to help pay for healthcare services. These techniques are designed to ease the financial burden on uninsured or underinsured patients and increase the percentage of patient bills that are actually paid. After a typical implementation period, we have been able to help our customers find a third-party payment source for approximately 85% of all admitted patients who identified themselves as uninsured.

Employing Proprietary Technology and Algorithms. Our service offerings employ a variety of proprietary data analytics and predictive modeling algorithms. For example, we identify patient accounts with financial risk by applying data mining techniques to the data we have collected. Our systems are designed to streamline work processes through the use of proprietary algorithms that focus revenue cycle staff effort on those accounts deemed to have the greatest potential for improving net revenue yield or charge capture. We frequently adjust our proprietary predictive algorithms to reflect changes in payor and patient behavior based upon the knowledge we glean from our entire customer base. As new customers are added and payor and patient behavior changes, the information we use to create our algorithms expands, increasing the accuracy and value of those algorithms. We rely upon a combination of trademark, copyright and trade secret law and contractual terms and conditions to protect our intellectual property rights, and have filed four patent applications covering key innovations utilized in our solution.

Using Analytical Capabilities and Operational Excellence. We draw on the experience that we have gained from working with many of the best healthcare provider systems in the United States to train hospital staffs about new and innovative revenue cycle management practices. We employ extensive analytical analyses to identify specific weaknesses in business processes. We also strive to achieve operational excellence and to foster an overall culture of leading by example. As a result, our on-site management teams have seen marked shifts in the behaviors of hospital administrative staff, including enthusiasm for setting daily and weekly goals, participation in daily half-hour gatherings to track results achieved during the day, and improved adherence to our standard operating procedures.

In addition, we help our customers increase their revenue cycle efficiency by implementing improved practices, advanced data management technology, streamlining work flow processes and outsourcing aspects of their revenue cycle operations. For example, services that can be shared across our customers, such as patient scheduling and pre-registration, medical transcription and patient financial services, can be performed in our shared services centers in the United States and India. By leveraging the economies of scale and experience of our shared services centers, we believe that we offer our customers better quality services at a lower cost. For those customers opting

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not to participate in our shared services program, we can help reduce costs by migrating services such as Medicaid eligibility, medical transcription and collections from external vendors to our internal staff.

Our Strategy

Our goal is to become the preferred provider-of-choice for revenue cycle management services in the U.S. healthcare industry. Since our inception, we have worked with some of the largest and most prestigious healthcare systems in the United States, such as Ascension Health, the Henry Ford Health System and the Dartmouth-Hitchcock Medical Center. Going forward, our goal is to continue to expand the scope of our services to hospitals within our existing customers systems as well as to leverage our strong relationships with reference customers to continue to attract business from new customers. Key elements of our strategy include the following:

Delivering Tangible, Long-Term Results by Providing Services that Span the Entire Revenue Cycle. Our solution is designed to help our customers achieve sustainable economic value through improvements in operating margins. Improvements in our customers operating margins in turn provide recurring revenues for us. Our technology and services are deeply integrated across the customer s entire revenue cycle, whereas most competitive offerings address a narrower portion of the revenue cycle. Our offering alleviates the need to purchase services from multiple sources, potentially saving customers time, money and integration challenges in their efforts to improve their revenue cycle activities.

Continuing to Develop Innovative Approaches to Increase the Collection Rate on Patient-Owed Obligations. We have developed and continue to design creative approaches intended to increase net revenue yields on patient-owed obligations. These processes include direct communications with payors to establish patient pay amounts (after insurance and taking into account deductibles) and status, contract modeling tools to provide patients with accurate updates on the portion of an outstanding balance for which they are personally responsible, and the provision of prior balance data and payment alternatives to patients at the point of service. We also use consumer behavior modeling and conduct trending analyses for collections, and we offer patients a variety of payment methods.

Enhancing and Developing Proprietary Algorithms to Identify Potential Errors and to Make Process Corrections. Even as patients begin to assume responsibility for a greater portion of the cost of medical services, healthcare providers continue to rely upon third-party payors for the majority of medical reimbursements. To help improve revenue collection rates and timing for claims owed by payors, we have developed proprietary algorithms to assess risk and the resulting treatment of claims. Our methodology is designed to enable nearly 100% of outstanding claims to be reviewed, prioritized and pursued. We believe that our focus on collecting revenue from a broader range of outstanding claims and reducing the average time to collection differentiates our revenue cycle management services. An additional proprietary algorithm that distinguishes our services from others is incorporated in our charge capture tool that identifies potential lost charges. In instances where our customers have been using other third party tools, we routinely identify multiple additional lost charges.

Expanding Our Shared Services Program. Our shared services program, which includes patient scheduling and pre-registration, medical transcription and patient financial services, is structured to reduce a hospital s overhead costs while providing services of comparable or higher quality. Expansion of our shared services program is potentially advantageous for both our customers and us, as we both benefit from greater savings attributable to economies of scale and improvements in net revenue yield. We believe that continuing to transition customers to our shared services will help us achieve our targeted improvements in customer operating margins. We introduced the shared services program in 2008, and we continue to

see interest in this offering from both new and existing customers. Currently, approximately 35% of our customers participate in our shared services program.

Hiring, Training and Retaining Our Personnel. Our solution was developed by what we believe to be the best personnel available in the market. In order to grow our business and solidify our competitive position, we need to continue to hire, train and retain very talented team members who demonstrate a strong focus on outstanding customer service. Employee recruitment is a priority for us because we believe that our long-term growth is limited more by the availability of top talent than by constraints in market demand for our solution. We seek an ongoing influx of new personnel at all levels so that we have adequate staffing to pursue and accept new customer opportunities. We also make substantial ongoing investments in employee training, including our operator academy and revenue cycle academy which enable us to educate all new employees regarding our operating model and related processes and technology.

Continuing to Diversify Our Customer Base. In October 2004, Ascension Health became our founding customer. While Ascension Health is our largest customer and we expect to continue to expand our presence within Ascension Health s network of affiliated hospitals, we are focusing our marketing efforts primarily on other healthcare providers and expect to continue to diversify our customer base. In the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, our net services revenue from customers not affiliated with Ascension Health grew by 67.1%, while our net services revenue from hospitals affiliated with Ascension Health grew by 11.2%. As a result, the percentage of our total net services revenue attributable to hospitals affiliated with Ascension Health declined from 88.7% in the year ended December 31, 2006 to 62.7% in the nine months ended September 30, 2009. Since January 1, 2007, approximately $5.0 billion of the $7.9 billion in annual net patient revenue that we added to our customer base was unrelated to Ascension Health.

Developing Enhanced Service Offerings that Offer Long-Term Opportunities. We intend to continue to introduce new services that draw upon our core competencies and that we believe will be attractive to our target customers. In considering new services, we look for market opportunities that we believe present low barriers to entry, require limited incremental cost and present significant growth opportunities. For example, we recently began targeting large physicians billing organizations that are linked to hospital systems, and we are developing an initiative focused on increasing the quality of healthcare through incentive payments to primary care physicians. We also plan to selectively pursue acquisitions that will enable us to broaden our service offerings.

