

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

Form 10-K

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

For the fiscal year ended **December 31, 2016**

OR

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

For the transition period from _____ to _____

Commission file number 001-34746

R1 RCM Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

401 North Michigan Avenue

Suite 2700

Chicago, Illinois

(Address of principal executive offices)

02-0698101

(I.R.S. Employer
Identification No.)

60611

(Zip Code)

(312) 324-7820

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

None

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 par value

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sale price for such stock on June 30, 2016: \$209,020,006

As of February 24, 2017, the registrant had 105,957,743 shares of common stock, par value \$0.01 per share, outstanding.

**RI RCM INC.
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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of the federal securities laws, that involve substantial risks and uncertainties. You should not place undue reliance on these statements. All statements, other than statements of historical facts, included in this Annual Report on Form 10-K 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", "designed", "may", "plan", "predict", "project", "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 implement and expand our services under our Amended and Restated Master Professional Services Agreement with Ascension Healthcare.
- our ability to attract and retain customers;
- our financial performance;
- the advantages of our solutions as compared to those of others;
- our ability to establish and maintain intellectual property rights;
- our ability to retain and hire necessary employees and appropriately staff our operations;
- our estimates regarding capital requirements and needs for additional financing; and
- our ability to regain a listing on a national securities exchange.

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 Annual Report, particularly in "Part I - Item 1A - Risk Factors," 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 Annual Report and the documents that we have filed as exhibits to the Annual Report 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.

PART I

On January 5, 2017, Accretive Health, Inc. changed its name to R1 RCM Inc. Unless the context indicates otherwise, references in this Annual Report to "R1 RCM," "R1," the "Company" or "company," "we," "our" and "us" mean R1 RCM Inc. and its subsidiaries.

Item 1. Business

Overview

R1 is a leading provider of revenue cycle management, or RCM, services and physician advisory services, or PAS, to healthcare providers. We help healthcare providers generate sustainable improvements in their operating margins and cash flows while also enhancing patient, physician and staff satisfaction for our customers.

We achieve these results for our customers by managing healthcare providers' revenue cycle operations, which encompass processes including patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections from patients and payers. We do so by deploying a unique operating model that leverages our extensive healthcare site experience, innovative technology and process excellence. We assist our RCM customers in managing their revenue cycle operating costs while simultaneously increasing the portion of the maximum potential services revenue they receive. Together, these benefits can generate significant and sustainable improvements in operating margins and cash flows for our customers.

Our primary service offering consists of end-to-end RCM, which we deploy through a co-managed relationship or an operating partner relationship. Under a co-managed relationship, we leverage our customers' existing RCM staff and processes, and supplement them with our infused management, subject matter specialists, proprietary technology and other resources. Under an operating partner relationship, we provide comprehensive revenue cycle infrastructure to providers, including all revenue cycle personnel, technology, and process workflow. We also offer modular services, allowing customers to engage us for only specific components of our end-to-end RCM service offering. Our PAS offering assists hospitals in complying with payer requirements regarding whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes. This offering consists of both concurrent review and retrospective chart audits to help our customers achieve compliant and accurate billing. We also provide customers with retrospective appeal management service support for both governmental and commercial payers. Our physicians conduct detailed retrospective reviews of medical records to identify medical necessity for hospital services and the required documentation to appropriately support an appeal. We employ trained physicians to deliver these services.

Once implemented, our technology applications, processes and services are deeply embedded in our customers' day-to-day operations. We believe our service offerings are adaptable to meet an evolving healthcare regulatory environment, technology standards and market trends.

Segment

All of our significant operations are organized around the single business of providing management services of revenue cycle operations for U.S.-based hospitals and other medical services providers.

We view our operations and manage our business as one operating and reporting segment. All of our net services revenue and trade accounts receivable are derived from healthcare providers domiciled in the United States. The information about our business should be read together with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. See Note 18, Segments and Customer Concentrations, to our consolidated financial statements for information regarding our segment and customer concentrations.

Our Services

Drawing on our combination of our extensive healthcare-site expertise, innovative technology and process excellence, we seek to deliver measurable economic value to our customers across our RCM and PAS solutions.

Revenue Cycle Management Offering

Our primary RCM service offering consists of comprehensive end-to-end RCM services, which address the full spectrum of revenue cycle challenges faced by healthcare providers. Our approach to deliver value for our customers is built on the R1 Performance StackSM, a holistic operating model designed to fit into a healthcare provider's revenue cycle operations.

The R1 Performance StackSM consists of seven components:

Comprehensive Gains - By leveraging the customer's data and operating within a health system's virtual and physical environment, our services are designed to help ensure client economics are significantly improved while enhancing patient experience and improving client revenue predictability as payment models shift.

Assured Standardization - Our diagnostics and tools are designed to ensure delivery consistency and enable economic gains and enhanced patient experience. Continual measurement and assessment help us achieve these standards.

Dimensional Visibility - We enable timely defect intervention and recovery workflow by providing a clear window into revenue operations through frequent and comprehensive reporting.

Analytics & Accountability - We use hundreds of measurement methods to drive comprehensive daily accountability designed to identify and correct small issues before they become organizational problems.

Proprietary Technologies - Our R1 Hub Technologies integrate across multiple host and payer systems. They are designed to scale and perform in the largest, most complex systems to enable end-to-end process integration.

Proven Process - Our technology, model and processes have been developed through years of experience working with healthcare organizations on their most challenging implementations. The approach and technology are based on standard structures and rigorous methods, tested and proven in multiple organizations and environments.

Experienced Talent - Our teams understand the missions and unique needs of non-profit organizations. Team members are trained, certified and then continuously developed and supported to ensure they are equipped to deliver on customer revenue cycle management goals.

Our RCM service offering is designed to adapt to a provider's organizational structure. We seek to integrate our technology, personnel, our accumulated body of knowledge and our culture within each customer's revenue cycle activities, with the expectation that we will enjoy a long-term collaborative relationship with each customer. We deliver technology and operational support in the form of both on-site management and centralized staffing to deliver improved efficiency and quality across all RCM functions.

Our end-to-end RCM agreements generally provide us with the opportunity to earn net operating fees and incentive fees. Net operating fees represent the gross base fees we charge our customers for operating the revenue cycle processes included in our agreements less corresponding costs of customers' revenue cycle operations which we undertake to pay pursuant to our RCM agreements. We have modified a portion of our RCM agreements to replace the gross base fees along with our financial obligation to pay our customers' revenue cycle operations expenses with a fee that approximates such difference. We help our customers reduce their revenue cycle costs by implementing new operational practices, optimizing their technology suite and deploying more efficient processes.

In certain cases, we work with our customers to transfer aspects of their revenue cycle operations to our shared services centers, which typically results in lower operating costs than operating those aspects of the revenue cycle at the customers' site.

Incentive fees are performance-based fees related to agreed-upon improvements in financial or operating metrics at our customers. When using these metrics to calculate this improvement, we typically utilize metrics that are already being tracked by, or easily calculated from, our customers' respective accounting systems and compare the results of those metrics against the results for the same metrics for a defined prior period.

We seek to improve our customers' processes using a variety of techniques including:

- **Gathering Complete Patient and Payer Information.** We focus on gathering complete patient information and validating insurance eligibility and benefits so patient care services can be recorded and billed to the appropriate parties. For scheduled healthcare services, we educate patients as to their potential financial responsibilities before receiving care. Through our systems, we maintain an automated electronic scorecard which measures the efficiency of up-front data capture, authorization, 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.
- **Improving Claims Filing and Payer Collections.** Through our proprietary technology and process expertise, we identify, for each patient encounter, the amount our customer should receive from a payer if terms of the applicable contract with the payer and patient policies are followed. Over time, we compare these amounts with the actual payments collected to help identify which payers, 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 payers, and we then direct increased attention and time to the riskiest accounts.
- **Identifying Alternative Payment Sources.** We use various methods to find payment sources for uninsured patients and reimbursement for services not covered by payers. 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, increase the percentage of patient bills that are actually paid, and improve the total amount of reimbursement received by our customers.
- **Employing Proprietary Technology and Algorithms.** We employ a variety of proprietary data analytics and algorithms. For example, we identify patient accounts with financial risk by applying proprietary analysis 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 adjust our proprietary predictive algorithms to reflect changes in payer and patient behavior based upon the knowledge we obtain from our entire customer base. As new customers are added and payer and patient behavior changes, the information we use to create our algorithms expands, increasing the accuracy, reliability and value of such algorithms.
- **Using Analytical Capabilities and Operational Excellence.** We draw on the experience that we have gained from working with some of the best healthcare provider systems in the United States to train our customers' staff about new and innovative RCM practices. We use sophisticated analytical procedures to identify specific opportunities to improve business processes.
- **Increasing Charge Capture.** We are able to help our customers increase their charge capture by implementing optimization techniques and related processes. We use sophisticated analytics software to help improve the accuracy of claims filings and the resolution of disputed claims from payers. We also overlay a range of capabilities designed to reduce missed charges, improve the clinical/reimbursement interface and produce bills that comply with payer requirements and applicable healthcare regulations.

- **Leveraging our Shared Services Centers.** We help our customers increase their revenue cycle efficiency by implementing improved practices, streamlining work flow processes and outsourcing aspects of their revenue cycle operations to our shared services centers. Examples of services that can be completed at our shared services centers in the United States and India include pre-registration, medical transcription, cash posting, reconciliation of payments to billing records, and patient and payer follow-up. 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.

We believe that these techniques are enhanced by our proprietary and integrated technology, management experience and well-developed processes. Our proprietary technology applications include workflow automation and direct payer connection capabilities that enable revenue cycle staff to focus on problem accounts rather than on manual tasks, such as searching payer 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. Our proprietary technology enhances the ability of our customers' revenue cycle staff to improve their interaction with patients. 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 our customers' entire revenue cycle.

In 2016, we integrated our value-based reimbursement capabilities into our RCM offering. These capabilities include a secure web-based workflow application that utilizes data analytics designed to enable patient engagement staff, revenue cycle analysts, and physician/hospital care teams to monitor and manage gaps identified by our proprietary rules engines.

Physician Advisory Services Offering

Our PAS offering provides concurrent level of care billing classification reviews, as well as retrospective chart audits to assist hospitals in properly billing payers for selected services. These services complement our RCM offering and our ability to provide our customers end-to-end management services, and, accordingly, some of our RCM customers are also customers of our PAS offering. According to the policies of the Centers for Medicare & Medicaid Services, or CMS, the decision to classify a patient as an in-patient or out-patient observation case for billing purposes is based on complex medical judgment that can only be made after the physician has considered a number of factors, including the patient's medical history and current medical needs, the severity of signs and symptoms, the medical predictability of adverse events and the patient's anticipated length of stay. Using our secure web portal, hospital customers transmit pertinent data about the case at hand to our trained physicians, who then leverage our proprietary diagnosis guidelines and the extensive information within our knowledge database to reach an informed billing classification judgment, which we then provide to our customers as a recommendation.

We also provide customers with retrospective appeal management service support for both governmental and commercial payers. Our physicians conduct detailed retrospective reviews of medical records to identify medical necessity for hospital services and the required documentation to appropriately support an appeal.

We believe that our PAS offering provides our customers with a number of operational benefits, such as

- direct physician to physician contact,
- improved service levels, and
- real-time reporting and analytics.

Relationship with Ascension

On February 16, 2016, we entered into a long-term strategic partnership with Ascension Health Alliance, the parent of our largest customer and the nation's largest Catholic and non-profit health system, and TowerBrook Capital Partners, or TowerBrook, an investment management firm. As part of the transaction, we amended and

restated our Master Professional Services Agreement, or A&R MPSA, with Ascension Healthcare, or Ascension, effective February 16, 2016 with a term of ten years. Pursuant to the A&R MPSA and with certain limited exceptions, we are the exclusive provider of revenue cycle management services and PAS with respect to acute care services provided by the hospitals affiliated with Ascension that execute supplement agreements with us. In addition, at the close of the transaction, we issued to TCP-ASC ACHI Series LLLP, a limited liability limited partnership jointly owned by Ascension Health Alliance and investment funds affiliated with TowerBrook, or the Investor: (i) 200,000 shares of our 8.00% Series A Convertible Preferred Stock, par value \$0.01 per share, or the Series A Preferred Stock, for an aggregate price of \$200 million and (ii) a warrant with a term of ten years to acquire up to 60 million shares of our common stock, par value \$0.01 per share, or common stock, at an exercise price of \$3.50 per share, on the terms and subject to the conditions set forth in the Warrant Agreement, or the Warrant. The Series A Preferred Stock is immediately convertible into shares of common stock. We refer herein to the foregoing transactions consummated on February 16, 2016 with the Investor and Ascension as the "Transaction".

This long-term strategic partnership has expanded our relationship with Ascension, and we expect that it will continue to expand that relationship, help us to grow our overall business and improve our ability to win customers outside of the Ascension hospital base. We have made significant progress in the phased implementation of our services for those Ascension hospitals that we did not previously service which we intend to service under the A&R MPSA. Our RCM services for both Ascension hospitals that we previously serviced under our prior Master Professional Services Agreement with Ascension and those Ascension hospitals that we have begun to service or intend to begin to service under the A&R MPSA will be based on our operating partner service offering model, whereby a significant number of Ascension's revenue cycle employees at those hospitals have become, or in the case of those hospitals we intend to begin servicing in the future, will become our employees. As a result of the implementation of our operating partner model under the A&R MPSA, we expect to expand our operations in the United States and off shore and intend to continue to invest in technology, facilities and talent to support our anticipated growth. This operating partner model includes the transition of the non-payroll related expenses supporting Ascension's revenue cycle operations to direct expenses of R1. We anticipate that this new in-house capability of managing these non-payroll related expenses will allow us to pursue new business opportunities which require an operating partner business model. We believe the ten year term of the A&R MPSA, together with the significant investment in R1 by Ascension, our largest customer, provides our business with stability and growth. In addition, our management team continues to benefit from the oversight provided by having TowerBrook involved as a strategic investor.

Customers

Our customers typically are single or multi-hospital healthcare systems, including faith-based healthcare systems, community healthcare systems, academic medical centers and their respective affiliated ambulatory clinics and physician practice groups, certain of which have common affiliations to larger umbrella healthcare organizations that are also parties to our customer contracts with their respective affiliates. 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.

Hospital systems affiliated with Ascension have accounted for a significant portion of our net services revenue each year since our formation. For the years ended December 31, 2016, 2015 and 2014, net services revenue from hospitals affiliated with Ascension accounted for 78%, 45% and 12% of our total net services revenue, respectively. For the year ended December 31, 2016, Intermountain Healthcare accounted for 15% of our total net services revenue.

Customer Agreements

We generally provide our RCM offering pursuant to managed services agreements with our customers. In rendering our services, we must comply with customer policies and procedures regarding charity care, personnel, data security, compliance and risk management, as well as applicable federal, state and local laws and regulations.

Our end-to-end RCM agreements typically span three to five years (subject to the parties' respective termination rights). In general, our RCM agreements provide that:

- we are required to staff a sufficient number of our own employees commensurate with the service offering and provide the technology necessary to implement and manage our services;
- in our co-managed relationship model, our management and staff work cooperatively with our customers' management and staff to achieve mutually specified objectives, and in our operating partner relationship model, we are responsible for providing all revenue cycle personnel, technology and process workflow;
- a portion of our fees are tied to the achievement of certain financial or operating metrics; and
- the parties provide representations and indemnities to each other.

Our agreements for PAS and modular RCM services generally vary in length between one and three years. Customers pay a contractually negotiated fee for this service on a per-use basis or, in the case of certain modular RCM services, a fixed fee arrangement.

Sales and Marketing

Our new business opportunities are generated through a combination of high-level industry contacts engaged by our commercial services team and other members of our senior management team. Our sales and marketing process generally begins by engaging senior executives of the prospective hospital or healthcare system, typically followed by our assessment of the prospect's existing operations, and a review of the findings. We begin negotiations with a standardized contract that is customized as necessary after collaborative discussions of operational and management issues and our proposed working relationship. Our sales process for RCM managed services agreements typically lasts six to 18 months from the introductory meeting to the agreement's execution, while our sales process for our physician advisory services offering typically lasts three to four months.

Technology

Technology Development

Our technology development organization operates out of various facilities in the United States and India. We continue to invest in the improvement of our technology in order to enhance the services that we provide our customers. 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 highly-scalable architecture based upon Microsoft and other industry leading platforms. We offer a common experience for end-users and believe the consistent look and feel of our applications allows our customers and staff to use our software suite quickly and easily.

We devote substantial resources to our development efforts and plan at an annual, bi-annual and quarterly release level. We employ a structured system to assess the impact that potential new technologies or enhancements will have on net services revenue, costs, efficiency and customer satisfaction. The results of this 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, seven days a week.

Technology Operations and Security

Our applications are hosted in data centers located in Alpharetta, Georgia and Philadelphia, Pennsylvania, and our internal financial application suite is hosted in various locations in a U.S. based cloud model. These data centers

are operated for us by third parties and are compliant with the Statement on Standards for Attestation Engagements, or SSAE, No. 16, Reporting on Controls at a Service Organization (Service Organization Controls 1). Our development, testing and quality assurance environments are operated from the third-party data centers in Alpharetta, Georgia and Philadelphia, Pennsylvania. We have agreements with our hardware and system software suppliers for support 24 hours a day, seven days a week. Our operations personnel also use our resources located in our other U.S. facilities, as well as our India facilities.

Customers use high-speed internet connections and 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.

Databases are backed-up frequently by automatically shipping data files with accumulated changes to separate sets of back-up servers. In addition to serving as a back-up, these data 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.

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.

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

In the event that a combination of events causes a system failure, we would follow planned and tested process steps designed to isolate the failure. We believe that no combination of failures by our systems can impact a customer's ability to deliver patient care because our systems run parallel to the client's host system, which is the system of record for all patient related information.

Our third-party data centers are designed to withstand many catastrophic events such as blizzards, hurricanes and power grid anomalies. To protect against a catastrophic event in which our primary data center is destroyed and service cannot be fully restored within a few days, we store backups of our systems, applications and databases off-site. Our secondary data center would become the primary data center until restoration at the primary site. 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 dedicate significant resources to protecting our customers' confidential and protected health information, or PHI. Our security strategy employs various practices and technologies to control, audit, monitor and protect access to sensitive information. We received, and have maintained since January 2013, a certification status from the Health Information Trust Alliance, or HITRUST. HITRUST is a healthcare industry group focused on identifying a prescriptive set of information technology controls that are based on standards and regulations relevant to the healthcare industry. HITRUST certification is aligned with ISO 27001 and ISO 27002. Our HITRUST certification validates our continued commitment to compliance with the Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations that have been issued under it, such as the Health Information Technology for Economic and Clinical Health Act, or HITECH Act, or HITECH, and OMNIBUS regulations, which we collectively refer to as HIPAA, and to various states' security and privacy laws regarding the creation, access, storage or

exchange of personal health and financial information. Our HITRUST certification status also signifies that we exhibit and are able to maintain high security standards for the management and protection of electronic PHI.

Proprietary Software Suites

Revenue Cycle Management. Our integrated suite of RCM technology provides a layer of analytics, rules processing and workflow capabilities that interface with provider systems to optimize process efficiency and effectiveness. These technologies power the detection of defects on patient accounts and enable staff workflow at point of service areas, customer sites and our shared service centers.

- "R1 Access" powers workflow in customer central business offices and at our scaled shared service centers for pre-registration, financial clearance, and financial counseling. The platform processes patient accounts through proprietary rules engines tuned to identify defects in demographic data, authorization processes, insurance benefits and eligibility and medical necessity. Our rules engines in R1 Access are also used to calculate patient cost estimates and prior balance accounts receivables. For the uninsured, the platform helps staff triage patients to find coverage for their visit. Our technology enables staff to work on an exception basis eliminating the need for manual intervention on accounts with no exceptions identified.
- "R1 Link" delivers all of the insight and defect detection capabilities of our proprietary rules engines in real-time to point of service emergency department and registration areas within the hospitals and clinics. When defects or inconsistent data are detected in the data entry or registration process, users receive targeted messages alerting them to resolve the issue while the patient is still in front of them.
- "R1 Contact," our patient contact application, provides the workflow and data for patient contact center representatives. It enables effective financial discussions with patients on outstanding balances. The platform is integrated into our call center, call-routing, and auto-dialer capabilities and facilitates improved outcomes through propriety process and technology approaches.
- "R1 Contract," our proprietary contract modeling platform, is used to accurately calculate the maximum allowed reimbursement for each claim based upon models of our customer's contract with each payer. This platform is used to provide insight into the health of payer contracts and to power portions of the workflow tools described above.
- "R1 Analytics," our web-based reporting and analytics platform, produces over 300 proprietary reports derived from the financial, process and productivity data that we accumulate as a result of our services, which enable us to monitor and identify areas for improvement in the efficacy of our RCM services.
- "R1 Decision," classifies defects in a proprietary nomenclature and distributes data to back end teams for follow up and resolution according to standard operating processes. Defects are identified and noted on accounts as they occur. The platform, along with our "Yield-Based Follow Up" application, is designed to power customer patient financial services departments and our shared services.

These propriety technology applications run on an integrated platform built on a modern event driven architecture and rules engines that enhances integration of systems and operational workflows.

Physician Advisory Services. Our proprietary PAS tools are designed to assist our customers in the initiation of a service request by our physician advisory team. Our platform allows for the electronic submission, tracking, reviewing and auditing of patient cases referred to us. The PAS portal environment is established as a secure site that enables us to receive patient records from customer case managers and route them to our physicians for review. This workflow is supported by an analytics engine within the web portal that provides our customers the ability to improve their compliance and workflow with our real time reporting, dashboards and worklists.

Competition

The market for our solutions is highly competitive and we expect competition to intensify in the future. We believe that competition for the services we provide is based primarily on the following factors:

- knowledge and understanding of the complex healthcare payment and reimbursement system in the United States;
- a track record of delivering revenue improvements and efficiency gains for hospitals and healthcare systems;
- predictable and measurable results;
- 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 technology platforms;
- understanding of the healthcare industry's regulatory environment; and
- sufficient and scalable infrastructure and financial stability.

We believe that we compete effectively based upon all of these criteria, although our ability to acquire new customers has been and may continue to be adversely effected by the restatement of our previously issued consolidated financial statements, or the Restatement.

We face competition from various sources, including other end-to-end RCM providers and the internal RCM departments of healthcare organizations. Hospitals that previously have made internal investments in their RCM departments sometimes choose to continue to rely on their own internal RCM staff.

We also compete with several categories of external market participants, most of which focus on specific components of hospital revenue cycle. External market participants include:

- software vendors and other technology-supported RCM business process outsourcing companies;
- traditional consultants; and
- information technology outsourcers.

These types of external participants also compete with us in the field of physician advisory services.

Although we believe that there are barriers to replicating our end-to-end RCM solution, we expect competition to intensify in the future. Other companies may develop superior or more economical service offerings that healthcare providers 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 competitors.

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 unpredictably, 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. HIPAA contains substantial restrictions and requirements with respect to the use and disclosure of an individual's PHI. HIPAA prohibits a covered entity from using or disclosing an individual's PHI 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 PHI maintained or transmitted by them or by others on their behalf.

HIPAA applies to covered entities such as healthcare providers that engage in HIPAA-defined standard electronic transactions, health plans and healthcare clearinghouses. In February 2009, HIPAA was amended by the HITECH Act to impose certain of the HIPAA privacy and security requirements directly upon "business associates" that perform functions on behalf of, or provide services to, certain covered entities. Most of our customers are covered entities and we are a business associate to many such customers under HIPAA as a result of our contractual obligations to perform certain functions on behalf of, and provide certain services to, those customers. As a business associate, we sometimes also act as a clearinghouse in performing certain functions for our customers. In order to provide customers with services that involve the use or disclosure of PHI, HIPAA requires our customers to enter into business associate agreements with us.

Such agreements must, among other things, provide adequate written assurances:

- as to how we will use and disclose the PHI;
- 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 payers must comply with specific formatting standards, and these standards apply whether the payer 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. Under the HITECH Act and its implementing regulations, business associates are also required to notify covered entities, which in turn are required to notify affected individuals and government authorities of data security breaches involving unsecured PHI. 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, or FTC 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 guidance for, 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, federal and state legislation has been proposed, and through rule making or executive action, several states have taken action, to restrict or discourage the disclosure of medical or other personally identifiable information to individuals or entities located outside of the United States.

Government Regulation of Reimbursement

Our customers are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs. Accordingly, our customers are sensitive to legislative and regulatory changes in, and limitations on, the government healthcare programs and changes in reimbursement policies, processes and payment rates. During recent years, there have been numerous federal legislative and administrative actions that have affected government programs, including adjustments that have reduced or increased payments to physicians and other healthcare providers and adjustments that have affected the complexity of our work. For example, the Patient Protection and Affordable Care Act of 2010, or ACA, may reduce reimbursement for some healthcare providers while increasing reimbursement for others including primary care physicians. In addition, the ACA mandates the implementation of various programs and value and quality-based reimbursement incentives that may impact the amount of reimbursement for our customers. For example, the adjustment related to the Medicare Value-Based Purchasing Program will increase from 1.5% in 2015 to 2.0% in 2017 and the adjustment related to the Hospital Readmission Reduction Program increased from 1.0% in 2013 to 3.0% in 2015 and applies to an increased number of conditions. It is possible that the federal or state governments will implement additional reductions, increases or changes in reimbursement in the future under government programs that adversely affect our customer base or increase the cost of providing our services. Any such changes could adversely affect our own financial condition by reducing the reimbursement rates of our customers.

Fraud and Abuse Laws

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

Anti-Kickback Laws. There are numerous federal and state laws that govern patient referrals, physician financial relationships, and inducements to healthcare providers and patients. The federal healthcare anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and certain other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Courts have construed this anti-kickback law to mean that a financial arrangement may violate this law if any one of the purposes of an arrangement is to induce referrals of federal healthcare programs, patients or business, regardless of whether there are other legitimate purposes for the

arrangement. There are several limited exclusions known as safe harbors that may protect certain arrangements from enforcement penalties although these safe harbors tend to be quite narrow. Penalties for federal anti-kickback violations can be severe, and include imprisonment, criminal fines, civil money penalties with triple damages and exclusion from participation in federal healthcare programs. Anti-kickback law violations also may give rise to a civil False Claims Act, or FCA, action, as described below. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to induce referrals, and some of these state laws are applicable to all patients regardless of whether the patient is covered under a governmental health program or private health plan.

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

In particular, the federal FCA prohibits a person from knowingly presenting or causing to be presented a civil false or fraudulent claim for payment or approval by an officer, employee or agent of the United States. The FCA also prohibits a person from knowingly making, using, or causing to be made or used a false record or statement material to such a claim. The FCA was amended on May 20, 2009 by the Fraud Enforcement and Recovery Act of 2009, or FERA. Following the FERA amendments, the FCA's "reverse false claim" provision also creates liability for persons who knowingly conceal an overpayment of government money or knowingly and improperly retain an overpayment of government funds. In addition, the ACA requires providers to report and return overpayments and to explain the reason for the overpayment in writing within 60 days of the date on which the overpayment is identified, and the failure to do so is punishable under the FCA. Violations of the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs. In 2016, penalties for FCA violations doubled and can now range from \$10,781 to \$21,563 per claim (up from \$5,000 to \$11,000). The scope and implications of the FCA amendments have yet to be fully determined or adjudicated and as a result it is difficult to predict how future enforcement initiatives may impact our business.

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

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

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

Laws Limiting Assignment of Reimbursement Claims

Various federal and state laws, including Medicare and Medicaid, forbid or limit assignments of claims for reimbursement from government funded programs. Some of these laws limit the manner in which business service companies may handle payments for such claims and prevent such companies from charging their provider customers on the basis of a percentage of collections or charges. We do not believe that the services we provide our

customers result in an assignment of claims for the Medicare or Medicaid reimbursements for purposes of federal healthcare programs. Any determination to the contrary, however, could adversely affect our ability to be paid for the services we provide to our customers, require us to restructure the manner in which we are paid, or have further regulatory consequences.

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, CMS of the U.S. Department of Health and Human Services has issued final regulations clarifying those areas within a hospital system that must provide emergency treatment, procedures to meet on-call requirements, as well as other requirements under EMTALA. Sanctions for failing to fulfill these requirements include exclusion from participation in the Medicare and Medicaid programs and civil monetary penalties. In addition, the law creates private civil remedies that enable an individual who suffers personal harm as a direct result of a violation of the law to sue the offending hospital for damages and equitable relief. A hospital that suffers a financial loss as a direct result of another participating hospital's violation of the law also has a similar right.

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

Regulation of Debt Collection Activities

The federal Fair Debt Collection Practices Act, or FDCPA, regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Certain of our accounts receivable activities may be deemed to 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 the 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 companies engaged in the collection of consumer debt to be licensed. In all states where we operate, we believe that we currently hold all required state licenses or are exempt from licensing.

We are also subject to the Telephone Consumer Protection Act, or TCPA. In the process of communicating with our customers' patients, we use a variety of communications methods. The TCPA places certain restrictions on companies that place telephone calls to consumers.

The FTC has the authority to investigate consumer complaints relating to the FDCPA and the TCPA, 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 process, on behalf of our customers, credit card payments from their patients. 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.

ICD-10

On October 1, 2015, the International Classification of Diseases 9, or ICD-9, which was used to report medical diagnoses and in-patient procedures was replaced by International Classification of Diseases 10, or ICD-10. ICD-10 affects coding for all covered entities, is significantly more complex than ICD-9, and has required system and business changes throughout the healthcare industry.

Foreign Regulations

Our operations in India are subject to additional regulations that govern the creation, continuation and winding up of companies, as well as the relationships between the shareholders, the company, the public and the government.

Intellectual Property

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

We have been issued three U.S. patents, which expire in 2028, 2030 and 2031, and have filed three additional U.S. patent applications that relate to key domains of our R1 Access software suite: improving efficiency of client claims' reimbursement, follow-up and measurement. Legal standards relating to the validity, enforceability and scope of protection of patents can be uncertain. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Our patent applications may not result in the grant of patents with the scope of the claims that we seek, if at all, or the scope of the granted claims may not be sufficiently broad to protect our products and technology. Our three granted patents or any patents that may be granted in the future from pending or future applications may be opposed, contested, circumvented, designed around by a third party or found to be invalid or unenforceable. Third parties may develop technologies that are similar or superior to our proprietary technologies, duplicate or otherwise obtain and use our proprietary technologies or design around patents owned or licensed by us. If our technology is found to infringe any patent or other intellectual property right held by a third party, we could be prevented from providing our service offerings and/or subjected 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 our customers' ability to use the software, such as prohibiting reverse engineering and limiting the use of copies. We also require employees and contractors to sign non-disclosure agreements and invention assignment agreements to give us ownership of intellectual property developed in the course of working for us.

Consistent with common industry practices, we sometimes utilize open source software or third party software products to meet our clients' needs.

Financial Information About Geographic Areas

All of our customers are entities organized and located within the United States. We do not derive any customer revenue from countries outside the United States.

Employees

As of February 24, 2017, we had approximately 6,113 full-time employees, as well as approximately 531 part-time employees. Of these employees, approximately 3,815 full-time and all part-time employees were located in the U.S., and approximately 2,298 full-time employees were located in India. Our employees are not represented by a labor union, and we consider our current employee relations to be good.

Corporate Information

We were incorporated in Delaware in 2003 as Healthcare Services, Inc. and were named Healthcare Services, Inc. from July 2003 until August 2009 when we changed our name to Accretive Health, Inc. We operated under the name Accretive Health until January 5, 2017, when we changed our name to R1 RCM Inc. Our principal executive offices are located at 401 North Michigan Avenue, Suite 2700, Chicago, Illinois 60611, and our telephone number is (312) 324-7820.

Information Availability

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments and exhibits to those reports are available free of charge on our website at www.r1rcm.com under the "Investor Relations" page as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission, or the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this report, unless expressly noted otherwise.

Item 1A. Risk Factors

Risks Relating to our Business and Industry

We may not be able to achieve or maintain profitability.

While we generated net income in 2016, we have incurred net losses in most of our recent fiscal years and expect to report additional quarterly and annual losses in 2017, in accordance with United States generally accepted accounting principles, or GAAP. We also incurred significant costs in most of our recent fiscal years including, among other things, costs related to exploration of strategic alternatives, legal defense, crisis management, restructuring and/or previously settled lawsuits filed against us and are likely to continue to incur additional costs in connection with certain of these matters in 2017. Further, in connection with the A&R MPESA, we have incurred and expect to incur additional costs for investments in technology, facilities and talent to support the anticipated growth of our business, including growth related to the expected implementation of our services under the A&R MPESA. We intend to continue to increase our operating expenses associated with sales and marketing in future years in an effort to expand our business. If our revenue does not increase to offset these increases in costs, our operating results would be adversely affected. You should not consider our historical operating results as indicative of future operating results, and we cannot assure you that we will be able to achieve or maintain profitability in the future. Each of the risks described in this "Risk Factors" section, as well as other factors, may adversely affect our future operating results.

Litigation has materially adversely affected our business, financial condition, operating results and cash flows and caused unfavorable publicity and is likely to continue to do so.

We are currently and have in the past been involved in lawsuits, claims, audits and investigations, including lawsuits and investigations related to the Restatement and our business operations and practices. These lawsuits, claims, audits and investigations, which are described in "Part I – Item 3 – Legal Proceedings", have resulted in, and may lead to additional, unfavorable publicity for us and may continue to materially adversely affect, our business, financial condition, operating results and cash flows in various ways, including having a disruptive effect upon the operation of our business and consuming the time and attention of our senior management.

In addition, we have incurred substantial expenses in connection with these litigation matters, including substantial fees for attorneys. Although we maintain insurance that may provide coverage for some or all of these expenses, and we have given notice to our insurers of the claims, our insurers have responded by reserving their rights under the policies, including the rights to deny coverage under various policy exclusions. There is risk that the insurers will rescind the policies, that some or all of the claims will not be covered by such policies, or that, even if covered, our ultimate liability will exceed the available insurance.

We are unable to predict the outcome of pending legal actions. The ultimate resolutions of our pending litigation could have a material adverse effect on our financial results, financial condition or liquidity, and on the trading price of our common stock.

In addition, we may become subject to future lawsuits, claims, audits and investigations that could result in the incurrence of substantial additional expense, subject us to significant liability, result in significant settlement payments or further divert management's attention from our business, and thereby materially adversely affect our business, financial condition, operating results and cash flows.

If we are unable to retain our existing customers or acquire new customers, our financial condition will suffer.

Our success depends in part upon the retention of our customers and our ability to acquire new customers. We derive our net services revenue primarily from managed services agreements pursuant to which we receive performance-based fees. Customers can elect not to renew their managed services agreements with us upon

expiration. In addition, our agreements with certain customers permit such customers to terminate for convenience, subject to a notice period. If a managed services agreement is not renewed or is terminated early for any reason, we would not derive the financial benefits that we would expect to derive by serving that customer.

Some of our managed services agreements require us to adhere to extensive, complex data security, network access and other institutional procedures and requirements of our customers, and we cannot guaranty that some of our customers will not allege that we have not complied with all such procedures and requirements. If we breach a managed services agreement or, for certain of our managed services agreements, fail to perform in accordance with contractual service levels, we may be liable to the customer for damages, and either we or the customer may generally terminate an agreement for a material uncured breach by the other. Any of these events could adversely affect our business, financial condition, operating results and cash flows. In addition, financial issues or other changes in customer circumstances, such as a customer change in control (including as a result of increasing consolidation within the healthcare provider industry), may cause us or the customer to seek to modify or terminate a managed services agreement. Increasing consolidation within the healthcare provider industry may also make it more difficult for us to acquire new customers, as consolidated healthcare systems may be more likely to have incumbent revenue cycle management providers or significant internal revenue cycle capabilities. For example, certain of our smaller customers have been acquired by larger healthcare systems and ceased to be customers.

Additionally, from time to time we have reached settlement agreements with customers which provided for the early terminations of those customers' agreements. The loss of customer agreements has adversely affected our operating results historically.

The markets for our RCM service offering may develop more slowly than we expect, including because some potential customers for our services previously have made or in the future will make investments in internally developed solutions and choose to continue to rely on their own internal resources, which could adversely affect our revenue growth.

Our success depends, in part, on the willingness of hospitals, physicians and other healthcare providers to implement integrated solutions for the areas in which we provide services. Some hospitals may be reluctant or unwilling to implement our solutions for a number of reasons, including failure to perceive the need for improved revenue cycle operations or lack of knowledge about the potential benefits our solutions provide.

Even if potential customers recognize the need to improve revenue cycle operations, they may not select solutions such as ours because they previously have made or in the future will make investments in internally developed solutions and choose to continue to rely on their own internal resources. As a result, the markets for integrated, end-to-end revenue cycle management services may develop more slowly than we expect, which could adversely affect our revenue and operating results.

Our business operations currently include the collection, on behalf of our customers, of medical co-pays and other payments that are due to our customers from their patients. This business practice has been perceived negatively by the public and this negative perception has adversely affected (and may continue to adversely affect) our business, results of operations and financial condition.

We currently collect, on behalf of our customers, medical co-pays and other non-defaulted payments that are due to our customers from their patients, pursuant to managed services agreements with our customers. Collection of these payments from patients may become a more significant part of our RCM services as industry trends continue to increase patient responsibility as a percentage of total compensation to healthcare providers. This business practice, which has received widespread, unfavorable publicity as a result of lawsuits previously initiated against us, has been negatively perceived by the public and has led us to change aspects of our business practices, made it more difficult to retain existing customers and attract new customers, extended the time it takes to enter into service agreements with new customers, and resulted in a material adverse effect on our business, results of operations and financial condition, and it may continue to do so.

We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenue, growth rates and market share.

The market for our solutions is highly competitive and we expect competition to intensify in the future. The rapid changes in the U.S. healthcare market due to financial pressures to reduce the growth in healthcare costs and from regulatory and legislative initiatives are increasing the level of competition. We face competition from new entrants as well as the internal RCM departments of hospitals, as described above, and external participants. External participants that are our competitors in the revenue cycle market include end-to-end RCM providers, software vendors and other technology-supported RCM business process outsourcing companies, traditional consultants, and information technology outsourcers. These types of external participants also compete with us in the field of physician advisory services (which services and capabilities have been or are being integrated into our RCM service offering). 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 adversely affect our margins, growth rate or market share.

We face a selling cycle of variable length to secure new RCM agreements, making it difficult to predict the timing of specific new customer relationships.

We face a selling cycle of variable length, typically spanning six to 18 months or longer, to secure a new managed services agreement. Even if we succeed in developing a relationship with a potential new customer, we may not be successful in entering into a managed services agreement with that customer. In addition, we cannot accurately predict the timing of entering into managed services agreements with new customers due to the complex procurement decision processes of most healthcare providers, which often involves high-level management or board committee approvals. Consequently, we have only a limited ability to predict the timing of specific new customer relationships. Moreover, we believe that the unfavorable publicity we received as a result of lawsuits previously initiated against us, the Restatement, and other related legal proceedings have reduced our attractiveness to some potential healthcare providers and consequently, have resulted in the lengthening of the selling cycle with potential new customers.