Our Services

Core Service Offering

Our core offering consists of comprehensive, integrated technology and revenue cycle management services. We assume full responsibility for the management and cost of the customer s complete revenue cycle operations in exchange for a base fee and the opportunity to earn incentive fees. To implement our solution, we supplement the customer s existing revenue cycle management and staff with seasoned Accretive Health revenue cycle leaders, subject matter experts and staff, and connect our proprietary technology and analytical tools to the hospital s existing technology systems. Our employees that we add to the hospital s revenue cycle team typically have significant experience in healthcare management, revenue cycle operations, technology, quality control and other management disciplines. In addition to implementing revenue enhancement procedures, we help our customers reduce their revenue cycle costs by implementing improved practices, advanced data management technology and more efficient processes, as well as outsourcing aspects of their revenue cycle operations. We seek to adapt our solution to the hospital s organizational structure in

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order to minimize disruption to existing staff and to make our services transparent to both patients and physicians.

We believe that our solution offers our customers a number of strategic, financial and operational benefits:

Operating Management. We assign highly-trained management teams to each customer site to facilitate technology implementation, provide hands-on training to existing hospital employees and guide staff toward achievable performance goals.

Technology Improvements. We integrate our proprietary technology with a hospital s transaction systems to help improve claims collections and realize operating efficiencies. By using a web interface to layer our tools on top of a hospital s existing software, we can bring our capabilities online in a timely manner without requiring any up-front hardware investment by customers.

Standardized Operating Model. We offer our customers a revenue cycle operating model that has delivered tangible financial benefits. Our standard implementation techniques are designed to enable us to install our operating model in a timely manner and consistently at customer sites. We utilize a uniform set of key performance indicators to drive and assess the revenue cycle operations of our customers. Our senior operational leaders monitor each customer s revenue cycle performance through ten to twelve operating reviews each year.

Multi-Industry Revenue Process Experience. Our personnel have years of prior work experience advising customers on revenue process management issues in complex industries. We have combined this experience with healthcare industry innovative practices and operational excellence to form the foundation of our service offerings. We believe that the depth and breadth of our knowledge of healthcare and non-healthcare revenue cycle management help differentiate us from our competitors.

Shared Services. We offer customers the opportunity to realize operating efficiencies by outsourcing certain revenue tasks and responsibilities to shared facilities that we operate. By allowing multiple, unrelated hospitals to utilize the same set of resources for key revenue cycle tasks, our shared services capability provides opportunities to reduce the operating costs of our customers. We have been able to achieve meaningful margin improvements for the customers that utilize our shared services.

Our solution spans a hospital s entire revenue cycle. We deploy our proprietary technology and management experience at each key point in the revenue cycle. As part of our solution, we make targeted changes in the hospital s processes designed to improve its revenue cycle operations. We also implement cost-reduction programs, including the use of our shared services centers for customers who choose to participate and, for other customers, by moving services such as Medicaid eligibility, transcription and collections from external vendors to our internal staff.

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Front Office (Patient Access). A hospital s front office revenue cycle operations typically consist of scheduling, pre-registration, registration and collection of patient co-payments. Complete and accurate information gathering at this stage is critical to a hospital s ability to collect revenue from the patient and third-party payors after healthcare services are provided.

AHtoAccess, our integrated suite of proprietary patient admission tools, is designed to minimize downstream collections issues by standardizing up-front patient information gathering through direct connections between the customer and each of its third-party payors and automated workflow navigation of authorization and referral requirements. AHtoAccess is used by our on-site management teams and hospital employees to handle a variety of front office tasks, including:

- verification of patient contact information, which improves accuracy of recording patient admissions data in the hospital s patient accounting system;

- real-time validation of coverage and benefits for insured patients, which allows up front assessment of each patient s ability to pay;

- screening of self-pay patients for alternative coverage solutions, which helps identify payment sources including long-term payment plans and charity or government-sponsored coverage for uninsured or underinsured patients; and

- up-front calculation of patient pay residuals, which facilitates accurate and timely communication and collection of residual payment obligations and any outstanding patient balances from previous services.

Middle Office (Health Services Billing). Once treatment has been provided to a patient, a hospital s middle office revenue cycle operations typically consist of transcribing physicians dictated records of patient care and related diagnoses, assigning treatment codes so that bills may be generated and consolidating all patient information into a single patient file. Our solution provides opportunities to improve revenue yield attributable to the middle office by enabling a customer to properly bill all appropriate charges, reduce payment denials by payors based upon inaccurate or incomplete billing or untimely filing, and improve the accuracy and comprehensiveness of patient and billing information to enable bills to be issued in a timely and efficient manner.

We deploy several proprietary software tools in the middle office. AHtoCharge is an automated variance detection tool used to identify missing charges in patient bills and to detect coding errors in patient records. In addition to the use of proprietary technology, we enhance a hospital s revenue cycle operations in the middle office with our:

- in-house nurse auditors, who review the accuracy of treatments, diagnoses and charges in patient records and follow-up with hospital revenue cycle staff so that the bills may be updated and sent out within the normal billing cycle; and

- on-staff physicians, who help hospital case managers properly code emergency department patients during their transition from observation to in-patient status, to improve accurate and appropriate billing to payors.

Back Office (Collections). A hospital s back office revenue cycle operations typically consist of bill creation and submission, follow-up to resolve unpaid or underpaid claims and re-submit incomplete claims, the collection of amounts due from patients and the application of cash payments to outstanding balances. At this stage of the revenue cycle, efficiency and data accuracy are critical to increasing the hospital s collections from all responsible parties in a timely manner, and reducing the hospital s bad debt expense. Our solution is designed to improve revenue yield attributable to the back office by enabling a customer to:

- decrease the time required for bill creation and submission;

- increase the percentage of claims receiving maximum allowable reimbursement from payors;

- find alternative payment sources for unpaid and underpaid claims with both third-party payors and patients; and

- reduce contractual write-offs to provide an accurate record of outstanding charges.

We deploy a number of proprietary tools in the back office:

- ***Yield-Based Follow Up.*** Our Yield-Based Follow Up tool enables us to pursue reimbursement for claims based on risk scoring and detection as established by our proprietary algorithms.

- ***Medical Financial Solutions.*** Our Medical Financial Solutions tool uses proprietary algorithms to assess a patient s propensity to pay and determines follow-up actions structured to allow higher yields with lower collections effort.

- ***Retro Eligibility.*** Our Retro Eligibility tool continually searches for insurance coverage for each patient visit, even after treatment has concluded, to determine whether uninsured patients are eligible for some form of insurance coverage.

- ***AHtoContract.*** Our AHtoContract tool utilizes proprietary modeling and analytics to calculate the aggregate reimbursement due to the hospital from third-party payors and patients for a given patient treatment.

- ***Underpayments.*** Our Underpayments tool employs payor remittance data and contract models to determine whether a payor has reimbursed less than its contracted amount for a specific claim and enables the hospital s back office staff to resolve these situations directly with payors.

AHtoPost. Our AHtoPost tool is used by our shared services centers to centralize the task of posting cash payments to customers   patient accounting systems.

Accretive Direct Service Offering

Our Accretive Direct service offering is a focused technology and services solution for smaller hospitals where implementation of the complete suite of on-site management assistance included with our core service offering is not economically feasible. This service offering incorporates additional automation and standardization into our revenue cycle management solution with less reliance on infused management personnel. Currently, we have one customer that uses our Accretive Direct services, which include:

- implementation of our AHtoAccess tool in the customer s front office revenue cycle operations;
- implementation of our AHtoCharge tool and our physician advisory services in the customer s middle office revenue cycle operations;
- outsourcing of the customer s pre-service patient calling activities, back office revenue cycle operations and patient financial services activities to our shared services operating centers; and
- support for audits of Medicare charges.

Quality/Cost Service Initiative

We are pursuing a new quality/cost service initiative that we believe presents attractive growth potential for us. We are building a technology and service solution that, once completed and implemented, would allow hospitals and physicians to deliver healthcare services to specific patient populations, and be compensated for focusing on prevention, medical best practices and use of electronic health records to achieve better outcomes, as opposed to fees for services. This approach would reward providers for cost savings and increased quality. We believe that our knowledge and understanding of the U.S. healthcare payment and reimbursement system, our business process experience and our technology position us well to pursue this opportunity.

Healthcare providers tend to focus on their own role in patient care rather than the totality of a patient s healthcare. This approach often leads to ineffective care coordination and can have a negative impact on healthcare quality and cost. Our quality/cost service initiative is intended to link episodes of care and facilitate the re-emergence of the primary care physician, or PCP, as the coordinator of care for each patient. We believe that appropriate financial incentives can be designed to encourage PCPs to focus on the prevention of acute care episodes for example, through comprehensive annual physicals and the systematic use of HbA1c blood sugar tests for diabetics and, when those episodes do occur, to focus on the prevention of hospital readmissions. To accomplish these objectives, the financial incentives would relate to, among other things, total integration of care, medical best practices and the use of healthcare information technology. Because PCPs drive the vast majority of healthcare decisions (excluding personal lifestyle decisions) that have an impact on healthcare, we believe that this initiative could reduce costs and increase healthcare quality.

We believe a service offering of this nature would be attractive to healthcare providers because of the potential for higher quality patient care and lower healthcare costs. In addition, the American Recovery and Reinvestment Act enacted in February 2009 provides for potential payments over time of up to $44,000 (under Medicare) and $64,000 (under Medicaid) to any physician who adopts and meaningfully uses electronic health records, and we believe our healthcare information technology can help physicians qualify for these payments.

We plan to beta test our quality/cost initiative at selected customer sites and expect to be in a position to roll out a service offering based on this initiative during 2010.

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Customers

Our Customers

Customers for our core service offering typically are multi-hospital systems, including faith-based or community healthcare systems, academic medical centers and independent clinics, and the physician practice groups affiliated with those systems. Our core service offering is best-suited for healthcare organizations in which substantial improvements can be realized through the full implementation of our solution. Our Accretive Direct service offering is targeted to hospitals with less than $250 million in annual net patient revenue. We seek to develop strategic, long-term relationships with our customers and focus on providers that we believe understand the value of our operating model and have demonstrated success in both the provision of healthcare services and the ability to achieve financial and operational results. In October 2004, Ascension Health became our founding customer. While Ascension Health is still our largest customer and we expect to continue to expand our presence beyond the hospitals we currently service within Ascension Health s network, we are focusing our marketing efforts primarily on other healthcare providers and expect to continue to diversify our customer base. As of September 30, 2009, we provided our integrated revenue cycle service offering to 22 customers representing 53 hospitals and $12.0 billion in annual net patient revenue, as well as physicians billing organizations associated with several of these customers.

We target seven 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 $120 billion in annual net patient revenue. This market segment 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 segment 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 $62 billion in annual net patient revenue. Ascension Health is the nation s largest Catholic and largest non-profit healthcare system, with a network of 78 hospitals and related healthcare facilities located in 20 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 $42 billion in annual net patient revenue. We serve several regional healthcare systems in this market segment.

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 manage approximately $241 billion in annual net patient revenue. We serve several 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 $80 billion in annual net patient revenue. This sector, although smaller than the not-for-profit sector, still represents a significant target market segment for our revenue cycle services. We do not currently have any customers in this market segment.

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 segment represents approximately $95 billion in annual net patient revenue. We do not currently have any customers in this market segment.

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 service offering 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 management 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, 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 operations, including the payroll and benefit costs associated with the customer s employees conducting revenue cycle activities, 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.

See Related Person Transactions Transactions with Ascension Health Customer Relationship for more information regarding our master services agreement with Ascension Health.

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 and adopted a more institutional approach to sales and marketing that relies on systematic relationship building by all of our senior team members. 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 operations and a review of the findings. We employ a standardized managed service contract that is designed to streamline the contract process and support a collaborative

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discussion of revenue cycle operation issues and our proposed working relationship. Our sales process typically requires six to twelve months from the introductory meeting to contract execution.

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 supplant our technology development team with independent contractors, all of whom have assigned any resulting intellectual property rights to us. We use a rapid application development 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 four 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 architecture 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 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.

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 a tool 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 tools to develop, maintain and monitor our solution. Databases for one or more customers can run on a single database server with disk storage configured as a redundant array of inexpensive disks (RAID). 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 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 99.45% 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 tools.

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Proprietary Software Suite

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 tool 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.

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.

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Competition

While we do not believe any single competitor offers a fully integrated, end-to-end revenue cycle management solution, 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 compete with three 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, Eclipsys 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.

We believe that competition for revenue cycle management services 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;
- 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 solution does not require any up-front cash investment from customers and we do not charge hourly or licensing fees for our services;
- we serve only healthcare providers and do not provide services to third-party payors; and

we focus on delivering significant and sustainable revenue cycle 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 significant barriers to replicating our end-to-end revenue cycle solution, 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.

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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, as well as business associates that perform functions on behalf or provide services to covered entities. Our customers are covered entities, and we are considered a business associate under HIPAA as a result of our contractual obligations to and interactions with our 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 our services in a way that supports our customers HIPAA compliance obligations.

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. 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. Business associates are also required to notify covered entities, which are required to notify 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. It is possible that the federal or state governments will implement future reductions, increases or changes in reimbursement under government programs that adversely affect our customer base or our 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, are used to prosecute 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

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 encourage patient referrals or other federal healthcare program business, regardless of whether there are other legitimate purposes for the arrangement. There are several limited exclusions known as safe harbors that may protect some arrangements from enforcement penalties. These safe harbors have very limited application. 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. Many states have similar anti-kickback laws, some of which are not limited to items or services for which payment is made by a federal healthcare program.