Delayed or unsuccessful implementation of our technologies or services with our customers or implementation costs that exceed our expectations may harm our financial results.

To implement our solutions, we work with our customer's existing vendors, management and staff and layer our proprietary technology applications on top of the customer's existing patient accounting and clinical systems. Each customer's situation is different, and unanticipated difficulties and delays may arise such as delays in, or the inability to, obtain approvals or access rights from our customers' vendors. If the implementation process is not executed successfully or is delayed, our relationship with the customer may be adversely affected and our results of operations could suffer. Implementation of our solutions also requires us to integrate our own employees into the customer's operations. The customer's circumstances may require us to devote a larger number of our employees than anticipated, which could increase our costs and harm our financial results.

Our quarterly results of operations and cash flows fluctuate as a result of many factors, some of which may be outside of our control.

The timing of any new customer additions is not likely to be uniform throughout the year, which can also cause fluctuations in our quarterly results. Operating costs are typically higher in quarters in which we add new customers because we incur expenses to implement our operating model at those customers. Further, fees billable to customers under many of our managed services agreements experience fluctuations as they are tied contractually to the level of our customers' cash receipts. Fees have a significant effect on our cash flows, and changes in the amount

of fees can cause significant fluctuations in our quarter-to-quarter operating cash flows. Our cash flows can also be impacted by the timing of operating costs.

In addition, our revenues have historically fluctuated widely from quarter to quarter based on revenue recognition criteria under GAAP. Prior to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective January 1, 2017 ("ASU 2014-09"), we recognized revenues that were contingent in nature when all revenue recognition criteria were met, which was generally at the end of a contract or other contractual agreement event. The adoption of ASU 2014-09 is expected to have a material impact on our consolidated financial statements, with the most significant impact being the recognition of revenue at the time services are provided or as the significant uncertainty related to variable fees for incentives is resolved for our end-to-end revenue cycle base and incentive fees. We believe this will reduce but not eliminate the fluctuation in our results of operations.

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

Our future success depends in part on our ability to attract, hire, integrate and retain key personnel. Our future success also depends in part on the continued contributions of our executive officers and other key personnel, each of whom may be difficult to replace. The loss of services of any of our executive officers or key personnel, or the inability to continue to attract qualified personnel could have a material adverse effect on our business, particularly as a result of our recent restructuring activities. Competition for the caliber and number of employees we require is intense. We may face difficulty identifying and hiring qualified personnel at compensation levels consistent with our existing compensation and salary structure. In addition, we invest significant time and expense in training each of our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring, integrating and training their replacements, and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect on our business.

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

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

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

We have not always been fully successful in managing the expansion of our operations which has led, at times to some customer dissatisfaction and weaknesses in our operating, internal and financial controls. To manage potential future growth, we will need to hire, integrate and retain highly skilled and motivated employees, and will need to work effectively with a growing number of customer employees engaged in revenue cycle operations. We will also need to continue to maintain or improve our financial, internal and management controls, reporting systems and procedures. If we do not effectively manage our operations, we may not be able to execute on our business plan, respond to competitive pressures, take advantage of market opportunities, satisfy customer requirements or maintain high-quality service offerings.

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

Our shared services centers and third-party operated data centers are essential to our business. Our operations depend on our ability to operate our shared services 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 (1) acts of God and other natural disasters, war and acts of terrorism and (2) power losses, computer systems failures, internet and telecommunications or data network failures, operator error, losses of and corruption of data and similar events. We have a business continuity plan 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 every 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 payers. Any of these events could impair or inhibit our ability to provide our services, reduce the attractiveness of our services to current or potential customers and adversely affect 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 implement adequate preventive measures. Our security measures may not be effective in preventing these types of activities, and the security measures of our third-party data centers and service providers may not be adequate. If a breach of our security occurs, we could face damages for contract breach, penalties for violation of applicable laws or regulations, possible lawsuits by individuals affected by the breach and significant remediation costs and efforts to prevent future occurrences. In addition, whether there is an actual or a perceived breach of our security, the market perception of the effectiveness of our security measures could be harmed and we could lose current or potential customers.

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

The services we offer are complex, and we make errors from time to time. Errors can result from the interface of our proprietary technology applications and a customer's existing technologies 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 in excess of our existing insurance coverage 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 fails to achieve agreed upon improvement in financial or operating metrics, 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 federal, 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, which 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.

Our growing operations in India expose us to risks that could have a material 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 and service advantages to operating in India, significant growth in the technology sector in India has increased competition to attract and retain skilled employees and has led to a commensurate increase in compensation expense. In the future, we may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure in India. In addition, our reliance on a workforce in India exposes us to disruptions in the business, political and economic environment in that region. Maintenance of a stable political environment is important to our operations, and terrorist attacks and acts of violence or war may directly affect our physical facilities and workforce or contribute to general instability. Our operations in India require us to comply with local laws and regulatory requirements, which are complex and of which we may not always be aware, and expose us to foreign currency exchange rate risk. Our Indian operations may also subject us to trade restrictions, reduced or inadequate protection for intellectual property rights, security breaches and other factors that may adversely affect our business. Negative developments in any of these areas could increase our costs of operations or otherwise harm our business.

Negative public perception in the United States regarding offshore outsourcing and proposed legislation may increase the cost of delivering our services.

Offshore outsourcing is a politically sensitive topic in the United States. For example, various organizations and public figures in the United States have expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States. In addition, there has been 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 in several states enacted, to restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. Further, through rule making or executive action, some states have imposed limitations on offshore outsourcing of administrative services for the Medicaid program. It is possible that additional legislation could be adopted or regulatory guidance issued 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.

We have previously identified material weaknesses in our internal control over financial reporting, and if we cannot maintain an effective system of internal control over financial reporting in the future, our business could be adversely affected.

We have previously identified material weaknesses in our internal control over financial reporting and we may not be capable of maintaining an effective system of internal control in the future. Our ability to identify and remediate any material weaknesses in our internal controls could affect our ability to prepare financial reports in a timely manner, control our policies, procedures, operations, and assets, assess and manage our operational, regulatory and financial risks, and integrate any acquired businesses. Any failures to ensure full compliance with internal control and financial reporting requirements in the future could result in another restatement, cause us to fail to timely meet our reporting obligations, harm our reputation and the market price for our securities and adversely affect our business.

Our ability to use our net operating loss carryforwards may be limited.

As of December 31, 2016, we had approximately \$181.2 million of federal net operating loss carryforwards for U.S. income tax purposes that begin to expire in 2033 and cumulative state net operating loss carryforwards of approximately \$185.8 million. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to use its net operating loss carryforwards if it experiences an "ownership change." Similar rules and limitations may apply for state income tax purposes. In the event an "ownership change" were to occur in the future, our ability to utilize our net operating losses could be limited. If our net operating loss carryforwards are limited, and we have taxable income which exceeds the available net operating loss carryforwards for that period, we would incur an income tax liability even though net operating loss carryforwards may be available in future years prior to their expiration.

Risks Related to Ascension and the Transactions

Hospital systems affiliated with Ascension currently account for a significant portion of our net services revenue as well as our gross cash generated from contracting activities. The early termination of our A&R MPSA with Ascension, 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.

Hospital systems affiliated with Ascension have accounted for a significant portion of our net services revenue each year since our formation. In 2016, 2015, and 2014, net services revenue from hospitals affiliated with Ascension represented 78%, 45%, and 12% of our total net services revenue, respectively, in such periods. Additionally, in 2016, 2015, and 2014, gross cash generated from customer contracting activities, as defined in "Part II - Item 6 - Selected Consolidated Financial Data", with hospital systems affiliated with Ascension represented 71%, 59%, and 53%, respectively, of our total gross cash generated from contracting activities in such periods. In 2016, one hospital system unaffiliated with Ascension accounted for 15% of our total services revenue and 7% of our gross cash generated from customer contracting activities. The early termination of the A&R MPSA, the loss of any of our other large customers or their failure to renew their managed services agreements with us upon expiration, or a reduction in the fees for our services for these customers, could have a material adverse effect on our business, results of operations and financial condition.

Our agreements with Ascension and certain other customers require us to offer to such customer service fees that are at least as low as the fees we charge any other customer receiving comparable services at comparable or lower volumes.

Our A&R MPSA with Ascension requires us to offer to Ascension's affiliated hospital systems fees for our services that are at least as low as the fees we charge any other customer receiving comparable services at lower

volumes. If we were to charge lower service fees to any other customer receiving comparable services at lower volumes, we would be obligated to charge such lower fees to the hospital systems affiliated with Ascension effective as of the date such lower charges were first implemented for such other customer. Additionally, our RCM agreement with another customer requires us to provide that customer with a gain sharing rate that is as low as the rate provided to any new customer, unless the fee arrangement with the new customer results in a greater ratio of annual aggregate fees compared to such new customer's in-scope net patient revenue than the average ratio of annual aggregate fees compared to in-scope net patient revenue for our current customer. If we offer customers lower rates than as discussed above, it could have a material adverse effect on our results of operations and financial condition.

We may be unsuccessful in integrating transitioned Ascension employees.

Under the terms of the A&R MPSA, we expect to continue to transition a significant number of Ascension revenue cycle employees to our employment. We may experience difficulties in integrating these employees. Such difficulties may include the diversion of management's attention from other business concerns. If we experience difficulties in integrating these employees, our business, results of operations and financial condition could be adversely affected.

The shares of Series A Preferred Stock are senior obligations, rank prior to our common stock with respect to dividends, distributions and payments upon liquidation and have other terms, such as a put right and a mandatory conversion date, that could negatively impact the value of shares of our common stock.

We have issued more than \$200 million of Series A Preferred Stock to the Investor. The rights of the holders of our Series A Preferred Stock with respect to dividends, distributions and payments upon liquidation rank senior to similar obligations to our common stock holders. Upon our liquidation or upon certain changes of control, the holders of our Series A Preferred Stock are entitled to receive, prior and in preference to any distribution to the holders of any other class of our equity securities, an amount equal to the greater of the outstanding principal plus all accrued and unpaid dividends on such Series A Preferred Stock (which cumulative dividends accrue at the rate of 8.0% per annum and compound quarterly) and the amount such holders would have received if such Series A Preferred Stock had been converted into common stock. Until February 16, 2023, the dividends on the Series A Preferred Stock will be paid-in-kind and thereafter such dividends may be paid in cash or paid-in-kind at the election of the Company.

The terms of the Series A Preferred Stock provide rights to their holders that could negatively impact our Company. Shares of our Series A Preferred Stock may be converted at any time at the option of the holder at an effective initial conversion price of \$2.50 per share (which conversion price is subject to adjustment upon the occurrence of certain events).

Further, so long as Investor owns at least 25% of our common stock on an as-converted basis, no dividends on our common stock (or any other equity securities junior in right to the Series A Preferred Stock) may be paid without the consent of the Investor. To the extent any dividend, distributions or other payments are made on our common stock, the holders of the Series A Preferred Stock shall have the right to participate on an as converted basis in any such dividends, distributions or other payments. The existence of such a senior security could have an adverse effect on the value of our common stock.

The Investor, an affiliate of TowerBrook and Ascension, is a significant shareholder in us and may have conflicts of interest with us or you in the future.

In connection with the Transactions, we entered into a purchase agreement with the Investor and Ascension, pursuant to which we issued (i) 200,000 shares of our Series A Preferred Stock for an aggregate price of \$200 million and (ii) a warrant to acquire up to 60 million shares of our common stock. As a result of this ownership, so long as certain ownership thresholds are met, the Investor, among other things, has the right to nominate a majority of the members of our board of directors, or Board, and has a consent right over certain corporate actions, including the declaration of any dividend, any amendment of the A&R MPSA, the incurrence of indebtedness in excess of \$25.0 million, the acquisition of any assets or properties or the making of any capital expenditures in excess of \$10.0

million, the approval of our annual budget and the hiring or termination of our chief executive officer. In addition, as of December 31, 2016, the issued and outstanding Series A Preferred Stock would represent approximately 45% of the current voting power at a meeting of our stockholders.

The interests of the Investor and its affiliates may differ from our other stockholders in material respects. For example, the Investor may have an interest in pursuing acquisitions, divestitures, financings (including financings that are secured and senior to the Series A Preferred Stock) or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to you. Additionally, Ascension is an affiliate of Investor and as our largest customer their interests may differ from yours. The Investor or its affiliates or advisors are also in the business of making or advising on investments in companies, and may from time to time in the future, acquire interests in, or provide advice to, businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. They may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. You should consider that the interests of these holders may differ from yours in material respects.

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 adversely 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. Enforcement activity is growing and is an identified priority of federal and state governments. 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 adversely affect our business. Federal and state legislatures and agencies frequently consider proposals to revise laws that impact the healthcare industry or to revise or create additional statutory and regulatory requirements. Such proposals, if implemented, could adversely affect our operations, the attractiveness of our services to existing customers 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. It is uncertain what impact the new Presidential administration and a Republican-controlled Congress will have on health care spending in light of campaign promises to repeal the Affordable Care Act. This could lead to an increase in the uninsured population and an increase in bad debt, which could reduce revenue to hospitals and in turn impact our revenue. The adoption of other measures to reform the Medicaid program through block grants and other methods could similarly reduce hospital revenue and have an adverse effect on our business. We are unable to predict what additional healthcare initiatives, if any, will be implemented at the federal or state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us. Other material changes, such as the required transition to ICD-10 in October 2015, have required and will continue to require significant system and business changes throughout the healthcare industry, and may be disruptive to our customers and our business. Such disruption could result in, among other things, the imposition of significant new challenges to our ability to achieve performance targets specified under our customer contracts, as well as a need for us to redeploy resources or to obtain new resources in an effort to meet such challenges, all of which could adversely affect our business or our results of operations. Additionally, several reductions or changes to Medicare reimbursement have been enacted recently or

will be implemented, which reductions and changes could reduce the amounts received by our customers and may have an adverse indirect effect on our business.

Healthcare reform also is causing the transition of some payment methods and provider reimbursement from volume-based reimbursement to value-based reimbursement models, which can include risk-sharing, accountable care organizations, capitation, bundled payment and other innovative approaches. While such new reimbursement models may provide us with opportunities to provide new or additional services to our customers (e.g., our value based reimbursement capabilities within our RCM service offering) and to participate in incentive based payment arrangements for our services, there can be no assurance that such new models and approaches will prove to be profitable to our customers or to us. Further, such new models and approaches may require investment by us to develop technology or expertise to offer necessary and appropriate services or support to our customers, and the amount of such investment and the timing for return of such investment are not fully known at this time due to the uncertainties of healthcare reform and payment and reimbursement model transitions that are occurring. Certain new care delivery and reimbursement models are being offered as pilot programs or as limited or transitional programs, and there is no assurance that such programs will continue or be renewed. Any of these models and approaches, and changes generally in the healthcare industry, can impact the relationships between our customers and payers, from which our customers derive revenue and with which revenue our customers pay for our services. Adoption of such new models and approaches may require compliance with a range of federal and state laws relating to fraud and abuse, insurance, reinsurance and managed care regulation, billing and collection, corporate practice of medicine restrictions and licensing, among others. Many states in which these new value-based structures are being developed lack regulatory guidance or a well-developed body of law for these new models and approaches, or may not have updated their laws or enacted legislation yet to reflect the new healthcare reform models. As a result, although we have structured, and will attempt to structure and conduct, our operations in accordance with our interpretation of current laws and regulations, new laws, regulations or guidance could have a material adverse effect on our current and future operations and could subject us to the risk of restructuring or terminating our customer agreements and arrangements, as well as the risk of regulatory enforcement, penalties and sanctions, if state enforcement agencies disagree with our interpretation of state laws.

If we violate HIPAA, the HITECH Act or state health information privacy laws, we may incur significant liabilities, and any such violations could make it more difficult to retain existing customers or attract new customers, extend the time it takes to enter into service agreements with new customers, and result in a material adverse effect on our business, results of operations and financial condition.

HIPAA contains substantial restrictions and requirements with respect to the use and disclosure of individuals' PHI. Under HIPAA, covered entities, including health plans, healthcare providers, and healthcare clearinghouses that conduct HIPAA-defined standard electronic transactions, are restricted in how they use and disclose PHI and must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic PHI maintained or transmitted by them or by others on their behalf. Most of our customers are covered entities and we are a business associate to many of those customers under HIPAA as a result of our contractual obligations to perform certain functions on behalf of, and to provide certain services to, those customers. As a business associate, we sometimes also act as a clearinghouse in performing certain functions for our customers. In addition, although we believe that we are not a healthcare provider, if we were found to be a healthcare provider, we could have liability under the provisions of HIPAA that apply to providers as well as under state health information privacy and licensing laws. Our use and disclosure of PHI is restricted by HIPAA and the business associate agreements we are required to enter into with our covered entity customers. In 2009, HIPAA was amended by the HITECH Act to impose certain of the HIPAA privacy and security requirements directly upon business associates of covered entities and increase significantly the monetary penalties for violations of HIPAA. The HITECH Act also requires business associates to notify covered entities, who in turn must notify affected individuals and government authorities, of data security breaches involving unsecured PHI. Since the passage of the HITECH Act, enforcement of HIPAA violations has increased, as indicated by the announcement of a number of significant settlement agreements and/or sanctions by federal authorities, the pursuit of HIPAA violations by state attorneys general, and the roll-out of a new federal audit program for covered entities (which will in the future be extended to business associates).

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, are not preempted by the federal requirements, and we must comply with them even though such state laws may be subject to different interpretations by various courts and other governmental authorities.

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 or breaches. We voluntarily sought, and received, HITRUST certification to help ensure compliance. A knowing breach of HIPAA's requirements could expose us to criminal liability. A breach of our safeguards and processes that is not due to reasonable cause or involves willful neglect could expose us to significant civil penalties and the possibility of civil litigation under HIPAA and applicable state law. In 2011, a laptop computer used by one of our employees that contained PHI for patients of two customers was stolen. The laptop was password-protected but was not encrypted, in violation of company policy. We notified both customers of the 2011 theft, which customers in turn notified the affected individuals as well as the appropriate regulators. The Minnesota Attorney General subsequently initiated a lawsuit against us, which we settled in 2012, for, among other things, alleged violations of federal and Minnesota state health privacy laws and regulations arising from the laptop theft. Laptop computers used by our employees that contained PHI have also been stolen on other occasions. We do not believe that any patient data has been compromised as a result of any of these thefts. Nonetheless, these incidents have made it more difficult to retain existing customers and attract new customers. They have also extended the time it takes to enter into service agreements with new customers, and could result in a material adverse effect on our business, results of operations and financial condition.

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 payments or split fees for referrals of 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. Healthcare, as one of the largest industries in the country and one of the costliest lines in the federal budget, continues to attract attention from legislators and regulators. Federal and state regulatory and law enforcement authorities continue to focus on enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other healthcare reimbursement laws and rules in an effort to reduce overall healthcare spending. 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, forced to restructure our business and excluded from participating in federal and state healthcare programs such as Medicare and Medicaid which would result in significant harm to our business and financial condition.

The federal healthcare anti-kickback law prohibits any person or entity from offering, paying, soliciting or receiving anything of value, directly or indirectly, for the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to induce referrals, and some of these state laws are applicable to all patients regardless of whether the patient is covered under a governmental health program or private health plan. New payment structures, such as accountable care organizations and other arrangements involving combinations of hospitals, physicians and other providers who share payment savings, potentially

implicate anti-kickback and other fraud and abuse laws. We seek to structure our business relationships and activities to avoid any activity that could be construed to implicate the federal healthcare anti-kickback law and similar laws. We cannot assure you, however, that our arrangements and activities will be deemed outside the scope of these laws or that increased enforcement activities will not directly or indirectly have a material adverse effect on our business, financial condition or results of operations. Any determination by a federal or state agency or court that we have violated any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, could disqualify us from providing services to healthcare providers doing business with government programs, could give our customers the right to terminate our managed services agreements with them and, thus, could have a material adverse effect on our business and results of operations. Moreover, any violations by, and resulting penalties or exclusions imposed upon, our customers could adversely affect their financial condition and, in turn, have a material adverse effect on our business and results of operations.

There are also numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with the submission and payment of healthcare provider claims for reimbursement. In particular, the federal 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 may be enforced by the government or by private whistleblowers under the "qui tam" provisions of the statute. Whistleblowers are entitled to a share of any recovery in a FCA case. Changes to the FCA enacted as part of the ACA make it easier for whistleblowers to bring FCA claims. Although changes may be made to the ACA, the changes to the FCA contained in the ACA may remain in place. Violations of the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs. The scope and implications of the amendments to the FCA pursuant to the FERA have yet to be fully determined or adjudicated and as a result it is difficult to predict how future enforcement initiatives may affect 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 applications or services that relate to entry, formatting, preparation or transmission of claim or cost report information may be determined or alleged to cause the submission of false claims or otherwise be in violation of these laws and regulations. Further, our continued growth of coding and billing services provided from an offshore shared services environment necessitates comprehensive monitoring and oversight of these services to ensure a constant vigilance to quality control and regulatory compliance. Any failure of our proprietary applications or services to comply with these laws and regulations could result in substantial civil or criminal liability and could, among other things, adversely affect demand for our services, invalidate all or portions of some of our managed services agreements 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 services agreements with them.

We cannot be certain that governmental officials responsible for enforcing EMTALA, or other parties, will not assert that our customers are in violation of EMTALA, and defending and settling allegations of EMTALA violations could have a material adverse effect on our business even if we are ultimately not found to have contributed to such violations.

EMTALA requires Medicare-participating hospitals that have emergency departments to provide a medical screening examination and stabilizing treatment to all individuals who come to the hospital seeking treatment of an emergency medical condition, regardless of the patient's ability to pay for the care. 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.

Since we are not a healthcare provider, EMTALA is not applicable to us, but we cannot be certain that governmental officials responsible for enforcing EMTALA, or other parties, will not assert that our customers are in

violation of EMTALA. If our customers are found to have violated EMTALA, they may assert claims that our management practices contributed to the violation. Defending and settling allegations of EMTALA violations could have a material adverse effect on our business even if we are ultimately not found guilty of a violation.

Our failure to comply with debt collection and other consumer protection laws and regulations could subject us to fines and other liabilities, which could harm our reputation and business, and could make it more difficult to retain existing customers or attract new customers, extend the time it takes to enter into service agreements with new customers, and result in a material adverse effect on our business, results of operations and financial condition.

The FDCPA regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts in default that are owed or asserted to be owed to another person. However, our business practices that involve collecting, or assisting our customers in collecting, non-defaulted amounts owed by patients for current and prior services activities may be determined to 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 federal requirements. Moreover, regulations governing debt collection are subject to changing interpretations that may be inconsistent among different jurisdictions. Further, we are subject to the TCPA, which imposes certain restrictions on companies that place telephone calls to consumers.

We could incur costs or could be subject to fines or other penalties under the TCPA, the FDCPA and the FTC Act if we are determined to have violated the provisions of those regulations during the course of conducting our operations. 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. As a result of the theft of a laptop in 2011 giving rise to a lawsuit against us by the Minnesota Attorney General and a related FTC inquiry of our data security practices, in December 2013, we entered into a consent order with the FTC pursuant to which no fine or penalty was paid but in which we agreed, among other things, to maintain a comprehensive information security program reasonably designed to protect the security, confidentiality, and integrity of personal information collected from or about consumers. Future allegations of this type could require us to change aspects of our business practices, make it more difficult to retain existing customers or attract new customers, extend the time it takes to enter into service agreements with new customers, and result in a material adverse effect on our business, results of operations and financial condition.

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. Some states have also imposed limitations through rule making or executive action. If additional states or the federal government were to adopt additional limitations, that may render our operations in India impracticable or substantially more expensive. Moving such operations to the United States may involve substantial delay in implementation and increased costs.

Risks Related to Intellectual Property

We may be unable to adequately protect our intellectual property.

Our success depends, in part, upon our ability to establish, protect and enforce our intellectual property and other proprietary rights. If we fail to establish or protect our intellectual property rights, we may lose an important advantage in the market in which we compete. We rely upon a combination of patent, trademark, copyright and trade secret law and contractual terms and conditions to protect our intellectual property rights, all of which provide only limited protection. We cannot assure you that our intellectual property rights are sufficient to protect our competitive advantages. Although we have filed three U.S. patent applications, we cannot assure you that any patents that will be issued from these applications will provide us with the protection that we seek or that any future patents issued to us

will not be challenged, invalidated or circumvented. We have also been issued three U.S. patents, but we cannot assure you that they will provide us with the protection that we seek or that they will not be challenged, invalidated or circumvented. Legal standards relating to the validity, enforceability and scope of protection of patents are uncertain. Any patents that may be issued in the future from pending or future patent applications or our three issued patents may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any trademark registrations will be issued for pending or future applications or that any of our trademarks will be enforceable or provide adequate protection of our proprietary rights.

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

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

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

Our competitors protect their intellectual property rights by means such as patents, trade secrets, copyrights and trademarks. We have not conducted an independent review of patents issued to third parties. Additionally, because patent applications in the United States and many other jurisdictions are kept confidential for 18 months before they are published, we may be unaware of pending patent applications that relate to our proprietary technology. 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 the Ownership of Shares of Our Common Stock

Our common stock has been delisted and is not listed on any other national securities exchange, which may negatively impact the trading price of our common stock and the levels of liquidity available to our stockholders.

Our common stock was suspended from trading on the New York Stock Exchange, or the NYSE, prior to the opening of the market on March 17, 2014 (and subsequently delisted) and began trading under the symbol "ACHI" through the facilities of the OTC Markets Group, Inc., or OTC, on that date.

While we have applied to list our common stock for trading on the NASDAQ Capital Market, or NASDAQ, we can provide no assurance that we will be able to relist or that the stock will continue being traded on the OTC. The trading of our common stock on the OTC rather than the NYSE or NASDAQ may negatively impact the trading price of our common stock and the levels of liquidity available to our stockholders.

Securities traded in the OTC market generally have significantly less liquidity than securities traded on a national securities exchange due to factors such as the reduced number of investors that will consider investing in the securities, the reduced number of market makers in the securities, and the reduced number of securities analysts that follow such securities. As a result, holders of our common stock may find it difficult to resell their shares at prices quoted in the market or at all. Furthermore, because of the limited market and low volume of trading in our common stock that could occur, the share price of our common stock could more likely be affected by broad market fluctuations, general market conditions, fluctuations in our operating results, changes in the market's perception of our business, and announcements made by us, our competitors, parties with whom we have business relationships or third parties. The lack of liquidity in our common stock may also make it difficult for us to issue additional securities for financing or other purposes, or to otherwise arrange for any financing we may need in the future.

The trading price of our common stock has been volatile and may continue to be volatile.

Since December 31, 2010, our common stock has traded at a price per share as high as \$32.82 and as low as \$1.47. The trading price of our common stock is likely to continue 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;
- failure to meet expectations of securities analysts;
- the loss of service agreements with customers;
- lawsuits filed against us by governmental authorities or stockholders;
- unfavorable publicity concerning our operations or business practices;
- our common stock's eligibility for stock exchange listing;
- investors' general perception of us; and
- changes in general economic, industry, regulatory 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.

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

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

- authorize the issuance of "blank check" preferred stock that could be issued by our Board to thwart a takeover attempt;
- until the annual meeting of stockholders to be held in 2018, provide for a classified board of directors;
- require that directors only be removed from office upon a supermajority stockholder vote;
- provide that vacancies on our Board, 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.

At our 2015 Annual Meeting of Stockholders held on August 14, 2015, our stockholders voted to approve an amendment to our current restated certificate of incorporation that provides for the phased-in declassification of our Board and the annual election of all directors. Our Board has made conforming changes to our amended and restated bylaws. Our restated certificate of incorporation provides that directors may be removed with or without

cause, with the same supermajority vote that currently applies (the affirmative vote of the holders of at least two-thirds of the shares entitled to vote at an election of directors).

We may not pay any cash dividends on our capital stock in the foreseeable future.

Although we paid cash dividends on our capital stock prior to our May 2010 initial public offering, or IPO, there is no assurance that we will pay cash dividends on our common stock in the foreseeable future. Any future dividend payments will be within the discretion of our Board 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 may deem relevant. Additionally, pursuant to the Investor Rights Agreement between the Company and the Investor, or the Investor Rights Agreement, and subject to certain ownership thresholds contained in the Investor Rights Agreement, any dividends on our common stock would require the approval of the holders of our Series A Preferred Stock that are held by the Investor or any Investor Affiliate (as defined in the Investor Rights Agreement). We may not generate sufficient cash from operations in the future to pay dividends on our common stock.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

We lease our existing facilities and do not own any real estate property.

Our corporate headquarters occupy approximately 43,000 square feet in Chicago, Illinois under a lease expiring on August 31, 2020. In addition, we have a right of first offer to lease an additional 11,100 square feet of space on another floor in the same building. We also lease office space and other facilities in Kalamazoo, Michigan; Southfield, Michigan; Birmingham, Alabama; Cape Girardeau, Missouri; and three facilities near New Delhi, India. Pursuant to our managed services agreements with customers, we occupy space on-site at all hospitals where we provide our RCM services. We generally do not pay customers for our use of space provided by them for our use in the provision of RCM services to that customer.

We believe that our facilities are sufficient for our current needs. We intend to add new facilities or expand existing facilities as we add employees or expand or change our geographic markets and office locations, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. *Legal Proceedings*

Other than as described below, we are presently not a party to any material litigation or regulatory proceeding and are not aware of any pending or threatened litigation or regulatory proceeding against us which, individually or in the aggregate, could have a material adverse effect on our business, operating results, financial condition or cash flows.

On July 22, 2014, we were named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Michigan (*Anger v. Accretive Health, Inc.*). The primary allegations are that we attempted to collect debts without providing the notice required by the FDCPA and Michigan Fair Debt Collection Practices Act and failed to abide by the terms of an agreed payment plan in violation of those same statutes. On August 27, 2015, the Court granted in part and denied in part our motion to dismiss. An amended complaint was filed on November 30, 2015. Discovery is underway, but on July 15, 2016, the court postponed all deadlines in the case as the parties attempt to finalize a confidential agreement in principle to settle the case. On February 23, 2017, the parties reached a settlement in principle and are preparing a motion for pre-approval and class settlement. We believe that we have meritorious defenses and intend to vigorously defend ourselves against these claims, if the settlement in principle is not finalized.

In April 2015, we were named among other defendants in an employment action brought by a former employee before the Maine Human Rights Commission, or the MHRC, alleging that she was improperly terminated in retaliation for uncovering alleged Medicare fraud. We filed our response with the MHRC on May 19, 2015 seeking that we be dismissed entirely from the action. On June 23, 2015, the MHRC issued its Notice of Right to Sue and decision to terminate its process with respect to all charges asserted by the former employee. The Plaintiff has filed a parallel qui tam action in the District of Maine (*Worthy v. Eastern Maine Healthcare Systems*) in which she makes the same allegations. The U.S. Department of Justice declined to intervene in the federal court action, and the case was unsealed in April 2015. The Company and other defendants filed motions to dismiss the Third Amended Complaint on March 21, 2016. Those motions were granted with respect to the retaliation claims, but denied with respect to the other claims by the federal district court on January 18, 2017. The parties are currently engaged in an initial discovery phase. There is a scheduling conference with the court scheduled for April 5, 2017. We believe that we have meritorious defenses to all of the remaining claims in the federal qui tam case, and intend to vigorously defend ourselves against these claims. The outcomes are not presently determinable.

In May 2016, we were served with a False Claims Act case brought by a former emergency department service associate who worked at a hospital of one of our customers, MedStar Inc.'s Washington Hospital Center ("WHC"), along with WHC and three other hospitals that were PAS clients and a place holder, John Doe hospital, representing all PAS clients (USA ex rel. *Graziosi vs. Accretive Health, Inc. et. al.*). The Second Amended Complaint, which

seeks monetary damages, alleges that our PAS business violates the federal False Claims Act. The case was originally filed under seal in 2013 in the federal district court in Chicago, was presented to the U.S. Attorney in Chicago twice, and the U.S. Attorneys declined to intervene. We filed a motion to dismiss the Second Amended Complaint on July 29, 2016. Those motions are now fully briefed and awaiting decision by the federal district court. We believe that we have meritorious defenses to all claims in the case, and intend to vigorously defend ourselves against these claims. The outcome is not presently determinable.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Our common stock has traded on the OTC market under the symbol "ACHI" since March 17, 2014 and is quoted through the facilities of the OTC Markets Group, Inc. Our common stock traded on the NYSE under the symbol "AH" from May 20, 2010 through March 14, 2014. Our common stock was suspended from trading on the NYSE prior to the opening of the market on March 17, 2014 (and subsequently delisted) and began trading under the symbol "ACHI" through the facilities of the OTC Markets Group, Inc. on that date. Prior to May 20, 2010, there was no public market for our common stock. We have applied to list our common stock for trading on NASDAQ under the symbol "RCM."

The following table sets forth the high and low closing sales prices per share of our common stock, as reported by the NYSE and the OTC Markets Group, Inc., as applicable, for the periods indicated:

	Price Range	
	High	Low
2015		
Quarter ended March 31, 2015	\$ 6.55	\$ 5.70
Quarter ended June 30, 2015	\$ 5.94	\$ 5.29
Quarter ended September 31, 2015	\$ 5.51	\$ 2.31
Quarter ended December 31, 2015	\$ 3.25	\$ 1.94
2016		
Quarter ended March 31, 2016	\$ 3.20	\$ 2.40
Quarter ended June 30, 2016	\$ 2.53	\$ 1.74
Quarter ended September 31, 2016	\$ 2.52	\$ 1.50
Quarter ended December 31, 2016	\$ 2.42	\$ 2.15

The closing sale price per share of our common stock, as reported by the OTC Markets Group, Inc., on February 24, 2016 was \$2.15. As of February 24, 2016, there were approximately 41 stockholders of record of our common stock and approximately 2,400 beneficial holders.

Dividends

We did not pay any dividends on our common stock during the years ended December 31, 2016 and 2015. We currently intend to retain earnings, if any, to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our Board and will depend on, among other things, our financial condition, results of operations, capital expenditure requirements, contractual restrictions, provisions of applicable law and other factors that the Board deems relevant.

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the periods indicated (in thousands, except share and per share data):

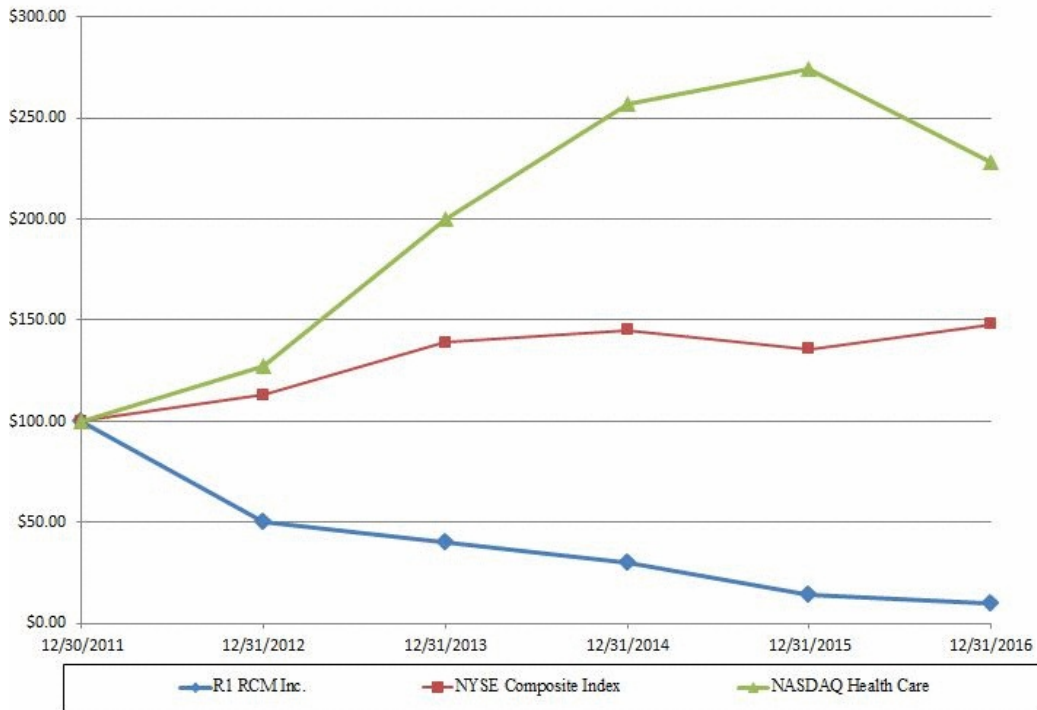
Period	Number of Shares Purchased (1)	Average Price Paid per Share (3)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Plans or Programs (in thousands) (2)
October 1, 2016 through October 31, 2016	3,809	\$ 2.43	—	\$ 50,000
November 1, 2016 through November 30, 2016	3,809	\$ 2.43	—	\$ 50,000
December 1, 2016 through December 31, 2016	162,366	\$ 2.29	158,557	\$ 49,640

- (1) Amounts include stock repurchased under our repurchase program (see discussion below) and repurchases of our stock related to employees' tax withholding upon vesting of 3,809 RSAs for each of the three months ended October 31, 2016, November 30, 2016 and December 31, 2016. See Note 9, Share-Based Compensation, to our consolidated financial statements included in this Annual Report on Form 10-K.
- (2) On November 13, 2013, the Board authorized, subject to the completion of the Restatement, the repurchase of up to \$50.0 million of our common stock from time to time in the open market or in privately negotiated transactions, or the 2013 Repurchase Program. The timing and amount of any shares repurchased under the 2013 Repurchase Program will be determined by our management based on its evaluation of market conditions and other factors. The 2013 Repurchase Program may be suspended or discontinued at any time. See Note 8, Stockholders' Equity, to our consolidated financial statements included in this Annual Report on Form 10-K.
- (3) Average price paid per share of common stock repurchased under the 2013 Repurchase Program is the execution price, including commissions paid to brokers.

Stock Price Performance Graph

The following graph compares the change in the cumulative total return (including the reinvestment of dividends) on our common stock to the change in the cumulative total return on the stocks included in the NYSE Composite Index and NASDAQ Health Care Index over the period from December 31, 2011 through December 31, 2016. The graph assumes an investment of \$100 made in our common stock on December 31, 2011. We did not pay any dividends during the period reflected in the graph.

COMPARISON OF CUMULATIVE TOTAL RETURN



		12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
R1 RCM Inc.	Return %		(49.61)	(20.90)	(25.12)	(53.35)	(29.69)
	Cum \$	100	50.39	39.86	29.85	13.39	9.79
NYSE Composite Index	Return %		12.93	23.18	4.22	(6.42)	9.01
	Cum \$	100	112.93	139.1	144.97	135.66	147.88
NASDAQ Health Care Index	Return %		27.24	57.04	28.47	6.86	(16.91)
	Cum \$	100	127.24	199.82	256.7	274.3	227.91

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

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Consolidated Financial Statements and Supplementary Data," included elsewhere in this Form 10-K.