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 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. 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. 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 FERA 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 applies to our customers. Physicians are prohibited from referring patients for certain designated health services reimbursed under federally-funded programs to entities with which they or their immediate family members have a financial relationship or an ownership interest, unless such referrals fall within a specific exception. Violations of the statute can result in civil monetary penalties and/or exclusion from the Medicare and Medicaid programs. Furthermore, reimbursement claims for care rendered under forbidden referrals violate the Stark Law and may be deemed false or fraudulent, resulting in liability under other fraud and abuse laws. 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.

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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.

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 patient intake 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 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.

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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 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.

As of September 30, 2009, we have filed four 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. We do not know, however, whether any of these patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Legal standards relating to the validity, enforceability and scope of protection of patents can be uncertain. If any of our applications issues as a patent, that patent may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. Our patent applications may not issue with the scope of the claims that we seek, if at all, or the scope of the claims that may issue may not be sufficiently broad to protect our products and technology. 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 form us.

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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 September 30, 2009, we had 1,438 full-time employees, including 172 engaged in technology development and deployment. None of our employees is represented by a labor union and we consider our current employee relations to be good.

Our 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 undergo mandatory HIPAA training.

As of September 30, 2009, pursuant to managed service contracts, we also managed over 6,000 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.

Facilities

As of September 30, 2009, our corporate headquarters occupy approximately 28,000 square feet in Chicago, Illinois under a lease expiring on various dates in 2013 and 2014. We have an option to cancel the lease effective November 30, 2011 if the landlord is unable, prior to December 31, 2010, to provide approximately 22,000 square feet of additional office space on an adjacent floor. If the landlord provides this additional office space, we are obligated to lease it, and we will have the option to concurrently return approximately 6,500 square feet of office space on a non-adjacent floor. Assuming the landlord provides this additional 22,000 square feet of office space and we do not return the 6,500 square feet of office space, the lease for all 50,000 square feet will be extended until ten years and 90 days after the date we take possession of the additional 22,000 square feet of office space. In addition, after the landlord provides this additional office space, we will have an option to lease at least 50% of the rentable space on another floor in the same building. We also have rights of first offer on other space in the same building.

As of September 30, 2009, we also leased facilities in Jupiter, Florida; Kalamazoo, Michigan and 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.

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 and we are not aware of any pending or threatened litigation or regulatory proceeding against us that could have a material adverse effect on our business, operating results, financial condition or cash flows.

MANAGEMENT

Executive Officers and Directors

Our executive officers and directors, their current positions and their ages as of December 31, 2009 are set forth below:

Name	Age	Position(s)
Mary A. Tolan	49	Founder, President and Chief Executive Officer, Director
John T. Staton	49	Chief Financial Officer and Treasurer
Etienne H. Deffarges	52	Executive Vice President
Gregory N. Kazarian	47	Senior Vice President
J. Michael Cline(1)	50	Founder and Chairman of the Board
Edgar M. Bronfman, Jr.(1)(3)	54	Director
Steven N. Kaplan(2)(3)	50	Director
Denis J. Nayden(1)	55	Director
George P. Shultz(3)	89	Director
Arthur H. Spiegel, III(1)	70	Director
Mark A. Wolfson(2)	57	Director

(1) Member of compensation committee.

(2) Member of audit committee.

(3) Member of nominating and corporate governance committee.

Mary A. Tolan, a founder of Accretive Health, has served as our president and chief executive officer and a director since November 2003. Prior to joining our company, Ms. Tolan spent 21 years at Accenture Ltd, a leading global management consulting, technology services and outsourcing company. At Accenture, Ms. Tolan served in several leadership roles, including group chief executive for the resources operating group that had approximately $2 billion in annual revenue, and as a member of Accenture s executive committee and management committee. She serves on the board of trustees of the University of Chicago, Loyola University and the Lyric Opera of Chicago.

John T. Staton has served as our chief financial officer and treasurer since September 2005. Mr. Staton was with Accenture for 16 years before joining our company. From 2004 to 2005, Mr. Staton led the business consulting practice within Accenture s North American products practice. Prior to this role, he was a partner in Accenture s global retail practice. Before joining Accenture, Mr. Staton held positions in General Electric s manufacturing management program and Hewlett-Packard s sales and channel marketing organizations.

Etienne H. Deffarges has served as our executive vice president since April 2004. From 1999 until joining our company, Mr. Deffarges was a partner at Accenture, most recently serving as managing partner for its global utilities industry group, and as a member of its executive committee. Prior to joining Accenture, Mr. Deffarges spent 14 years at Booz Allen Hamilton Inc., a strategy and technology consulting firm, including serving as a senior partner and global practice leader of the energy, chemicals and pharmaceuticals practice from 1994 to 1999 and as a member of its executive committee.

Gregory N. Kazarian has served as our senior vice president since January 2004, and until November 2009 was also our general counsel and secretary. Prior to joining our company, Mr. Kazarian was with the law firm Pedersen & Houpt, P.C. for 16 years, where he handled employment, intellectual property, creditors rights, dispute resolution and outsourcing matters.

J. Michael Cline, a founder of Accretive Health, has been a member of our board of directors since August 2003 and has served as chairman of the board since July 2009. Mr. Cline has served as the founding managing partner of Accretive, LLC, a private equity firm, since founding that firm in

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December 1999. From 1989 to 1999, Mr. Cline served as a general partner of General Atlantic Partners, LLC, a private equity firm. Mr. Cline serves on the boards of several privately-held companies. He also serves on the advisory board of the Harvard Business School Rock Center for Entrepreneurship, on the board of the National Fish and Wildlife Foundation and as a trustee of Panthera, an organization devoted to the preservation of the world s wild cat species where he also chairs Panthera s Tigers Forever initiative.

Edgar M. Bronfman, Jr. has been a member of our board of directors since October 2006. Mr. Bronfman has served as chairman and chief executive officer of Warner Music Group since March 2004. Before joining Warner Music Group, Mr. Bronfman served as chairman and chief executive officer of Lexa Partners LLC, a management venture capital group which he founded in April 2002. Mr. Bronfman was vice chairman of the board of directors of Vivendi Universal, S.A. from December 2000 until December 2003 and also served as an executive officer of Vivendi Universal from December 2000 until March 2002. Prior to the formation of Vivendi Universal, Mr. Bronfman served as president and chief executive officer of The Seagram Company Ltd. from June 1994 until December 2000 and as president and chief operating officer of Seagram from 1989 until June 1994. Mr. Bronfman is a director of IAC/InterActiveCorp, a publicly-held operator of Internet businesses. Mr. Bronfman is also a member of the board of trustees of the New York University Medical Center and the board of governors of the Joseph H. Lauder Institute of Management and International Studies at the University of Pennsylvania. He also is a general partner of Accretive, LLC, a private equity firm.

Steven N. Kaplan has been a member of our board of directors since July 2004. Since 1988, Mr. Kaplan has served as a professor at the University of Chicago Booth School of Business, where he currently is the Neubauer Family Professor of Entrepreneurship and Finance and serves as the faculty director of the Polsky Center for Entrepreneurship. Mr. Kaplan also serves as a director of Morningstar, Inc., a publicly-held provider of independent investment research, and on the boards of trustees of the Columbia Acorn Trust and Wanger Asset Trust.

Denis J. Nayden has been a member of our board of directors since October 2003 and served as co-chairman of our board until July 2009. Mr. Nayden has served as a managing partner of Oak Hill Capital Management, LLC, a private equity firm, since 2003. From 2000 to 2002, he was chairman and chief executive officer of GE Capital Corporation, the financing unit of General Electric Company, and prior to that had a 25-year tenure at General Electric. Mr. Nayden is a director of Genpact Limited, a publicly-held global provider of business process services; RSC Holdings, Inc., a publicly-held equipment rental provider; Duane Reade Holdings, Inc., a publicly-held operator of a drugstore chain in New York City; and several privately-held companies. He also serves on the board of trustees of the University of Connecticut.

George P. Shultz has been a member of our board of directors since April 2005. Mr. Shultz has had a distinguished career in government, academia and business. He has served as the Thomas W. and Susan B. Ford Distinguished Fellow at the Hoover Institution of Stanford University since 1991. Mr. Shultz served as United States Secretary of State from 1982 until 1989, chairman of the President s Economic Policy Advisory Board from 1981 until 1982, United States Secretary of the Treasury and Chairman of the Council on Economic Policy from 1972 until 1974, Director of the Office of Management and Budget from 1970 to 1972, and United States Secretary of Labor from 1969 until 1970. From 1948 to 1957, Mr. Shultz taught at MIT, taking a year s leave of absence in 1955 to serve as a senior staff economist on the President s Council of Economic Advisors during the Eisenhower administration. He then taught from 1957 to 1969 at Stanford University and the University of Chicago Graduate School of Business, where he also served as Dean for six years. From 1974 to 1982, Mr. Shultz was president and a director of Bechtel Group, Inc., a privately-held global leader in engineering, construction and project management. Among numerous honors, Mr. Shultz was awarded the Medal of Freedom, the nation s highest civilian honor, in 1989, and holds honorary degrees from more than a dozen universities. He also chairs the Governor of California s Economic Advisory Board and the J.P. Morgan Chase International Council; serves as Advisory Council Chair of

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the Precourt Energy Efficiency Center at Stanford University; chairs the MIT Energy Initiative External Advisory Board; and serves on the board of directors of Fremont Group, L.L.C., a private investment firm.

Arthur H. Spiegel, III has been a member of our board of directors since October 2003 and served as co-chairman of our board until July 2009. Since 2002, Mr. Spiegel has been a private investor. From 1996 until 2002, Mr. Spiegel was President of CSC Healthcare Group, which offered consulting, system integration, claims processing software and business process and IT outsourcing services to the healthcare industry. Mr. Spiegel founded APM Management Consultants, a healthcare consulting firm, in 1974 and served as its CEO until it was acquired by Computer Science Corporation in 1996. He serves on the boards of several privately-held companies.

Mark A. Wolfson has been a member of our board of directors since October 2003. Mr. Wolfson has served as a managing partner of Oak Hill Capital Management, LLC, a private equity firm, since 1998, and is a founding managing partner of Oak Hill Investment Management, L.P. Mr. Wolfson has been on the faculty of the Stanford University Graduate School of Business since 1977, has served as its associate dean, and has held the title of consulting professor since 2001. He has been a research associate of the National Bureau of Economic Research since 1988 and serves on the executive committee of the Stanford Institute for Economic Policy Research. Mr. Wolfson is a director of eGain Communications Corporation, a publicly-held provider of multi-channel customer service and knowledge management software; and Conversus Asset Management, LLC, which manages the portfolio of Conversus Capital, L.P., a publicly-traded portfolio of third-party private equity funds. He is also an advisor to the investment committee of the William and Flora Hewlett Foundation.

Board Composition

Our board of directors currently consists of eight members, all of whom were elected as directors pursuant to a stockholders agreement that we have entered into with holders of our convertible preferred stock. Upon the closing of this offering, the board voting arrangements contained in the stockholders agreement will terminate and there will be no further contractual obligations regarding the election of our directors. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal. There are no family relationships among any of our directors or executive officers.

In accordance with the terms of our restated certificate of incorporation and amended and restated by-laws, our board of directors is divided into three classes, each of which consists, as nearly as possible, of one-third of the total number of directors constituting our entire board of directors and each of whose members serve for staggered three-year terms. As a result, only one class of our board of directors will be elected each year. Upon the expiration of the term of a class of directors, directors in that class will be eligible to be elected for a new three-year term at the annual meeting of stockholders in the year in which their term expires. The members of the classes are as follows:

- the class I directors are Messrs. , and their term expires at the annual meeting of stockholders to be held in 2011;
- the class II directors are Messrs. , and their term expires at the annual meeting of stockholders to be held in 2012; and
- the class III directors are Messrs. , and their term expires at the annual meeting of stockholders to be held in 2013.

Our restated certificate of incorporation and restated by-laws provide that the authorized number of directors may be changed only by resolution of the board of directors. Our restated certificate of incorporation and restated by-laws also provide that our directors may be removed only for cause by the affirmative vote of the holders of at least two-thirds of the votes that all our stockholders would be entitled to cast in an annual election of directors, and that any vacancy on our board of directors,

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including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors then in office.

Director Independence

Pursuant to the corporate governance listing standards of the New York Stock Exchange, a director employed by us cannot be deemed to be an independent director , and consequently Ms. Tolan is not an independent director. In addition, in accordance with the NYSE corporate governance listing standards, each other director will qualify as independent only if our board of directors affirmatively determines that he or she has no material relationship with us, either directly or as a partner, stockholder or officer of an organization that has a relationship with us. Ownership of a significant amount of our stock, by itself, does not constitute a material relationship.

Our board of directors has affirmatively determined that each of Messrs. Bronfman, Cline, Kaplan, Nayden, Shultz, Spiegel and Wolfson is independent in accordance with Section 303A.02(b) of the NYSE Listed Company Manual. In making this determination, our board of directors considered the percentage of our common stock owned by an entity affiliated with Accretive, LLC, of which Mr. Cline is the founding managing partner and Mr. Bronfman is a general partner, and the percentage of our common stock owned by FW Oak Hill Accretive Healthcare Investors, L.P., of which Messrs. Nayden and Wolfson are limited partners. Our board also considered that Messrs. Nayden and Wolfson are managing partners of Oak Hill Capital Management, LLC, an entity associated with FW Oak Hill Accretive Healthcare Investors, L.P., and that Mr. Wolfson is a managing partner of Oak Hill Investment Management, L.P., another entity associated with FW Oak Hill Accretive Healthcare Investors, L.P., and a Vice President and Assistant Secretary of Group VI 31, LLC, the general partner of FW Oak Hill Accretive Healthcare Investors, L.P. See Principal and Selling Stockholders .

All of the members of the board s three standing committees described below are independent as defined under the rules of the New York Stock Exchange.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Each committee operates under a charter that has been approved by our board of directors. Following this offering, copies of each committee s charter will be posted on the Investor Relations section of our website.