We derived the consolidated statements of operations and comprehensive income (loss) data for the years ended December 31, 2016, 2015, and 2014, and the consolidated balance sheet data as of December 31, 2016 and 2015 from our audited consolidated financial statements, which are included in this Annual Report on Form 10-K. We derived the consolidated balance sheet data as of December 31, 2014, 2013 and 2012, from our audited consolidated financial statements and audited restated consolidated financial statements, which are not included in this Annual Report on Form 10-K. We derived the consolidated statement of operations and comprehensive income (loss) data for the years ended December 31, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2013 and 2012 from our audited consolidated financial statements and audited restated consolidated financial statements, which are not included in this Annual Report on Form 10-K.

Selected Financial Data

	Year Ended December 31,				
	2016	2015	2014	2013	2012
(In thousands, except per share data)					
Consolidated Statement of Operations Data:					
Net services revenue	\$ 592,557	\$ 117,239	\$ 210,140	\$ 504,768	\$ 72,254
Operating expenses:					
Cost of services	199,697	168,977	182,144	186,752	188,666
Selling, general and administrative	74,137	74,963	69,883	79,951	67,750
Restatement and other	20,822	9,343	86,766	33,963	3,714
Total operating expenses	294,656	253,283	338,793	300,666	260,130
Income (loss) from operations	297,901	(136,044)	(128,653)	204,102	(187,876)
Net interest income (expense)	297	231	302	330	141
Net income (loss) before income tax provision	298,198	(135,813)	(128,351)	204,432	(187,735)
Income tax provision (benefit)	121,127	(51,557)	(48,731)	74,349	(67,995)
Net income (loss)	\$ 177,071	\$ (84,256)	\$ (79,620)	\$ 130,083	\$ (119,740)
Net income (loss) per common share					
Basic	\$ 0.65	\$ (0.87)	\$ (0.83)	\$ 1.36	\$ (1.21)
Diluted	\$ 0.65	\$ (0.87)	\$ (0.83)	\$ 1.34	\$ (1.21)

	As of December 31,				
	2016	2015	2014	2013	2012
(In thousands)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 181,176	\$ 103,497	\$ 145,167	\$ 228,891	\$ 176,956
Working capital (1)	\$ 153,393	\$ 24,237	\$ 41,593	\$ 124,045	\$ 139,852
Total assets	\$ 415,059	\$ 460,289	\$ 446,373	\$ 509,991	\$ 557,377
Non-current liabilities	\$ 120,691	\$ 440,975	\$ 325,470	\$ 202,799	\$ 85,848
Total stockholders' equity (deficit)	\$ (12,334)	\$ (213,313)	\$ (142,246)	\$ (85,612)	\$ (236,200)

- (1) We define working capital as total current assets excluding the current portion of deferred tax assets pertaining to the current portion of deferred customer billings, less total current liabilities excluding the current portion of deferred customer billings. We exclude the current portion of deferred customer billings and related deferred tax assets from the definition of working capital due to the nature of these balances. We adopted the provisions of Accounting Standards Update 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes (Topic 740), or ASU 2015-17, on a

prospective basis for the reporting period ended December 31, 2015. Consequently, under the guidance of ASU 2015-17, deferred tax assets were classified as non-current in the consolidated balance sheet for the reporting period ended December 31, 2015 and 2016. As permitted by ASU 2015-17, the current and non-current deferred tax assets were not retroactively adjusted for the prior reporting periods ended December 31, 2014, 2013 and 2012.

Non-GAAP Measures

In order to provide a more comprehensive understanding of the information used by our management team in financial and operational decision-making, we supplement our consolidated financial statements that have been prepared in accordance with GAAP with the following non-GAAP financial measures: gross and net cash generated from customer contracting activities, and adjusted EBITDA. Our Board and management team use these non-GAAP measures as (i) one of the primary methods for planning and forecasting overall expectations and for evaluating actual results against such expectations and (ii) as a performance evaluation metric in determining achievement of certain executive incentive compensation programs, as well as for incentive compensation plans for employees.

These non-GAAP measures are used throughout this Form 10-K including "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Use of Non-GAAP Financial Information

We typically invoice customers for base fees and incentive fees on a quarterly or monthly basis, and typically receive cash from customers on a similar basis. For GAAP reporting purposes, we only recognize these net operating fees and incentive fees as net services revenue to the extent that all the criteria for revenue recognition are met, which is generally upon contract renewal, termination or "other contractual agreement event", as defined in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this Annual Report on Form 10-K. As such, net operating and incentive fees are typically recognized for GAAP purposes in periods subsequent to the periods in which the services are provided. Therefore, our net services revenue and other items in our GAAP consolidated financial statements and adjusted EBITDA will typically include the effects of billings and collections from periods prior to the period in which revenue is recognized. See Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements for additional information.

We understand that although non-GAAP measures are frequently used by investors, securities analysts, and others in their evaluation of companies, such measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

- Gross and net cash generated from customer contracting activities include invoiced or accrued net operating fees, and invoiced as well as collected incentive fees which may be subject to adjustment or concession prior to the end of a contract or "other contractual agreement event", as defined in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this Annual Report on Form 10-K;
- Gross and net cash generated from customer contracting activities include progress billings on incentive fees that have been collected for a number of our RCM contracts. These progress billings have, from time-to-time been subject to adjustments, and the fees included in these non-GAAP measures may be subject to adjustments in the future;
- Net cash generated from customer contracting activities and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Net cash generated from customer contracting activities and adjusted EBITDA do not reflect share-based compensation expense;

- Net cash generated from customer contracting activities and adjusted EBITDA do not reflect income tax expenses or benefits or cash requirements to pay taxes;
- Although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and net cash generated from customer contracting activities and adjusted EBITDA do not reflect cash requirements for such replacements or other purchase commitments, including lease commitments; and
- Other companies in our industry may calculate gross or net cash generated from customer contracting activities or adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Selected Non-GAAP Measures

For each of the periods indicated, the following table presents selected non-GAAP measures and the most comparable GAAP measures. See below for an explanation of how we calculate and use these non-GAAP measures, and for a reconciliation of these non-GAAP measures to the most comparable GAAP measures. See "Selected Financial Data" above for a presentation of net income (loss) the most comparable GAAP measure to adjusted EBITDA and net cash generated for customer contracting activities, and net services revenue, the most comparable GAAP measure to gross cash generated from customer contracting activities.

	Year End December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Non-GAAP Measures:					
Adjusted EBITDA	\$ 357,023	\$ (86,568)	\$ (15,668)	\$ 268,689	\$ (152,509)
Net cash generated from customer contracting activities	<u>\$ (26,841)</u>	<u>\$ 26,370</u>	<u>\$ 7,759</u>	<u>\$ 15,562</u>	<u>\$ 47,605</u>
Gross cash generated from customer contracting activities	<u>\$ 208,693</u>	<u>\$ 230,177</u>	<u>\$ 233,567</u>	<u>\$ 251,641</u>	<u>\$ 272,368</u>

Gross and Net Cash Generated from Customer Contracting Activities

Gross and net cash generated from customer contracting activities reflect the change in the deferred customer billings, relative to GAAP net services revenue, and adjusted EBITDA (defined below), respectively. Deferred customer billings include the portion of both (i) invoiced or accrued net operating fees and (ii) cash collections of incentive fees, in each case, that have not met our revenue recognition criteria. Deferred customer billings are included in the detail of our customer liabilities balance in the consolidated balance sheet. Deferred customer billings are reduced by the amounts of revenue recognized when a revenue recognition event occurs. Gross cash generated from customer contracting activities is defined as GAAP net services revenue, plus the change in deferred customer billings. Accordingly, gross cash generated from customer contracting activities is the sum of (i) invoiced or accrued net operating fees, (ii) cash collections on incentive fees and (iii) other services fees.

Net cash generated from customer contracting activities is defined as adjusted EBITDA, plus the change in deferred customer billings.

Gross and net cash generated from customer contracting activities include invoices issued to customers that may remain uncollected or may be subject to credits, and cash collected may be returned to our customers in the form of concessions or other adjustments. Customer concessions and other adjustments have occurred in the past and we cannot determine the likelihood that they will again occur in the future.

Adjusted EBITDA

We define adjusted EBITDA as net income before net interest income (expense), income tax provision, depreciation and amortization expense, share-based compensation, reorganization-related expense and certain other

items. The use of adjusted EBITDA to measure operating and financial performance is limited by our revenue recognition criteria, pursuant to which GAAP net services revenue is recognized at the end of a contract or "other contractual agreement event", as defined in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this Annual Report on Form 10-K. Adjusted EBITDA does not adequately match corresponding cash flows resulting from customer contracting activities. Accordingly, as described above, in order to better compare our cash flows from customer contracting activities to our operating performance, we use additional non-GAAP measures: gross and net cash generated from customer contracting activities. We use adjusted EBITDA to reconcile net cash generated from customer contracting activities to our GAAP consolidated financial statements.

Reconciliation of GAAP and Non-GAAP Measures: The following table presents a reconciliation of adjusted EBITDA and net cash generated from customer contracting activities to net income (loss), and gross cash generated from customer contracting activities to net services revenue the most comparable GAAP measures, for each of the periods indicated.

	Year End December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Net income (loss) (GAAP)	\$ 177,071	\$ (84,256)	\$ (79,620)	\$ 130,083	\$ (119,740)
Net interest (income) expense	(297)	(231)	(302)	(330)	(141)
Income tax provision (benefit)	121,127	(51,557)	(48,731)	74,349	(67,995)
Depreciation and amortization expense	10,198	8,462	6,047	6,823	6,355
Share-based compensation expense (1)	28,102	31,671	20,172	23,801	25,298
Other (2)	20,822	9,343	86,766	33,963	3,714
Adjusted EBITDA (Non-GAAP)	357,023	(86,568)	(15,668)	268,689	(152,509)
Change in deferred customer billings (3)	(383,864)	112,938	23,427	(253,127)	200,114
Net cash generated from customer contracting activities (Non-GAAP)	(26,841)	26,370	7,759	15,562	\$ 47,605
Net services revenue (GAAP)	\$ 592,557	\$ 117,239	\$ 210,140	\$ 504,768	72,254
Change in deferred customer billings (3)	(383,864)	112,938	23,427	(253,127)	200,114
Gross cash generated from customer contracting activities (Non-GAAP)	\$ 208,693	\$ 230,177	\$ 233,567	\$ 251,641	\$ 272,368

- (1) Share-based compensation expense represents the expense associated with stock options, RSAs and RSUs granted, as reflected in our Consolidated Statements of Operations. See Note 9, Share-Based Compensation, to the consolidated financial statements included in this Annual Report on Form 10-K for the detail of the amounts of share-based compensation expense.
- (2) Other costs consist of the following (in millions):

	Year End December 31,		
	2016	2015	2014
Severance and employee benefits	\$ 3.5	\$ 0.6	\$ 9.2
Facility charges	1.1	2.6	5.0
Non-cash share based compensation	1.8	—	7.9
Reorganization-related	6.4	3.2	22.1
Restatement costs	1.2	2.5	57.3
Transaction fees	12.7	—	—
Defined Contribution plan contributions	0.5	—	—
Strategic Alternative Exploration	—	3.8	—
Prior year employment tax expense	—	(0.2)	0.9
Office Transformation	—	—	6.5
Other	14.4	6.1	64.7
Total other	\$ 20.8	\$ 9.3	\$ 86.8

- (3) Deferred customer billings include the portion of both (i) invoiced or accrued net operating fees and (ii) cash collections on incentive fees, in each case, that have not met our revenue recognition criteria. Deferred customer billings are included in the detail of our customer liabilities balance in the consolidated balance sheets. Deferred customer billings are reduced by revenue recognized when revenue recognition occurs. Change in deferred customer billings represents the net change in the cumulative net operating fees and incentive fees that have not met revenue recognition criteria.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, should be read in conjunction with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. Please review "Risk Factors" of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a leading provider of RCM and PAS services to healthcare providers. We help healthcare providers generate sustainable improvements in their operating margins and cash flows while also enhancing patient, physician and staff satisfaction for our customers.

While we cannot control the changes in the regulatory environment imposed on our customers, we believe that our role becomes increasingly more important to our customers as macroeconomic, regulatory and healthcare industry conditions continue to impose financial pressure on healthcare providers to manage their operations effectively and efficiently.

Our primary service offering consists of end-to-end RCM, which encompasses patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. We deploy our RCM services through a co-managed relationship or an operating partner relationship. Under a co-managed relationship, we leverage our customers' existing RCM staff and processes, and supplement them with our infused management, subject matter specialists, proprietary technology and other resources. Under an operating partner relationship, we provide comprehensive revenue cycle infrastructure to providers, including revenue cycle personnel, technology, and process workflow. We also offer modular services, allowing clients to engage us for only specific components of our end-to-end RCM service offering. Our PAS offering complements our RCM offering by strengthening our customer's compliance with certain third-party payer requirements and limiting denials of claims. For example, our PAS offering helps customers determine whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes.

We operate our business as a single segment configured with our significant operations and offerings organized around the business of providing end-to-end RCM services to U.S.-based hospitals and other healthcare providers.

Summary of Operations

On February 16, 2016, we entered into the A&R MPSA with Ascension for a 10-year term, becoming the exclusive provider of RCM and PAS services to Ascension hospitals that execute supplement agreements with us. The onboarding of new Ascension hospitals under the expanded relationship is expected to occur over three years, and we started onboarding the first phase of new hospitals in mid-2016.

In addition, we renewed our agreement with our second-largest customer, Intermountain Healthcare, during 2016. The A&R MPSA and renewed agreement with Intermountain Healthcare collectively helped provide stability to our business and improved our confidence and our outlook as we look to 2017 and beyond.

In 2016, we also strengthened our leadership team and pursued a number of initiatives designed to enhance our core value proposition and re-establish our brand identity:

- **Investments in our technology platform:** We conducted a comprehensive overhaul of our technology that manages payer billing and follow-up operations. This overhaul improves productivity by automating a number of manual tasks and at the same time accelerates resolution rates on accounts worked.
- **Brand re-launch:** In mid-2016, we commenced a comprehensive re-launch effort to re-establish our brand identity and improve our marketing efforts with prospective customers. Our new brand, launched in early 2017, reflects our ability to be the one revenue partner for healthcare providers across care settings or payment models.

We believe these initiatives will position us to better serve our customers and grow our business.

Net Services Revenue

Revenues from our RCM agreements consist primarily of net operating fees and incentive fees that are primarily performance-based and/or contingent fees. The vast majority of our operations relate to our RCM offering, however, the criteria for recognition of revenue for RCM services results in substantial variability in the net services revenue recognized between periods.

Other services revenue is primarily derived from our PAS offering.

The following table summarizes the composition of our net services revenue for the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31,					
	2016		2015		2014	
RCM services: net operating fees	\$ 368,848	62.2%	\$ 66,234	56.5%	\$ 77,456	36.9%
RCM services: incentive fees	191,317	32.3%	20,311	17.3%	99,934	47.6%
RCM services: other	16,322	2.8%	16,381	14.0%	8,103	3.8%
Other services fees	16,070	2.7%	14,313	12.2%	24,647	11.7%
Total net services revenue	\$ 592,557	100.0%	\$ 117,239	100.0%	\$ 210,140	100.0%

Cost of Services

Our cost of services includes:

- **Infused management and technology expenses.** We incur costs related to our management and staff employees who are devoted to customer operations. These expenses consist primarily of the wages, bonuses, benefits, share-based compensation, travel and other costs associated with deploying our employees to customer sites to guide and manage our customers' revenue cycle operations. The employees we deploy to customer sites typically have significant experience in revenue cycle operations, care coordination, technology, quality control or other management disciplines. Included in these expenses is an allocation of the costs associated with maintaining, improving and deploying our integrated proprietary technology suite.
- **Shared services center costs.** We incur expenses related to salaries and benefits of employees in our shared services centers, as well as non-payroll costs associated with operating our shared services centers.
- **Other expenses.** We incur expenses related to our employees who manage PAS and other services. These expenses consist primarily of wages, bonuses, benefits, share-based compensation and other costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of expenses for executives, sales, corporate IT, legal, regulatory compliance, finance and human resources personnel, professional service fees related to external legal, tax, audit and advisory services, insurance premiums, facility charges and other corporate expenses.

Other Costs

Other costs include reorganization-related expenses and certain other costs. We initiated restructuring plans consisting of reductions in our workforce in certain corporate, administrative, operations and management functions as part of efforts beginning in June 2013 and continuing into 2016. Reorganization costs consist primarily of severance payments, employee benefits and share-based compensation expense for accelerated awards. In 2016, we incurred costs relating to retention payments and legal fees paid in connection with the execution of the Transaction. We also incurred costs related to additional contributions to our defined contribution plan and the Restatement.

Interest Income

Interest income is derived from the return achieved from our cash and cash equivalents.

Income Taxes

Income tax provision (benefit) consists of federal and state income taxes in the United States and other local taxes in India.

Application of Critical Accounting Policies and Use of Estimates

Our consolidated financial statements reflect the assets, liabilities and results of operations of R1 RCM Inc. and our wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Our consolidated financial statements have been prepared in accordance with GAAP.

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base estimates on historical experience and on assumptions that we believe to be reasonable given our operating environment. Estimates are based on our best knowledge of current events and the actions we may undertake in the future. Although we believe all adjustments considered necessary for fair presentation have been included, our actual results may differ materially from our estimates.

We believe that the accounting policies described below involve our more significant judgments, assumptions and estimates, and therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary to understand and evaluate the consolidated financial statements contained in this Annual Report on Form 10-K. For further information on our critical and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this Annual Report on Form 10-K.

Revenue Recognition

Revenue is generally recognized when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) a fee is fixed or determinable and (iv) collectability is reasonably assured. Our primary source of revenue is RCM services fees. We also generate revenue from other fixed fee consulting or transactional fee engagements. Net services revenue, as reported in the consolidated statement of operations and comprehensive income (loss), consist of: (a) RCM services fees and (b) professional service fees earned on a fixed fee, transactional fee or time and materials basis. RCM services fees are primarily contingent, but along with fixed fees are generally viewed as one deliverable. To the extent that certain RCM services fees are fixed

and not subject to refund, adjustment or concession, these fees are generally recognized into revenue on a straight-line basis over the term of the contract.

RCM services fees that are contingent in nature are recognized as revenue once all the criteria for revenue recognition are met, which is generally at the end of a contract or other contractual agreement events. Revenue is recognized for RCM services fees upon the contract reaching the end of its stated term (such that the contract relationship will not continue in its current form) to the extent that cash has been received for invoiced fees and there are no disputes at the conclusion of the term of the contract.

If fees or services are disputed by a customer at the end of a contract, a settlement agreement entered into with the customer triggers revenue recognition. An other "contractual agreement event" occurs when a renewal, amendment, or other settlement agreement to an existing contract is executed in which the parties reach agreement on prior fees. We recognize revenue up to the amount covered by such agreements.

RCM services fees generally consist of two types of contingent fees: (i) net operating fees and (ii) incentive fees.

Net Operating Fees

We generate net operating fees to the extent we are able to assist customers in reducing the cost of revenue cycle operations. Our net operating fees consist of (i) gross base fees invoiced to customers; *less* (ii) corresponding costs of customers' revenue cycle operations which we pay pursuant to our RCM agreements, including salaries and benefits for the customers' RCM personnel, and related third-party vendor costs; *less* (iii) any cost savings we share with customers.

Net operating fees are recorded in deferred customer billings until we recognize revenue on a customer contract at the end of a contract or upon reaching an "other contractual agreement event." The amount of unpaid costs of customers' revenue cycle operations and shared cost savings are reported as accrued service costs within customer liabilities on our consolidated balance sheet.