Audit Committee

The members of our audit committee are Messrs. Kaplan (chair) and Wolfson. Our board of directors has determined that each of the members of our audit committee satisfy the requirements for financial literacy under the current requirements of the New York Stock Exchange and rules and regulations. Prior to the closing of this offering, we intend to appoint a third member to our audit committee, who will replace Mr. Kaplan as chair, to be an audit committee financial expert , as defined by SEC rules, and satisfy the financial sophistication requirements of the New York Stock Exchange. Our audit committee assists our board of directors in its oversight of our accounting and financial reporting process and the audits of our financial statements.

The audit committee s responsibilities include:

- appointing, evaluating, retaining, terminating the engagement of, setting the compensation of and assessing the independence of our independent registered public accounting firm;

overseeing the work of our independent registered public accounting firm, including the receipt and consideration of reports from the firm and reviewing with the firm audit problems, internal control issues and other accounting and financial reporting matters;

coordinating the board s oversight of our internal control over financial reporting, disclosure controls and procedures, code of business conduct and ethics, and internal audit function;

establishing procedures for the receipt, retention and treatment of accounting related complaints and concerns;

reviewing and discussing with management and our independent registered public accounting firm our annual and quarterly financial statements and related disclosures;

periodically meeting separately with our independent registered public accounting firm, management and internal auditors;

discussing generally the type and presentation of information to be disclosed in our earnings press releases, as well as financial information and earnings guidance provided to analysts, rating agencies and others;

reviewing our policies and procedures for approving and ratifying related person transactions, including our related person transaction policy;

establishing policies regarding the hiring of employees or former employees of our independent registered public accounting firm;

discussing our policies with respect to risk assessment and risk management;

preparing the audit committee report required by SEC rules;

in coordination with the compensation committee, evaluating our senior financial management; and

at least annually, evaluating its own performance.

All audit services to be provided to us and all non-audit services, other than de minimis non-audit services, to be provided to us by our independent registered public accounting firm must be approved in advance by our audit committee.

Compensation Committee

The members of our compensation committee are Messrs. Nayden (chair), Bronfman, Cline and Spiegel. Our compensation committee assists our board of directors in the discharge of its responsibilities relating to the compensation of our executive officers. The compensation committee s responsibilities include:

approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating our chief executive officer s performance in light of those goals and objectives and, either as a committee or together with the other independent directors (as directed from time to time by the board of directors), determining and approving our chief executive officer s compensation;

reviewing in consultation with our chief executive officer, and approving or making recommendations to the board of directors with respect to, compensation of our executive officers (other than our chief executive officer);

overseeing the evaluation of our senior executives, in consultation with our chief executive officer in the case of all senior executives other than the chief executive officer and in conjunction with the audit committee in the case of our senior financial management;

reviewing and making recommendations to the board of directors with respect to incentive-compensation and equity-based plans that are subject to board approval;

administering our equity incentive plans, including the authority to delegate to one or more of our executive officers the power to grant options or other stock awards to employees who are not directors or executive officers of our company, but only if consistent with the requirements of the applicable plan and law;

reviewing and making recommendations to the board of directors with respect to director compensation;

reviewing and discussing with management the compensation discussion and analysis required by SEC rules;

preparing the compensation committee report required by SEC rules; and

at least annually, evaluating its own performance.

Nominating and Corporate Governance Committee

The members of our nominating and corporate governance committee are Messrs. Shultz (chair), Bronfman and Kaplan. The nominating and corporate governance committee s responsibilities include:

recommending to the board of directors the persons to be nominated for election as directors or to fill vacancies on the board of directors, and to be appointed to each of the board s committees;

applying the criteria for selecting directors approved by the board, and annually reviewing with the board the requisite skills and criteria for new board members as well as the composition of the board of directors as a whole;

developing and recommending to the board corporate governance guidelines applicable to our company;

overseeing an annual evaluation of the board of directors;

at the request of the board of directors, reviewing and making recommendations to the board relating to management succession planning; and

at least annually, evaluating its own performance.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who serve as members of our board of directors or our compensation committee. None of the members of our compensation committee is an officer or employee of our company, nor have they ever been an officer or employee of our company.

Corporate Governance Guidelines

Our board of directors has adopted corporate governance guidelines to assist the board in the exercise of its duties and responsibilities and to serve the best interests of our company and our stockholders. Following this offering, a copy of these guidelines will be posted on the Investor Relations section of our website. These guidelines, which provide a framework for the conduct of the board s business, are expected to provide that:

the board s principal responsibility is to oversee the management of Accretive Health;

directors have an obligation to become and remain informed about our company and business;

directors are responsible for determining that effective systems are in place for periodic and timely reporting to the board on important matters concerning our company;

- directors are responsible for attending board meetings and meetings of committees on which they serve;
- a majority of the members of the board of directors shall be independent directors;
- each director must limit the number of other public company boards on which he or she serves so that he or she is able to devote adequate time to his or her duties to Accretive Health, including preparing for and attending meetings;
- the non-management directors meet in executive session at least semi-annually;
- directors have full and free access to officers and employees of our company, and the right to hire and consult with independent advisors at our expense;
- new directors participate in an orientation program and all directors are expected to participate in continuing director education on an ongoing basis; and
- at least annually, the board of directors and its committees will conduct self-evaluations to determine whether they are functioning effectively.

Code of Business Conduct and Ethics

Our board of directors has adopted a written code of business conduct and ethics that will apply to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Following this offering, a copy of the code of business conduct and ethics will be posted on the Investor Relations section of our website.

Director Compensation

Since our company was formed, we have not paid cash compensation to any director for his or her service as a director. However, non-employee directors are reimbursed for reasonable travel and other expenses incurred in connection with attending our board and committee meetings.

In the past, we have granted restricted stock and options to purchase shares of our common stock to our non-employee directors who are not affiliated with our 5% stockholders. We did not grant any restricted stock or options to purchase shares of our common stock to our non-employee directors during our fiscal year ended December 31, 2009. Ms. Tolan has never received any compensation in connection with her service as a director.

Upon the closing of this offering, we intend to implement a director compensation plan to provide non-employee directors with appropriate cash and equity compensation for service on the board of directors and committees of the board of directors. The amount of this compensation has not been determined, but we anticipate that it will be consistent with amounts paid by comparable public companies.

Executive Compensation

Compensation Discussion and Analysis

This section discusses the principles underlying our executive compensation policies and decisions and the most important factors relevant to an analysis of these policies and decisions. It provides qualitative information regarding the manner and context in which compensation is awarded to and earned by our executives and is intended to place in perspective the data presented in the tables and narrative that follow.

As we have prepared to become a public company, our compensation committee has begun a thorough review of all elements of our executive compensation program, including the function and design of our annual cash incentive and equity incentive programs. The compensation committee has begun, and expects to continue in the coming months, to evaluate the need for revisions to our

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executive compensation program to ensure our program is competitive with the companies with which we compete for superior executive talent. As part of this process, the compensation committee is considering the competitiveness of the elements of the compensation packages we offer to our executives, as well as their total compensation packages.

Overview of Executive Compensation Process

Roles of Our Board, Compensation Committee and Chief Executive Officer in Compensation Decisions. Our compensation committee oversees our executive compensation program, and has done so historically. In this role, the compensation committee has reviewed all compensation decisions relating to our executive officers and has made recommendations to the board. Our chief executive officer annually reviews the performance of each of our other executive officers, and, based on these reviews, provides recommendations to the committee and the board with respect to salary adjustments, annual cash incentive bonus targets and awards and equity incentive awards. Our compensation committee meets with our chief executive officer annually to discuss and review her recommendations regarding executive compensation for our executive officers, excluding herself. These recommendations are forwarded to the board, which typically meets in executive session to discuss those recommendations and to consider the compensation of the chief executive officer. Our chief executive officer is not present for board or committee discussions regarding her compensation. Our chief executive officer may grant options to executive officers other than herself and determine the number of shares covered by, and the timing of, option grants. The board has, and it exercises, the ability to materially increase or decrease amounts of compensation payable to our executive officers pursuant to recommendations made by our chief executive officer.

Competitive Market Data and Use of Compensation Consultants. Historically, our compensation committee has not formally benchmarked our executive compensation against compensation data, but rather has relied on its members business judgment and collective experience, including in the healthcare and consulting industries. As part of our preparation to become a public company, in August 2009 our compensation committee engaged an independent compensation consulting firm to provide advice regarding our executive compensation program and general information regarding executive compensation practices in our industry. Although the compensation committee and board consider the compensation consulting firm s advice in considering our executive compensation program, the compensation committee and board ultimately make their own decisions about these matters.

At the compensation committee s request, the independent compensation consulting firm has conducted a number of compensation analyses to provide information regarding competitive pay and practices for executives of technology, business process outsourcing and healthcare services companies comparable to us in terms of revenue and growth rate, and/or which are anticipated to be comparable to us in terms of market capitalization. This peer group, which will be periodically reviewed and updated by the compensation committee, consists of:

Akamai Technologies	Genpact	Metavente
Athenahealth	Global Payments	Nuance Communications
Blackboard	HLTH Corp	Quality Systems
Cerner	Huron Consulting	salesforce.com
Cognizant Tech Solutions	MAXIMUS	SXC Health Solutions
Eclipsys	MedAssets	WNS Holdings

Although the board and compensation committee may consider peer group data, to date, they have not benchmarked total executive compensation or most compensation elements against this peer group, and they do not aim to set total compensation, or any compensation element, at a specified level as compared to the companies in our peer group.

Objectives and Philosophy of Our Executive Compensation Program

Our primary objective with respect to executive compensation is to attract, retain and motivate highly talented individuals who have the breadth and experience to successfully execute our business strategy. Our executive compensation program is designed to:

- reward the achievement of our annual and long-term operating and strategic goals;
- recognize individual contributions; and
- align the interests of our executives with those of our stockholders by rewarding performance that meets or exceeds established goals, with the ultimate objective of increasing stockholder value.

To achieve these objectives, our executive compensation program ties a portion of each executive s overall compensation to key corporate financial goals, primarily adjusted EBITDA targets, as well as to individual performance. We also provide a portion of our executive compensation in the form of equity incentive awards that vest over time, which we believe helps to retain our executive officers and aligns their interests with those of our stockholders by allowing them to participate in our long-term performance as reflected in the trading price of shares of our common stock.

Elements of Our Executive Compensation Program

The primary elements of our executive compensation program are:

- base salaries;
- annual cash incentive bonuses;
- equity incentive awards; and
- other employee benefits.

Our compensation committee has not adopted any formal or informal policies or guidelines for allocating compensation between these elements.

Base Salaries. We use competitive base salary to attract and retain qualified candidates to help us achieve our growth and performance goals. Base salaries are intended to recognize an executive officer s immediate contribution to our organization, as well as his or her experience, knowledge and responsibilities.

From time to time, in its discretion, our compensation committee and board evaluate and adjust executive officer base salary levels based on factors determined to be relevant, including:

- the executive officer s skills and experience;
- the particular importance of the executive officer s position to us;
- the executive officer s individual performance;
- the executive officer s growth in his or her position;

market level increases;

base salaries for comparable positions within our company; and

inflation rates.

Our compensation committee and board historically have considered annual base salary adjustments in the first quarter of the year. From 2004 through 2007, we did not increase the base salary of any of our executive officers, other than a nominal increase in 2007 to reflect the rate of inflation. In the first quarter of 2008, our board increased the base salaries for our executive officers (other than our chief financial officer, who joined us in September 2005) by 25% over their original base salaries because these executive officers had not received base salary increases commensurate with their significant contributions to the development of our business during our first three years of operation. These contributions included, in the case of Ms. Tolan, her overall strategic leadership in building our business, in the case of Mr. Deffarges, his role in expanding our customer base, and in the case of Mr. Kazarian, his contributions in various legal and operational matters. While it has been our philosophy to keep base salaries for senior executives below market levels and place greater emphasis on performance-based compensation, based on the significant growth of the business from 2003 to 2008, and the fact that these senior executives had joined us between November 2003 and April 2004 and had not received any increase in base salary in 2004, 2005, or 2006 and only a nominal increase in 2007, the board deemed it appropriate to provide these adjustments to base salary for these executives. In light of general economic conditions in the first quarter of 2009, and despite our strong performance in 2008, we did not increase any executive officer s base salary for 2009.

Annual Cash Incentive Bonuses. We maintain an annual cash incentive bonus program in which each of our executive officers participates. These annual cash incentive bonuses are intended to compensate our executive officers for our achievement of corporate financial goals, primarily adjusted EBITDA targets, as well as individual performance in the areas of:

economic and financial contributions;

operations;

customer satisfaction;

business development; and

organizational and leadership development.

Our annual cash incentive bonuses have varied from year to year, and we expect that they will continue to vary, depending on actual corporate and individual performance results.

Historically, our board has set our corporate financial goals and our executive officers individual cash incentive bonus targets each year in advance and it has worked with our chief executive officer to develop aggressive goals to be achieved by the company and our executive officers. The goals established by the board have been based on our historical operating results and growth rates, as well as our expected future results, and are designed to require significant effort and operational success on the part of our executive officers and the company. However, during the course of the year, the board and our compensation committee, based on recommendations of our chief executive officer (with respect to our other executive officers), may adjust such goals as they deem appropriate.

Each executive officer s initial target annual bonus is set upon commencement of employment as part of the executive s overall compensation package. The target annual bonus amount is then reviewed and adjusted in each subsequent year, generally so that it is equal to the higher of the executive s prior year actual bonus and his or her prior year target bonus. The updated targets reflect strong growth and performance assumptions which correlate to our annual plans. When these growth and performance expectations are exceeded, bonuses above target can be awarded. These higher performance-based awards, and our continued strong growth and performance expectations, are considered when setting target bonuses for subsequent years. We believe this helps to calibrate incentive compensation with our growth and performance. The board believes that this approach supports our pay-for-performance philosophy and encourages the achievement of growth and performance goals. The board approves actual annual cash incentive bonuses, based on the recommendations of our compensation committee, with input from our chief executive officer in the case of executive officers other than herself. There are no minimum or maximum payout levels, and our board has broad discretion to make adjustments to the awards.