Incentive Fees

We also generate revenue in the form of performance-based fees when we improve our customers' revenue yield. These performance metrics vary by customer contract. However, certain contracts contain a contract-to-date performance metric that is not resolved until the end of the term of the contract. In some cases, when a customer agreement is extended under an evergreen provision or other amendment, fees may not be considered finalized until the end of the customer relationship. Incentive fees associated with performance metrics which are not resolved until the end of the term of the contract or an "other contractual agreement event" are recorded in deferred customer billings until we recognize revenue. Incentive fees are considered contingent fees.

Estimates of Cost of Customers' Revenue Cycle Operations

Cost of customers' revenue cycle operations consist of invoiced costs from customers and estimated costs not yet invoiced. These costs consist of payroll and third-party non-payroll costs. Customers' payroll costs are reasonably estimable; however, we are significantly dependent upon information generated from our customers' records to determine the amount of third-party non-payroll costs. We estimate the amount of non-payroll costs incurred but not invoiced in order to properly calculate the deferred customer billings balance at the end of each reporting period. Such estimated costs are based on contractually allowable expenses, historical reimbursed costs and estimated lag in the timing of receipt of information for third-party non-payroll costs. The timing difference includes the lag between the services rendered by third-party vendors and their billings to our customers. The accruals for such costs are included in accrued service costs and are part of the net operating fees included in deferred customer billings within the customer liabilities balance in the consolidated balance sheet. These estimates are based on the best available information and are subject to future adjustments based on additional information

received from our customers. Due to the variable nature of these estimates, the adjustments can have a significant impact on the deferred customer billings balance for any reporting period in the future.

Income Taxes

We account for income taxes under the asset and liability method. 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.

The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies, and are based on management's assumptions and estimates about future operating results and levels of taxable income, and judgments regarding the interpretation of the provisions of current accounting principles. We provide a valuation allowance for deferred tax assets if, based upon the weight of all available evidence, both positive and negative, it is more likely than not that some or all of the deferred tax assets will not be realized. We have established a valuation allowance with respect to certain separate state income net operating loss carryforward deferred tax assets.

The estimated effective tax rate for the year is applied to our quarterly operating results. In the event that there is a significant unusual or discrete item recognized, or expected to be recognized, in our quarterly operating results, the tax attributable to that item is calculated separately and recorded at the same time as the unusual or discrete item, such as the resolution of prior-year tax matters.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Interest and penalties related to income taxes are recognized in our tax provision in the consolidated statement of operations and comprehensive income (loss). See Note 12, Income Taxes, to our consolidated financial statements included in this Annual Report on Form 10-K for additional information on income taxes.

Share-Based Compensation Expense

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

To determine the fair value of a share-based award using the Black-Scholes option pricing model, we make assumptions regarding the risk-free interest rate, expected future volatility, expected life of the award, and expected forfeitures of the awards. These inputs are subjective and generally require significant analysis and judgment to develop. 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. We estimate the expected volatility of our share price by reviewing the historical volatility levels of our common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward its future expected volatility. We exercise judgment in selecting these companies, as well as in evaluating the available historical and implied volatility for these companies. We calculate the expected term in years for each stock option using a simplified method based on the average of each option's vesting term and original contractual term. We apply an estimated forfeiture rate derived from our historical data and our estimates of the likely future actions of option holders when recognizing the share-based compensation expense of the options.

To determine the fair value of a share-based award using Monte Carlo simulations, we make assumptions regarding the risk-free interest rate, expected future volatility, expected dividend yield and performance period. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. We estimate the expected volatility of the share price by reviewing the historical volatility levels of our common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward our future expected volatility. Dividend yield is determined based on our future plans to pay dividends. We calculate the performance period based on the specific market condition to be achieved and derived from historical data and estimates of future performance.

We recognize compensation expense, net of forfeitures, using a straight-line method over the applicable vesting period. Each appropriate quarter, the share-based compensation expense is adjusted to reflect all options that vested or were forfeited during the period.

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

New Accounting Standards

For additional information regarding new accounting guidance, see Note 3, Recent Accounting Pronouncements, to our consolidated financial statements included in this Annual Report on Form 10-K, which provides a summary of recently adopted accounting standards and disclosures.

Results of Operations

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The following table provides consolidated operating results and other operating data for the periods indicated:

	Year Ended December 31,		2016 vs. 2015 Change	
	2016	2015	Amount	%
(In thousands)				
Consolidated statement of operations Data:				
RCM services: net operating fees	\$ 368,848	\$ 66,234	\$ 302,614	456.9 %
RCM services: incentive fees	191,317	20,311	171,006	841.9 %
RCM services: other	16,322	16,381	(59)	(0.4)%
Other services fees	16,070	14,313	1,757	12.3 %
Total net services revenue	592,557	117,239	475,318	405.4 %
Operating expenses:				
Cost of services	199,697	168,977	30,720	18.2 %
Selling, general and administrative	74,137	74,963	(826)	(1.1)%
Other	20,822	9,343	11,479	122.9 %
Total operating expenses	294,656	253,283	41,373	16.3 %
Income (loss) from operations	297,901	(136,044)	433,945	fav
Net interest income	297	231	66	28.6 %
Net income (loss) before income tax provision	298,198	(135,813)	434,011	fav
Income tax provision (benefit)	121,127	(51,557)	172,684	unfav
Net income (loss)	177,071	(84,256)	261,327	fav
Net interest income	(297)	(231)	(66)	28.6 %
Income tax provision (benefit)	121,127	(51,557)	172,684	unfav
Depreciation and amortization expense	10,198	8,462	1,736	20.5 %
Share-based compensation expense	28,102	31,671	(3,569)	(11.3)%
Other	20,822	9,343	11,479	122.9 %
Adjusted EBITDA	357,023	(86,568)	443,591	fav
Change in deferred customer billings	(383,864)	112,938	(496,802)	unfav
Net cash generated from customer contracting activities	\$ (26,841)	\$ 26,370	\$ (53,211)	unfav
Net services revenue	\$ 592,557	\$ 117,239	\$ 475,318	405.4 %
Change in deferred customer billings	(383,864)	112,938	(496,802)	unfav
Gross cash generated from customer contracting activities	\$ 208,693	\$ 230,177	\$ (21,484)	(9.3)%
Components of gross cash generated from customer contracting activities:				
RCM services: net operating fee	\$ 150,527	\$ 123,185	\$ 27,342	22.2 %
RCM services: incentive fee	29,112	67,656	(38,544)	(57.0)%
RCM services: other	12,985	25,023	(12,038)	(48.1)%
Total RCM services fees	192,624	215,864	(23,240)	(10.8)%
Other services fees	16,069	14,313	1,756	12.3 %
Gross cash generated from customer contracting activities	\$ 208,693	\$ 230,177	\$ (21,484)	(9.3)%

fav - Favorable
unfav - Unfavorable

Net Services Revenue

Net services revenue increased by \$475.3 million, or 405.4%, from \$117.2 million for the year ended December 31, 2015 to \$592.6 million for the year ended December 31, 2016. The increase was primarily due to contractual agreement events related to Ascension and other RCM clients in the year ended December 31, 2016, resulting in revenue recognition of \$557.8 million in net services revenue, partially offset by the recognition of revenue from contractual agreement events during 2015.

In addition, other service fees increased by \$1.8 million in 2016 as compared to 2015, primarily driven by an increase in PAS revenue.

Gross Cash Generated from Customer Contracting Activities (Non-GAAP)

Gross cash generated from customer contracting activities decreased by \$21.5 million, or 9.3%, from \$230.2 million for the year ended December 31, 2015, to \$208.7 million for the year ended December 31, 2016. The decrease in gross cash generated was primarily driven by reduction in the scope of services for certain customers and customer attrition.

Gross cash generated from customer contracting activities is a non-GAAP measure. Please see "Selected Consolidated Financial Data - Selected Non-GAAP Measures" for an explanation of how we calculate and use gross cash generated from customer contracting activities and for its reconciliation to net services revenue, the most comparable GAAP measure.

Cost of Services

Cost of services increased by \$30.7 million, or 18.2%, from \$169.0 million for the year ended December 31, 2015, to \$199.7 million for the year ended December 31, 2016. The increase in costs was primarily due to the transition to the A&R MPESA, which has resulted in a change in classification of costs from an offset to net operating fees to cost of services due to on-boarding of employees. The Company expects cost of services to increase as our headcount increases as a result of the on-boarding of former Ascension employees. Previously, these costs were netted against billings as a component of net operating fees. Additionally, the implementation of ICD-10, a clinical cataloging system that went into effect for the U.S. healthcare industry on October 1, 2015, increased costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$0.8 million, or 1.1%, from \$75.0 million for the year ended December 31, 2015 to \$74.1 million for the year ended December 31, 2016. The decrease was primarily due to a decrease in stock compensation expense.

Net Cash Generated from Customer Contracting Activities (Non-GAAP)

Net cash generated from customer contracting activities decreased by \$53.2 million from \$26.4 million for the year ended December 31, 2015 to \$(26.8) million for the year ended December 31, 2016. This decrease was primarily due to a decrease in gross cash generated from customer contracting activities and an increase in cost of services as explained above.

Please see "Selected Consolidated Financial Data - Selected Non-GAAP Measures" for an explanation of how we calculate and use net cash generated from customer contracting activities and for its reconciliation to net income (loss), the most comparable GAAP measure.

Other Costs

Other costs increased by \$11.5 million, from \$9.3 million for the year ended December 31, 2015, to \$20.8 million for the year ended December 31, 2016. The increase was primarily attributable to \$12.7 million in costs

related to retention payments paid in connection with the closing of the Transaction with Ascension Health Alliance and TowerBrook on February 16, 2016.

Income Taxes

Income tax provision increased by \$172.7 million to \$121.1 million for the year ended December 31, 2016 from a benefit of \$51.6 million for the year ended December 31, 2015, primarily due to an increase in pretax income. Our effective tax rate was approximately 41% and 38% for the years ended December 31, 2016 and 2015. Our tax rate is affected by discrete items that may occur in any given year, but not consistent from year to year. Our rate was negatively impacted by the write-down of state deferred tax assets from the geographical mix of business.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

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

	Year Ended December 31,		2015 vs. 2014 Change	
	2015	2014	Amount	%
(In thousands)				
Consolidated Statement of Operations Data:				
RCM services: net operating fees	\$ 66,234	\$ 77,456	\$ (11,222)	(14.5)%
RCM services: incentive fees	20,311	99,934	(79,623)	(79.7)%
RCM services: other	16,381	8,103	8,278	102.2 %
Other services fees	14,313	24,647	(10,334)	(41.9)%
Total net services revenue	117,239	210,140	(92,901)	(44.2)%
Operating expenses:				
Cost of services	168,977	182,144	(13,167)	(7.2)%
Selling, general and administrative	74,963	69,883	5,080	7.3 %
Other	9,343	86,766	(77,423)	(89.2)%
Total operating expenses	253,283	338,793	(85,510)	(25.2)%
Income (loss) from operations	(136,044)	(128,653)	(7,391)	5.7 %
Net interest income	231	302	(71)	(23.5)%
Net income (loss) before income tax provision	(135,813)	(128,351)	(7,462)	5.8 %
Income tax provision (benefit)	(51,557)	(48,731)	(2,826)	5.8 %
Net income (loss)	(84,256)	(79,620)	(4,636)	5.8 %
Net interest income	(231)	(302)	71	(23.5)%
Income tax provision (benefit)	(51,557)	(48,731)	(2,826)	5.8 %
Depreciation and amortization expense	8,462	6,047	2,415	39.9 %
Share-based compensation expense	31,671	20,172	11,499	57.0 %
Restatement and other	9,343	86,766	(77,423)	(89.2)%
Adjusted EBITDA	(86,568)	(15,668)	(70,900)	452.5 %
Change in deferred customer billings	112,938	23,427	89,511	382.1 %
Net cash generated from customer contracting activities	\$ 26,370	\$ 7,759	\$ 18,611	239.9 %
Net services revenue	\$ 117,239	\$ 210,140	\$ (92,901)	(44.2)%
Change in deferred customer billings	112,938	23,427	89,511	382.1 %
Gross cash generated from customer contracting activities	\$ 230,177	\$ 233,567	\$ (3,390)	(1.5)%
Components of Gross Cash Generated from Customer Contracting Activities:				
RCM services: net operating fee	\$ 123,185	\$ 121,730	\$ 1,455	1.2 %
RCM services: incentive fee	67,656	77,239	(9,583)	(12.4)%
RCM services: other	25,023	9,952	15,071	151.4 %
Total RCM services fees	215,864	208,921	6,943	3.3 %
Other services fees	14,313	24,646	(10,333)	(41.9)%
Gross cash generated from customer contracting activities	\$ 230,177	\$ 233,567	\$ (3,390)	(1.5)%

Net Services Revenue

Net services revenue decreased by \$92.9 million, or 44.2%, from \$210.1 million for the year ended December 31, 2014 to \$117.2 million for the year ended December 31, 2015. The decrease was primarily driven by fewer RCM contractual agreement events in the year ended December 31, 2015. RCM services other revenue increased by \$8.3 million in 2015 compared to 2014, primarily due to significant progress toward completion of a client accounts receivable collection project started in 2015.

In addition, other service fees decreased by \$10.3 million in 2015 as compared to 2014, primarily driven by a decrease in PAS revenue of approximately \$8.0 million. The decrease was the result of the two-midnight rule, a regulatory change in the healthcare industry related to billing classifications for certain hospital patients.

Gross Cash Generated from Customer Contracting Activities (Non-GAAP)

Gross cash generated from customer contracting activities decreased by \$3.4 million, or 1.5%, from \$233.6 million for the year ended December 31, 2014, to \$230.2 million for the year ended December 31, 2015. The decrease was primarily the result of an \$8.0 million decrease in PAS revenue, offset in part by an increase in gross cash generated from customer contracting activities from RCM services. RCM services other revenue increased in 2015 compared to 2014, primarily due to significant progress toward completion of a client accounts receivable collection project which started in 2015.

Gross cash generated from customer contracting activities is a non-GAAP measure. Please see "Selected Consolidated Financial Data - Selected Non-GAAP Measures" for an explanation of how we calculate and use gross cash generated from customer contracting activities and for its reconciliation to net services revenue, the most comparable GAAP measure.

Cost of Services

Cost of services decreased by \$13.2 million, or 7.2%, from \$182.1 million for the year ended December 31, 2014, to \$169.0 million for the year ended December 31, 2015. The decrease in cost of services was primarily a result of decreased costs in our PAS business and a decrease in incentive compensation costs, offset by an increase in depreciation and amortization expense of \$3.2 million due to investments in our shared services centers and infrastructure related to RCM.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$5.1 million, or 7.3%, from \$69.9 million for the year ended December 31, 2014 to \$75.0 million for the year ended December 31, 2015. The increase was primarily due to an increase of \$11.1 million in stock based compensation expense, driven by a larger number of RSAs granted in 2015 and a cash bonus of \$1.8 million paid to 2014 bonus plan RSA grantees. In addition, modification of share-based awards granted to our former chief executive officer during the second quarter of 2015 resulted in a \$3.1 million increase in share-based compensation. This increase was offset by a decrease in other selling, general and administrative expenses as a result of the continuation of cost reduction initiatives started in the prior year and a decrease in incentive compensation costs.

Net Cash Generated from Customer Contracting Activities (Non-GAAP)

Net cash generated from customer contracting activities increased by \$18.6 million from \$7.8 million for the year ended December 31, 2014 to \$26.4 million for the year ended December 31, 2015. This increase was primarily due to lower cash-based cost of services and selling, general and administrative expenses offset by a decrease in gross cash generated from customer contracting activities of \$3.4 million as described above. Net cash generated from customer contracting activities is a non-GAAP measure. Please see "Selected Consolidated Financial Data - Selected Non-GAAP Measures" for an explanation of how we calculate and use net cash generated from customer contracting activities and for its reconciliation to net income (loss), the most comparable GAAP measure.

Other Costs

Other costs decreased by \$77.4 million, from \$86.8 million for the year ended December 31, 2014, to \$9.3 million for the year ended December 31, 2015. The decrease was primarily driven by a reduction in Restatement-related costs of \$54.8 million, reorganization-related costs of \$18.9 million, and \$6.5 million in costs related to our Transformation Office in 2014. This decrease was offset by \$3.8 million in costs related to the review of strategic alternatives. Such costs are considered unusual in nature by us and are reported separately under the caption "Other" in the accompanying consolidated statement of operations and comprehensive income (loss).

Income Taxes

Tax benefit increased by \$2.8 million to \$51.6 million for the year ended December 31, 2015 from \$48.7 million for the year ended December 31, 2014. Our effective tax rate was approximately 38.0% for both the years ended December 31, 2015 and 2014. Our tax rate is affected by discrete items that may occur in any given year, but not consistent from year to year.

Liquidity and Capital Resources

Cash flows from operating, investing and financing activities, as reflected in our Consolidated Statements of Cash Flows, are summarized in the following table:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net cash used in operating activities	\$ (86,860)	\$ (23,812)	\$ (77,236)
Net cash used in investing activities	(11,612)	(22,298)	(6,034)
Net cash provided by (used in) financing activities	176,395	4,940	(194)
Effect of exchange rate changes on cash	(244)	(500)	(260)
Net increase (decrease) in cash and cash equivalents	<u>\$ 77,679</u>	<u>\$ (41,670)</u>	<u>\$ (83,724)</u>

As of December 31, 2016, 2015 and 2014, we had cash and cash equivalents of \$181.2 million, \$103.5 million and \$145.2 million, respectively. These balances consist primarily of highly liquid money market funds. Our cash and cash equivalents, at any time, include amounts paid to us in advance by customers for the purpose of reimbursing their revenue cycle operations costs. See Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included in this Annual Report on Form 10-K for additional information. We expect that the combination of our current liquidity and expected additional cash generated from operations will be sufficient to satisfy our anticipated cash requirement through at least the next twelve months.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Operating Activities

Cash used in operating activities increased by \$63.1 million, from cash used of \$23.8 million for the year ended December 31, 2015, to cash used of \$86.9 million for the year ended December 31, 2016. The increase resulted from the decrease in net cash generated from customer contracting activities and unfavorable changes in working capital primarily related to the change to an operating partner model with Ascension as employee costs are paid as incurred as opposed to the longer payment cycle associated with reimbursements under the co-managed model.

Investing Activities

Cash used in investing activities decreased by \$10.7 million from \$22.3 million for the year ended December 31, 2015, to \$11.6 million for the year ended December 31, 2016. Cash used in investing activities decreased primarily due to a year-over-year decline in purchases of computer software and lower spending on leasehold improvements related to the on-going build out of a new shared service center. Cash used was offset by cash provided of \$1.0 million from proceeds received from the maturation of short-term investments.

Financing Activities

Cash provided by financing activities increased by \$171.5 million for the year ended December 31, 2016, primarily due to the investment of \$200 million by the Investor in connection with the Transaction offset by transaction costs of \$21.3 million.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Operating Activities

Cash from operating activities improved by \$53.4 million, from cash use of \$77.2 million for the year ended December 31, 2014, to cash use of \$23.8 million for the year ended December 31, 2015. The improvement was primarily attributable to a decrease in Restatement expenditures of \$54.8 million from \$57.3 million, for the year ended December 31, 2014 to \$2.5 million for the year ended December 31, 2015.

Investing Activities

Cash used in investing activities increased by \$16.3 million from \$6.0 million for the year ended December 31, 2014, to \$22.3 million for the year ended December 31, 2015. This increase was due to the purchase of computer hardware and software and for additional leasehold improvements related to the opening of a new shared services center and purchase of short-term investments.

Financing Activities

Cash used in financing activities increased by \$5.1 million for the year ended December 31, 2015 primarily due to the expiration and non-renewal of our line of credit on February 15, 2015. The \$5.0 million demand deposit that secured our line of credit was reclassified from restricted cash into cash and cash equivalents at March 31, 2015 as a result of the expiration.

Future Capital Needs

In connection with our strategic initiatives, we plan to continue to enhance customer service by continuing our investment in technology to enable our systems to more effectively integrate with our customers' existing technologies. We plan to continue to deploy resources to strengthen our information technology infrastructure in order to drive additional value for our customers. We also continue to invest in our shared services capabilities. We

also plan on expanding our capabilities in India which will require investments. We may also selectively pursue acquisitions and/or strategic relationships that will enable us to broaden or further enhance our offerings.

Additionally, new business development remains a priority as we plan to continue to boost our sales and marketing efforts. We plan to continue to add experienced personnel to our sales organization, develop more disciplined sales processes, and create an integrated marketing capability.

Contractual Obligations

Leases

The following table presents our obligations and commitments to make future minimum rental payments under all non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2016 (in thousands):

	2017	2018	2019	2020	2021	Thereafter	Total
Future minimum rental payments	\$ 5,962	\$ 6,365	\$ 5,957	\$ 5,393	\$ 4,198	\$ 10,511	\$ 38,386

We rent office space and equipment under a series of operating leases, primarily for our Chicago corporate office, shared services centers and India operations. Our leases contain various rent holidays and rent escalation clauses and entitlements for tenant improvement allowances. Lease payments are amortized to expense on a straight-line basis over the lease term.

Uncertain Tax Positions

We have a \$0.3 million liability for uncertain tax positions as of December 31, 2016. These have been excluded from the "Contractual Obligations" table as we cannot reasonably estimate the period of cash settlement for the tax positions presented in our financial statements as a reduction of our deferred tax asset.

Off-Balance Sheet Arrangements

Other than operating leases for office space and the revolving credit facility as noted above, there were no off-balance sheet transactions, arrangements or other relationships with other persons in 2016, 2015 or 2014 that would have affected or are likely to affect our liquidity or the availability of, or requirements for, capital resources.

Item 7A. *Qualitative and Quantitative Disclosures about Market Risk*

Interest Rate Sensitivity. Our interest income is primarily generated from interest earned on operating cash accounts. Our exposure to market risks related to interest expense as of December 31, 2016 was limited to interest earned on our cash, cash equivalents and restricted cash equivalents. We do not enter into interest rate swaps, caps or collars or other hedging instruments. As a result, we believe that the risk of a significant impact on our operating income from interest rate fluctuations is not material.

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in the Indian rupee because a portion of our operating expenses are incurred by our subsidiary in India and are denominated in Indian rupees. However, we do not generate any revenues outside of the United States. For the years ended December 31, 2016, 2015 and 2014, 8%, 7% and 5% , respectively, of our expenses were denominated in Indian rupees and as of December 31, 2016, 2015 and 2014, we had net assets of \$15.8, \$11.8, \$8.9 million in India. As a result, we believe that the risk of a significant impact on our operating income from foreign currency fluctuations is not substantial.

Item 8. *Consolidated Financial Statements and Supplementary Data*

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

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

None

Item 9A. *Controls and Procedures*

This Item 9A includes information concerning the controls and controls evaluation referred to in the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Exchange Act included in this Annual Report as Exhibits 31.1 and 31.2.

Overview

As previously disclosed under "Item 9A - Controls and Procedures" in our Annual Reports on Form 10-K for the fiscal years ended December 31, 2014 and 2015, or the 2014 and 2015 10-Ks, we concluded that our internal control over financial reporting was not effective as a result of the material weaknesses identified in the 2014 and 2015 10-Ks.

Our management was committed to the planning and implementation of remediation efforts to address all material weaknesses. These remediation efforts, summarized below, were implemented to address the identified material weaknesses and to enhance our control environment.

During 2014, 2015 and 2016, numerous changes were made throughout our organization and significant actions have been undertaken to reinforce the importance of a strong control environment, including training and other steps designed to strengthen and enhance our control culture.

To remediate the control environment deficiencies previously identified, our leadership team, including our audit committee of the Board, or Audit Committee, Chief Executive Officer, and the Chief Financial Officer, have reaffirmed and reemphasized the importance of internal control, control consciousness and a strong control environment. In addition, we developed and implemented a remediation plan to address the 2014 and 2015 identified material weaknesses.

Our plan used to remediate these deficiencies included the following actions:

- adopted new accounting policies for revenue recognition and software capitalization;
- implemented periodic reviews with the relevant internal process owners of tangible and intangible asset acquisitions and dispositions to ensure proper accounting;
- established a contract governance committee to oversee all contracting activity;
- completed the implementation of a robust contract governance structure to assure appropriate administration, compliance and accounting treatment for new or amended contract terms;
- established a contracting boundaries protocol to clarify the delegation of contracting authority to personnel involved in establishing customer contract terms;
- appointed experienced professionals to key leadership positions;
- established a new reporting structure with more clearly defined accountabilities;
- hired additional accounting personnel with appropriate backgrounds and skill sets, including professionals with certified public accountant qualifications, master's degrees and public accounting experience and created new positions for a Director of Revenue and a Director of Taxes;
- implemented a new internal reporting model and performance metrics based on cash flow performance;
- centralized certain accounting functions and revised organizational structures to enhance accurate reporting

and ensure appropriate accountability;

- established a formal delegation of authority from the Board of Directors to management with further delegation to accountable personnel;
- expanded the use of our financial reporting systems to facilitate more robust analysis of operating performance, budgeting and forecasting;
- strengthened our current disclosure committee with formalized processes to enhance the transparency of our external financial reporting;
- finalized our transition to the 2013 Committee of Sponsoring Organizations, or COSO, framework;
- strengthened our information technology general controls;
- implemented and executed a year round internal controls testing and monitoring program; and
- enhanced our Sarbanes-Oxley compliance procedures.

Management's Report on Internal Control Over Financial Reporting

Management has responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making its assessment, management has utilized the criteria set forth by the COSO of the Treadway Commission in Internal Control-Integrated Framework (2013). Management concluded that based on its assessment, our internal control over financial reporting was effective as of December 31, 2016. The Company's internal control over financial reporting as of December 31, 2016 has been audited by Ernst & Young LLP as stated in their report which appears on page [61](#).

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management including its principal executive officer and principal financial officer to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016. Our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

Other than matters discussed in this Item 9A, there have been no changes in our internal control over financial reporting since our last Quarterly Report filed on Form 10-Q for the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
of R1 RCM Inc.

We have audited R1 RCM Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). R1 RCM Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, R1 RCM Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of R1 RCM Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 1, 2017

Item 9B. *Other Information*

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our directors and executive officers will be contained in our 2017 Proxy Statement under the caption "Information About Our Directors, Officers and 5% Stockholders" and is incorporated in this report by reference.

The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance will be contained in our 2017 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated in this report by reference.

The information required by this item with respect to corporate governance matters will be contained in our 2017 Proxy Statement under the caption "Corporate Governance" and is incorporated in this report by reference.

Code of Ethics

We have adopted a code of business conduct and ethics that applies to our directors and officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) as well as our employees. Copies of our code of business conduct and ethics are available without charge upon written request directed to Corporate Secretary, R1 RCM Inc., 401 N. Michigan Avenue, Suite 2700, Chicago, Illinois, 60611. Additionally, copies are available without charge online at <http://ir.r1rcm.com/phoenix.zhtml?c=234481&p=irol-govhighlights>.

Item 11. Executive Compensation

Information required to be furnished by Item 402 of Regulation S-K and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K regarding executive compensation will be included in our 2017 Proxy Statement, and is herein incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We maintain an Amended and Restated Stock Option Plan, or the 2006 Plan, and a Second Amended and Restated 2010 Stock Incentive Plan, or the 2010 Amended Plan, and together with the 2006 Plan, the Plans. Under the 2010 Amended Plan we may issue up to a maximum of 46,374,756 shares, including any shares that remained available for issuance under the 2006 Plan as of the date of the IPO and any shares subject to awards that were outstanding under the 2006 Plan as of the date of the IPO that expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by us without the issuance of shares thereunder. We will not make any further grants under the 2006 Plan. The 2010 Amended Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. As of December 31, 2016, 15,581,377 shares were available for future grants of awards under the 2010 Amended Plan. However, to the extent that previously granted awards under the 2006 Plan or 2010 Amended Plan expire, terminate or are otherwise surrendered, canceled or forfeited, the number of shares available for future awards under the 2010 Amended Plan will increase.

The following table summarizes information about the securities authorized for issuance under our equity compensation plans as of December 31, 2016:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Restricted Stock Units	(b) Weighted-Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities reflected in Column (a))
Equity compensation plans approved by stockholders (1)(2)	18,061,580	\$ 5.44	18,831,652
Equity compensation plans not approved by stockholders (3)(4)	3,703,801	\$ 9.97	—
Total	20,418,607	\$ —	18,831,652

(1) Includes 16,714,806 outstanding stock options awarded under our 2006 Plan and 2010 Amended Plan and 1,346,774 restricted stock units awarded under our 2010 Amended Plan. Since the restricted stock units have no exercise price, they are not included in the weighted-average exercise price calculation in column b.

(2) Excludes 5,862,712 shares of RSAs that were unvested and not forfeited as of December 31, 2016.

(3) Represents stock option inducement grants made pursuant to the NYSE inducement grant rules.

(4) Excludes 49,972 shares of restricted stock that were unvested and not forfeited as of December 31, 2016.

We entered into a Stock Option Agreement with Stephen Schuckenbrock on April 3, 2013, as an inducement award pursuant to an exemption from the NYSE's stockholder approval requirements in connection with Mr. Schuckenbrock's appointment as our then-chief executive officer. Pursuant to this agreement, we granted Mr. Schuckenbrock a non-statutory stock option for the purchase of up to 2,903,801 shares of our common stock with an exercise price of \$9.56 per share, which option vests in substantially equal monthly installments over 48 months. Pursuant to an amendment to that Stock Option Agreement entered into in May 2015, such vesting continues irrespective of the termination of Mr. Schuckenbrock's service as an employee and director.

We entered into a Non-Statutory Stock Option Agreement and a Restricted Stock Award Agreement with Joseph Flanagan on June 3, 2013, each as an inducement award pursuant to an exemption from the NYSE's stockholder approval requirements in connection with Mr. Flanagan's appointment as our chief operating officer. Pursuant to the Non-Statutory Stock Option Agreement, we granted Mr. Flanagan a non-statutory stock option for the purchase of up to 800,000 shares of our common stock with an exercise price of \$11.47 per share and pursuant to the Restricted Stock Award Agreement, we granted Mr. Flanagan 400,000 shares of our common stock. These equity awards to Mr. Flanagan vest in substantially equal monthly installments over 48 months subject to continued service with us.

The information required by this item with regard to security ownership of certain beneficial owners and management will be contained in our 2017 Proxy Statement under the caption "Information About Our Directors, Officers and 5% Stockholders - Security Ownership of Certain Beneficial Owners and Management" and is incorporated in this report by reference.

The information required by this item with regard to securities authorized for issuance under equity compensation plans will be contained in our 2017 Proxy Statement under the caption "Executive Compensation - Securities Authorized for Issuance under our Equity Compensation Plans" and is incorporated in this report by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item will be contained in our 2017 Proxy Statement under the captions "Related-Party Transactions" and "Corporate Governance" and is incorporated in this report by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item will be contained in our 2017 Proxy Statement under the caption "Ratification of the Selection of Independent Registered Public Accounting Firm" and is incorporated in this report by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

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

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

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

(3) *Exhibits*: The list of Exhibits filed as part of this Annual Report on Form 10-K is set forth on the Exhibit Index immediately preceding such Exhibits and is incorporated herein by this reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

R1 RCM INC.

By: /s/ Joseph Flanagan

Joseph Flanagan
President, Chief Executive Officer and Chief Operating
Officer

By: /s/ Christopher Ricaurte

Christopher Ricaurte
Chief Financial Officer and Treasurer

Date: March 1, 2017

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

Signature	Title	Date
/s/ Joseph Flanagan Joseph Flanagan	President, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer)	March 1, 2017
/s/ Christopher Ricaurte Christopher Ricaurte	Chief Financial Officer and Treasurer (Principal Financial Officer)	March 1, 2017
/s/ Richard Evans Richard Evans	Principal Accounting Officer	March 1, 2017
/s/ Steven J. Shulman Steven J. Shulman	Chairman of the Board	March 1, 2017
/s/ Charles J. Ditkoff Charles J. Ditkoff	Director	March 1, 2017
/s/ John B. Henneman III John B. Henneman III	Director	March 1, 2017
/s/ Joseph R. Impicciche Joseph R. Impicciche	Director	March 1, 2017
/s/ Alex J. Mandl Alex J. Mandl	Director	March 1, 2017
/s/ Neal Moszkowski Neal Moszkowski	Director	March 1, 2017
/s/ Ian Sacks Ian Sacks	Director	March 1, 2017
/s/ Anthony J. Speranzo Anthony J. Speranzo	Director	March 1, 2017

R1 RCM Inc.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
of R1 RCM Inc.

We have audited the accompanying consolidated balance sheets of R1 RCM Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of R1 RCM Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), R1 RCM Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

Chicago, Illinois
March 1, 2017

R1 RCM Inc.
Consolidated Balance Sheets
(In thousands, except per share data)

	December 31,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 181,176	\$ 103,497
Short-term investments	—	1,023
Accounts receivable, net	3,985	10,194
Accounts receivable, net - related party	1,831	—
Prepaid income taxes	3,818	1,102
Prepaid expenses and other current assets	13,804	10,924
Total current assets	204,614	126,740
Property, equipment and software, net	32,789	27,217
Non-current deferred tax asset	169,916	300,825
Restricted cash equivalents	1,500	1,500
Other assets	6,240	4,007
Total assets	\$ 415,059	\$ 460,289
Liabilities		
Current liabilities:		
Accounts payable	7,947	5,306
Current portion of customer liabilities	69,713	202,516
Current portion of customer liabilities - related party	14,175	—
Accrued compensation and benefits	24,789	9,062
Other accrued expenses	18,485	15,743
Total current liabilities	135,109	232,627
Non-current portion of customer liabilities	1,000	432,477
Non-current portion of customer liabilities - related party	110,032	—
Other non-current liabilities	9,659	8,498
Total liabilities	\$ 255,800	\$ 673,602
8.00% Series A convertible preferred stock: par value \$0.01 per share, 370,000 authorized, 210,160 shares issued and outstanding as of December 31, 2016; no shares authorized or issued as of December 31, 2015 (aggregate liquidation value of \$214,363 as of December 31, 2016)		
	171,593	—
Stockholders' equity (deficit):		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 116,425,524 shares issued and 106,659,542 shares outstanding at December 31, 2016; 113,259,408 shares issued and 107,715,436 shares outstanding at December 31, 2015	1,164	1,133
Additional paid-in capital	349,198	322,492
Accumulated deficit	(304,702)	(481,773)
Accumulated other comprehensive loss	(2,843)	(2,488)
Treasury stock, at cost, 9,765,982 shares as of December 31, 2016; 5,543,972 shares as of December 31, 2015	(55,151)	(52,677)
Total stockholders' equity (deficit)	(12,334)	(213,313)
Total liabilities and stockholders' equity (deficit)	\$ 415,059	\$ 460,289

See accompanying notes to consolidated financial statements.

R1 RCM Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except per share data)

	Year Ended December 31,		
	2016	2015	2014
Net services revenue (\$461.4 million from related party for the 12 months ended December 31, 2016 and \$0 million from related party for the year ended December 31, 2015 and 2014, respectively.)	\$ 592,557	\$ 117,239	\$ 210,140
Operating expenses:			
Cost of services	199,697	168,977	182,144
Selling, general and administrative	74,137	74,963	69,883
Other	20,822	9,343	86,766
Total operating expenses	294,656	253,283	338,793
Income (loss) from operations	297,901	(136,044)	(128,653)
Net interest income	297	231	302
Income (loss) before income tax provision	298,198	(135,813)	(128,351)
Income tax provision (benefit)	121,127	(51,557)	(48,731)
Net income (loss)	\$ 177,071	\$ (84,256)	\$ (79,620)
Net income (loss) per common share:			
Basic	\$ 0.65	\$ (0.87)	\$ (0.83)
Diluted	\$ 0.65	\$ (0.87)	\$ (0.83)
Weighted average shares used in calculating net income (loss) per common share:			
Basic	100,160,206	96,806,885	95,760,762
Diluted	100,160,206	96,806,885	95,760,762
Consolidated statements of comprehensive income (loss)			
Net income (loss)	177,071	(84,256)	(79,620)
Other comprehensive loss:			
Foreign currency translation adjustments	(355)	(725)	(304)
Comprehensive income (loss)	\$ 176,716	\$ (84,981)	\$ (79,924)
Reconciliation of net income (loss) to income (loss) available to common shareholders:			
Basic:			
Net income (loss)	\$ 177,071	\$ (84,256)	\$ (79,620)
Less dividends on preferred shares	(62,684)	—	—
Less income allocated to preferred shareholders	(48,955)	—	—
Net income (loss) available/allocated to common shareholders - basic	\$ 65,432	\$ (84,256)	\$ (79,620)
Diluted:			
Net income (loss)	\$ 177,071	\$ (84,256)	\$ (79,620)
Less dividends on preferred shares	(62,684)	—	—
Less income allocated to preferred shareholders	(48,955)	—	—
Net income (loss) available/allocated to common shareholders - diluted	\$ 65,432	\$ (84,256)	\$ (79,620)

See accompanying notes to consolidated financial statements.

R1 RCM Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except per share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated other comprehensive (loss)	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2014	100,525,241	\$ 1,005	(4,514,330)	\$ (50,700)	\$ 283,439	\$ (317,897)	\$ (1,459)	\$ (85,612)
Share-based compensation expense	—	—	—	—	27,181	—	—	27,181
Deferred tax asset write off including shortfall of \$176	—	—	—	—	(3,521)	—	—	(3,521)
Exercise of vested stock options	—	—	—	—	—	—	—	—
Issuance of common stock related to share-based compensation plans	2,365,000	24	—	—	(24)	—	—	—
Treasury stock purchases	—	—	(263,892)	(370)	—	—	—	(370)
Foreign currency translation adjustments	—	—	—	—	—	—	(304)	(304)
Net income	—	—	—	—	—	(79,620)	—	(79,620)
Balance at December 31, 2014	102,890,241	\$ 1,029	(4,778,222)	\$ (51,070)	\$ 307,075	\$ (397,517)	\$ (1,763)	\$ (142,246)
Share-based compensation expense	—	—	—	—	29,236	—	—	29,236
Deferred tax asset write off including windfall of \$15	—	—	—	—	(15,262)	—	—	(15,262)
Issuance of common stock related to share-based compensation plans	8,994,729	90	—	—	(90)	—	—	—
Exercise of vested stock options	1,374,438	14	—	—	1,533	—	—	1,547
Treasury stock purchases	—	—	(765,750)	(1,607)	—	—	—	(1,607)
Foreign currency translation adjustments	—	—	—	—	—	—	(725)	(725)
Net income (loss)	—	—	—	—	—	(84,256)	—	(84,256)
Balance at December 31, 2015	113,259,408	\$ 1,133	(5,543,972)	\$ (52,677)	\$ 322,492	\$ (481,773)	\$ (2,488)	\$ (213,313)
Share-based compensation expense	—	—	—	—	30,183	—	—	30,183
Deferred tax asset write off including shortfall of \$3,526	—	—	—	—	(10,687)	—	—	(10,687)
Issuance of common stock related to share-based compensation plans	3,071,876	31	—	—	(31)	—	—	—
Exercise of vested stock options	94,240	—	—	—	165	—	—	165
Beneficial conversion feature	—	—	—	—	48,320	—	—	48,320
Issuance of stock warrants	—	—	—	—	21,440	—	—	21,440
Dividends paid/accrued dividends	—	—	—	—	(14,364)	—	—	(14,364)
Deemed preferred stock dividend	—	—	—	—	(48,320)	—	—	(48,320)
Treasury stock purchases	—	—	(4,222,010)	(2,474)	—	—	—	(2,474)
Foreign currency translation adjustments	—	—	—	—	—	—	(355)	(355)
Net income (loss)	—	—	—	—	—	177,071	—	177,071
Balance at December 31, 2016	116,425,524	\$ 1,164	(9,765,982)	\$ (55,151)	\$ 349,198	\$ (304,702)	\$ (2,843)	\$ (12,334)

See accompanying notes to consolidated financial statements.