For each of the years ended December 31, 2008 and 2009, our corporate financial goals were based on adjusted EBITDA. The corporate financial goals were developed prior to the beginning of the year by management in consultation with the compensation committee, and then reviewed, refined and approved by our board of directors. Our compensation committee believes that adjusted EBITDA is an appropriate measure of our business performance because it emphasizes the addition of new customers and expansion of services with existing customers, as well as improvements in our operating efficiency, and it is reflective of stockholder value creation. In 2008, we exceeded our adjusted EBITDA target by $1.5 million, and our actual adjusted EBITDA was $12.2 million.

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For the years ended December 31, 2008 and 2009, each executive officer s target bonus awards were set as follows:

Executive Officer	Target Annual Cash Incentive Bonus Year Ended December 31, 2008	2009
Mary A. Tolan	$ 450,000	$ 600,000
John T. Staton	$ 183,000	$ 258,000
Etienne H. Deffarges	$ 346,750	$ 446,750
Gregory N. Kazarian	$ 127,250	$ 202,250

Our executive officers target bonus awards have not been determined for 2010.

Because our adjusted EBITDA for the year ended December 31, 2008 exceeded our goal, our board exercised its discretion to increase our executive officers annual cash incentive bonuses above the targets. The allocation of bonuses among our executive officers was based on the compensation committee s subjective assessments of individual contributions by our executive officers in their respective areas of primary responsibility. In making these assessments, the compensation committee considered the following: in the case of Ms. Tolan, her success in growing our business, securing talented personnel to support the business growth and enhancing our operating model, and the fact that our financial performance substantially exceeded plan; in the case of Mr. Deffarges, his role in connection with our successful efforts to secure new customers; in the case of Mr. Staton, his contributions to our ability to exceed our financial plan and his role in successfully strengthening our financial operations; and in the case of Mr. Kazarian, his role in our ability to attract talented employees to support our growth and his success in taking on operating responsibilities important to our growth. For our executive officers other than Ms. Tolan, the compensation committee also considered Ms. Tolan s assessment of each executive officer s contributions to our performance during 2008. For the actual 2008 amounts that we paid to each executive officer under our annual cash incentive bonus program, see the Summary Compensation Table below.

Our board uses our unaudited financial results to make financial target performance determinations under our annual cash incentive bonus program, and those results may be adjusted in connection with the preparation of our audited consolidated financial statements. You should read our consolidated financial statements, the related notes to these financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. As described above, the purpose of these targets was to establish a method for determining the payment of cash incentive bonuses. You are cautioned not to rely on these performance goals as a prediction of our future performance.

From time to time, we may make special cash bonus awards to our employees, including our executive officers. In July 2008 and August 2009, we determined to award special cash bonuses of approximately $81,000 and $143,000, respectively, to Mr. Staton contemporaneously with the cash dividend we declared on all outstanding capital stock in each of those years. As the holder of vested options who was not a stockholder, Mr. Staton was not entitled to participate in those cash dividends. However, because Mr. Staton is primarily responsible for our financial management and is deeply involved in helping to achieve our strategic goals, and in light of the connection between Mr. Staton s contributions and our ability to pay these cash dividends, the board determined to award him special cash bonuses in amounts that represented the payments he would have received as cash dividends if he had owned such number of shares equal to the vested portion of his option on the record date for the applicable dividend. As stockholders, our other executive officers participated directly in these cash dividends and therefore did not receive any special bonus in either year relating to this aspect of our financial performance.

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Equity Incentive Awards. Our equity incentive award program is the primary vehicle for offering long-term incentives to our executive officers. To date, equity incentive awards to our executive officers have been made in the form of restricted stock awards and stock options, and our compensation committee currently intends to continue this practice. Although we do not have any equity ownership guidelines or requirements for our executive officers, we believe that equity incentive awards:

- provide our executive officers with a strong link to our long-term performance, including by enhancing their accountability for long-term decision making;
- help balance the short-term orientation of our annual cash incentive bonus program;
- create an ownership culture by aligning the interests of our executive officers with the creation of value for our stockholders; and
- further our goal of executive retention.

Employees who are considered essential to our long-term success are eligible to receive equity incentive awards, which typically vest over four years. As of December 31, 2009, all equity incentive awards granted to our executive officers had fully vested. Accordingly, in connection with its evaluation of the need for revisions to our executive compensation program, our compensation committee intends to make additional equity incentive awards to our executive officers prior to the closing of this offering.

In determining the size of equity incentive awards to executive officers, our compensation committee generally considers the executive s experience, skills, level and scope of responsibilities and internal comparisons to other comparable positions in our company.

Other Employee Benefits. We maintain broad-based benefits that are provided to all employees, including our 401(k) retirement plan, flexible spending accounts, a medical care plan, vacation and standard company holidays. Our executive officers are eligible to participate in each of these programs on the same terms as non-executive employees; however, we do not provide a matching 401(k) contribution for any of our executive officers. See 401(k) Retirement Plan for more information regarding our 401(k) retirement plan.

We also provide for each of our chief executive officer, chief financial officer and executive vice president supplemental disability income protection that provides income replacement in the event of a qualifying disability.

Severance and Change of Control Arrangements. We have an employment agreement with our chief executive officer that provides a combination of single trigger and double trigger benefits in connection with a change of control of our company and/or termination of her employment. We believe a combination of single trigger and double trigger vesting along with severance payments maximizes stockholder value because it limits any unintended windfalls to executives in the event of a friendly change of control, while still providing executives appropriate incentives to cooperate in negotiating any change of control, including a change of control in which they believe they may lose their jobs. We also have an employment agreement with our chief financial officer and an offer letter with our senior vice president, each of which provides for specified salary continuation, and in the case of our chief financial officer, benefits continuation, in the event of specified employment terminations.

See Potential Payments upon Termination or Change in Control and Employment Agreements for a more detailed description of these arrangements.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code, which will become applicable to us upon the closing of this offering, generally disallows a tax deduction for compensation in excess of $1.0 million paid to our chief executive officer and our four other most highly paid executive officers, except our chief financial officer. Qualifying performance-based compensation is not subject to the deduction limitation if specified requirements are met. We periodically review the potential consequences of

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Section 162(m) and we generally intend to structure the performance-based portion of our executive compensation, where feasible, to comply with exemptions in Section 162(m) so that the compensation remains tax deductible to us. However, our board or compensation committee may, in their judgment, authorize compensation payments that are not exempt under Section 162(m) when they believe that such payments are appropriate to attract and retain executive talent.

Summary Compensation Table

The following table sets forth information regarding compensation earned by our chief executive officer, our chief financial officer and our two other executive officers during our fiscal years ended December 31, 2008 and 2009. We refer to these individuals as our named executive officers.