R1 RCM Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2016	2015	2014
Operating activities			
Net income (loss)	\$ 177,071	\$ (84,256)	\$ (79,620)
Adjustments to reconcile net income (loss) to net cash used in operations:			
Depreciation and amortization	10,198	8,462	6,047
Share-based compensation	29,834	29,236	27,181
Loss on disposal	207	—	1,604
Provision (recovery) for doubtful receivables	5	(46)	(430)
Deferred income taxes	121,834	(52,690)	(49,227)
Excess tax benefit from share-based awards	—	—	(176)
Reimbursed tenant improvements	1,419	—	—
Changes in operating assets and liabilities:			
Accounts receivable and related party accounts receivable	4,373	(5,709)	20,548
Restricted cash equivalents	—	(1,500)	—
Prepaid income taxes	(2,770)	5,058	3,794
Prepaid expenses and other assets	(6,920)	(7,465)	(47)
Accounts payable	1,197	(7,162)	8,251
Accrued compensation and benefits	15,747	(5,918)	3,174
Other liabilities	1,018	248	(3,312)
Customer liabilities and customer liabilities - related party	(440,073)	97,930	(15,023)
Net cash used in operating activities	(86,860)	(23,812)	(77,236)
Investing activities			
Purchase of short-term investments	—	(1,023)	—
Purchases of property, equipment, and software	(12,635)	(21,275)	(6,034)
Proceeds from maturation of short-term investments	1,023	—	—
Net cash used in investing activities	(11,612)	(22,298)	(6,034)
Financing activities			
Series A convertible preferred stock and warrant issuance, net of issuance costs	178,669	—	—
Excess tax benefit from share-based awards	—	—	176
Exercise of vested stock options	165	1,547	—
Purchase of treasury stock	(2,439)	(1,607)	(370)
Restricted cash release from letter of credit	—	5,000	—
Net cash provided by (used in) financing activities	176,395	4,940	(194)
Effect of exchange rate changes in cash	(244)	(500)	(260)
Net increase (decrease) in cash and cash equivalents	77,679	(41,670)	(83,724)
Cash and cash equivalents, at beginning of year	103,497	145,167	228,891
Cash and cash equivalents, at end of year	\$ 181,176	\$ 103,497	\$ 145,167
Supplemental disclosures of cash flow information			
Accrued dividends payable to Preferred Stockholders	\$ 4,203	\$ —	\$ —
Accrued liabilities related to purchases of property, equipment and software	\$ 2,447	\$ 411	\$ —
Accounts payable related to purchases of property, equipment and software	\$ 2,027	\$ 565	\$ 863
Income taxes paid	\$ (1,111)	\$ (1,088)	\$ (801)
Income taxes refunded	\$ 666	\$ 1,441	\$ 3,014

See accompanying notes to consolidated financial statements.

R1 RCM Inc.
Notes to Consolidated Financial Statements

Note 1. Description of Business

R1 RCM Inc. (the "Company") is a leading provider of revenue cycle management ("RCM") services and physician advisory services ("PAS") to healthcare providers. The Company helps healthcare providers generate sustainable improvements in their operating margins and cash flows while also enhancing patient, physician and staff satisfaction for its customers. The Company achieves these results for its customers by managing healthcare providers' revenue cycle operations, which encompass processes including patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections from patients and payers. The Company does so by deploying a unique operating model that leverages its extensive healthcare site experience, innovative technology and process excellence.

The Company's primary service offering consists of end-to-end RCM, which encompasses patient registration, insurance and benefit verification, medical treatment documentation and coding, bill preparation and collections. The Company deploys its RCM services through a co-managed relationship or an operating partner relationship. Under a co-managed relationship, the Company leverages its customers' existing RCM staff and processes, and supplements them with our infused management, subject matter specialists, proprietary technology and other resources. Under an operating partner relationship, the Company provides comprehensive revenue cycle infrastructure to providers, including all revenue cycle personnel, technology, and process workflow. The Company also offers modular services, allowing customers to engage the Company for only specific components of our end-to-end RCM service offering. The Company's PAS offering complements the Company's RCM offering by strengthening customer's compliance with certain third-party payer requirements and limiting denials of claims. For example, the Company's PAS offering helps customers determine whether to classify a hospital visit as an in-patient or an out-patient observation case for billing purposes.

On February 16, 2016, the Company entered into a long-term strategic partnership with Ascension Health Alliance, the parent of the Company's largest customer and the nation's largest Catholic and non-profit health system, and TowerBrook Capital Partners ("TowerBrook"), an investment management firm (the "Transaction"). As part of the Transaction, the Company amended and restated its Master Professional Services Agreement ("A&R MPSA") with Ascension Health ("Ascension") effective February 16, 2016 with a term of ten years. Pursuant to the A&R MPSA and with certain limited exceptions, the Company will become the exclusive provider of RCM services and PAS with respect to acute care services provided by the hospitals affiliated with Ascension that execute supplement agreements with the Company.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

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

Segments

Reporting segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, relating to resource allocation and performance assessments. All of the Company's operations are organized around the single business of providing end-to-end management services of revenue cycle operations for U.S.-based hospitals and other medical providers. The Company views its operations and manages its business as one operating and reporting segment.

R1 RCM Inc.
Notes to Consolidated Financial Statements

Revenue Recognition

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

Net service fees, as reported in the consolidated statement of operations and comprehensive income (loss), consist of: (a) RCM services fees and (b) professional service fees earned on a fixed fee, transactional fee or time and materials basis. The Company's primary source of revenue is RCM services fees. RCM services fees are primarily contingent, but along with fixed fees are generally viewed as one deliverable. To the extent that certain RCM services fees are fixed and not subject to refund, adjustment or concession, such fees are generally recognized as revenue on a straight-line basis over the term of the contract.

On a limited basis, the Company enters into contracts with multiple accounting elements which may include a combination of fixed fee or transactional fee elements. The selling price of each element is determined by using management's best estimate of selling price. Revenues are recognized in accordance with the accounting policies for the separate elements.

RCM services fees that are contingent in nature are recognized as revenue once all the criteria for revenue recognition are met, which is generally at the end of a contract or other contractual agreement event. Revenue is recognized for RCM services fees upon the contract reaching the end of its stated term (such that the contractual relationship will not continue in its current form) to the extent that: (i) cash has been received for invoiced fees and (ii) there are no disputes at the conclusion of the term of the contract.

If fees or services are disputed by a customer at the end of a contract, a settlement agreement entered into with the customer triggers revenue recognition. An other "contractual agreement event" occurs when a renewal, amendment to an existing contract, or other settlement agreement is executed in which the parties reach agreement on prior fees. Revenue is recognized up to the amount covered by such agreements.

RCM services fees consist of the following contingent fees: (i) *Net Operating Fees* and (ii) *Incentive Fees*.

Net Operating Fees

The Company generates net operating fees to the extent the Company is able to assist customers in reducing the cost of revenue cycle operations. The Company's net operating fees consist of:

- i) gross base fees invoiced to customers; less
- ii) corresponding costs of customers' revenue cycle operations which the Company pays pursuant to its RCM agreements, including salaries and benefits for the customers' RCM personnel, and related third-party vendor costs; less
- iii) any cost savings the Company shares with customers.

Net operating fees are recorded as deferred customer billings until the Company recognizes revenue for a customer contract at the end of a contract or reaches an "other contractual agreement event". The amount of unpaid costs of customers' revenue cycle operations and shared cost savings are reported as accrued service costs within customer liabilities in the consolidated balance sheets.

Incentive Fees

The Company generates revenue in the form of performance-based fees when the Company improves the customers' financial or operational metrics. These performance metrics vary by customer contract. However, certain contracts contain a contract-to-date performance metric that is not resolved until the end of the term of the contract.

R1 RCM Inc.
Notes to Consolidated Financial Statements

Incentive fees are reported as deferred customer billings only upon cash receipt and until the Company recognizes revenue for a customer at the end of a contract or other contractual agreement event. In some cases, when a customer agreement is extended under an evergreen provision or other amendment, fees may not be considered finalized until the end of the customer relationship. Incentive fees associated with performance metrics which are not resolved until the end of the term of the contract or an "other contractual agreement event" are recorded in deferred customer billings until the Company recognizes revenue. Incentive fees are considered contingent fees.

Customer Liabilities

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

Consulting Fees, Transaction Fees and Contingent Service Fees

The Company also generates revenue from fixed-fee arrangements, transactional service contracts and contingent-fee service contracts. Provided all other criteria of revenue recognition are met under Accounting Standards Codification ("ASC") 605, Revenue Recognition, revenue under these arrangements is recognized as services are performed, deliverables are provided and related contingencies are removed. All related direct costs are recorded as period costs when incurred. Such consulting fees, transactional fees and contingent service fees are generated from services such as physician advisory services and other related consulting services.

Cost of Services

Costs associated with generating the Company's net services revenue, including the cost of operating its shared services centers, are expensed as incurred. Cost of services consist of (i) infused management, on site revenue cycle employees and technology costs, (ii) shared services costs and (iii) other costs to perform physician advisory services. Infused management and technology costs consist primarily of wages, bonuses, benefits, share-based compensation, travel and other costs associated with deploying the Company's employees at customer sites to help manage the Company's customers' revenue cycle operations. The other significant portion of such expenses is an allocation of the costs associated with maintaining, improving and deploying our integrated proprietary technology suite. Shared services costs relate to the Company's shared services centers in the U.S. and India that perform patient scheduling and pre-registration, medical transcription, cash posting, reconciliation of payments to billing records, patient follow-up and Medicaid eligibility determination for our customers. The Company incurs expenses related to salaries and benefits for employees in its shared services centers and non-payroll costs associated with operating its shared services centers. Other expenses consist of costs related to managing PAS and other services. These expenses consist primarily of wages, bonuses, benefits, share-based compensation and facilities costs.

Comprehensive Income (Loss)

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

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Notes to Consolidated Financial Statements

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Short-term Investments

At December 31, 2015 the Company's Indian subsidiaries had invested in \$1.0 million of time deposits with an original maturity greater than three months. The Company's time deposits were classified as "held-to-maturity" as the Company had both the intent and ability to hold to maturity. The current value was not materially different than the fair value.

Restricted Cash Equivalents

In 2015 and 2016, restricted cash equivalents represent the amount of certificate of deposits ("CDs"), with a maturity of three months or less, that the Company is unable to access for operational purposes as the CDs collateralize the Company's corporate travel program. At December 31, 2015 and December 31, 2016, the Company had \$1.5 million in restricted cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

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

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

Property, Equipment and Software

Property, equipment and software are stated at cost, and related depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets.

The Company capitalizes qualifying internal and third-party costs and hardware and software costs related to the Company's software development activities in accordance with GAAP. The Company amortizes the capitalized software development costs over their estimated life on a straight-line basis.

The major classifications of property, equipment and software and their expected useful lives are as follows:

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

Impairment of Long-Lived Assets

Property, equipment, software and other acquired intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If circumstances require a long-lived asset or asset group be reviewed for possible impairment, the Company first

R1 RCM Inc.
Notes to Consolidated Financial Statements

compares undiscounted cash flows expected to be generated by each asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent that the carrying value exceeds the fair value. There was no impairment of property, equipment, software or other acquired intangible assets for the years ended December 31, 2016, 2015 and 2014.

Income Taxes

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

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the tax authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest amount of benefit that has a greater than 50% percent likelihood of being realized upon ultimate settlement. Interest and penalties relating to income taxes are recognized in our income tax provision in the consolidated statements of operations and comprehensive income (loss).

Legal and Other Contingencies

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

Foreign Currency Translation and Transaction Gains (Losses)

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

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

Share-Based Compensation Expense

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

To determine the fair value of a share-based award using the Black-Scholes option pricing model, the Company makes assumptions regarding the risk-free interest rate, expected future volatility, expected life of the

R1 RCM Inc.
Notes to Consolidated Financial Statements

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

To determine the fair value of a share-based award using Monte Carlo simulations, the Company makes assumptions regarding the risk-free interest rate, expected future volatility, expected dividend yield and performance period. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company estimates the expected volatility of the share price by reviewing the historical volatility levels of its common stock in conjunction with that of public companies that operate in similar industries or are similar in terms of stage of development or size and then projecting this information toward its future expected volatility. Dividend yield is determined based on the Company's future plans to pay dividends. The Company had no plans to do so at December 31, 2016. The Company calculates the performance period based on the specific market condition to be achieved and derived from historical data and estimates of future performance.

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

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

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

Treasury Stock

The Company records treasury stock at the cost to acquire such shares, including commissions paid to brokers. Treasury stock is included as a component of stockholders' equity (deficit).

Earnings (Loss) Per Share

Basic net income per share is computed by dividing net income, less any dividends, accretion or decretion, redemption or induced conversion on the Preferred Stock, by the weighted average number of common shares outstanding during the period. As the Preferred Stock (as defined in Note 8) participates in dividends alongside the Company's common stock (per their participating dividends), the Preferred Stock would constitute participating

R1 RCM Inc.
Notes to Consolidated Financial Statements

securities under ASC 260-10 and are applied to earnings per share using the two-class method. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends.

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Notes to Consolidated Financial Statements

Note 3. Recent Accounting Pronouncements

Recently Issued Accounting Standards and Disclosures

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standard Codification 605, *Revenue Recognition* ("ASC 605"). ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within such reporting period, with early application permitted. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period presented, or the modified retrospective method (which we have previously referred to as the cumulative effect method), in which case the cumulative effect of applying the standard would be recognized as of the date of initial application.

The Company adopted the standard, effective January 1, 2017, using the modified retrospective method. Under this method, we could elect to apply the cumulative effect method to either all contracts as of the date of initial application or only to contracts that are not complete as of that date. We elected to apply the modified retrospective method to contracts that are not complete as of the date of initial application.

As part of adopting the standard, the Company identified two main revenue streams: 1) fees from its end-to-end revenue cycle offering, and 2) fees from its PAS offering. The adoption of the standard is expected to have a material impact on the Company's consolidated financial statements with the most significant impact being the recognition of revenue at the time services are provided or as the significant uncertainty related to variable fees for incentives is resolved for its end-to-end revenue cycle base and incentive fees. Prior to adopting the standard, the Company recognized these revenues that are contingent in nature when all revenue recognition criteria had been met, which was generally at the end of a contract or other contractual agreement event. Adoption of the standard is not expected to have significant impact on the Company's PAS revenue stream or its fixed fee arrangements. Additionally, the Company does not anticipate a change in cost capitalization resulting from the application of the fulfillment cost guidance and will continue to capitalize such costs that relate directly to a contract, generate or enhance resources the Company uses to satisfy future performance obligations, and are expected to be recovered, see note 17.

The cumulative impact of adopting the standard on January 1, 2017 is an increase in stockholders' equity (deficit), which at December 31, 2016 was \$(12.3) million, of between \$110 million and \$115 million and a decrease to deferred customer billings partially offset by a decrease to deferred tax assets.

In April 2015, the FASB issued ASU No. 2015-05, *Customers Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"). The Company adopted ASU 2015-05 on the required date of January 1, 2016 using the prospective method. For the year ended December 31, 2016, the Company did not enter into any new, material arrangements covered by this standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which supersedes existing guidance on accounting for leases in Topic 840, *Leases*. ASU 2016-02 generally requires all leases to be recognized in the statement of financial position. The provisions of ASU 2016-02 are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of this prospective guidance on its consolidated financials.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures,

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and statutory tax withholding requirements, as well as classification in the statement of cash flows. Additionally, ASU 2016-09 eliminates additional paid-in capital pools and requires excess tax benefits and tax deficiencies to be recognized as a component of income tax expense rather than equity. Under the new standard, entities can make an accounting policy election to either estimate expected forfeitures or to account for them as they occur. The provisions of ASU 2016-09 are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. The Company adopted ASU 2016-19 on a prospective basis effective January 1, 2017 and the Company will record forfeitures as they occur rather than estimating expected forfeitures. The Company expects to record the cumulative impact of applying this guidance to retained earnings, which is estimated to increase between \$1.0 million and \$2.0 million.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). ASU 2016-18 is intended to reduce diversity in practice in the classification and presentation of changes in restricted cash on the Consolidated Statement of Cash Flows. The ASU requires that the Consolidated Statement of Cash Flows explain the change in total cash and equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. ASU 2016-18 also requires a reconciliation between the total of cash and equivalents and restricted cash presented on the Consolidated Statement of Cash Flows and the cash and equivalents balance presented on the Consolidated Balance Sheet. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of the adoption of this prospective guidance on its consolidated financials.

Note 4. Fair Value of Financial Instruments

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

- Level 1: Observable inputs such as quoted prices in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The carrying amounts of the Company's financial instruments, which include financial assets such as cash and cash equivalents, restricted cash, restricted cash equivalents, accounts receivable, amounts due from related party, short-term investments and certain other current assets, as well as financial liabilities such as accounts payable, accrued service costs, accrued compensation and benefits and certain other accrued expenses, approximate their fair values, due to the short-term nature of these instruments. The Company does not have any financial assets or liabilities that are required to be measured at fair value on a recurring basis.

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Note 5. Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
	(unaudited)	
Beginning balance	\$ 99	\$ 314
(Recoveries) provision	5	(46)
Write-offs	(38)	(169)
Ending balance	<u>\$ 66</u>	<u>\$ 99</u>

Note 6. Property, Equipment and Software

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

	December 31,	
	2016	2015
Computer and other equipment	\$ 23,291	\$ 21,348
Leasehold improvements	16,017	17,851
Software	28,131	22,302
Office furniture	4,867	4,888
Property and equipment and software, gross	72,306	66,389
Less accumulated depreciation and amortization	(39,517)	(39,172)
Property and equipment and software, net	<u>\$ 32,789</u>	<u>\$ 27,217</u>

During the year ended December 31, 2016, the Company wrote-off approximately \$9.1 million in fully depreciated assets that were no longer in service.

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

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	For the Year Ended December 31,		
	2016	2015	2014
Cost of services	\$ 9,492	\$ 7,536	\$ 4,603
Selling, general and administrative	706	926	1,444
Total depreciation and amortization	\$ 10,198	\$ 8,462	\$ 6,047

Note 7. Customer Liabilities

Customer liabilities consist of the following (in thousands):

	December 31,	December 31,
	2016	2015
Deferred customer billings, current	\$ 68,173	\$ 130,124
Accrued service costs, current (1)	14,768	70,656
Customer deposits, current (1)	947	1,641
Deferred revenue, current	—	95
Current portion of customer liabilities	83,888	202,516
Deferred customer billings, non-current (2)	\$ 110,032	\$ 431,944
Customer deposits, non-current	—	533
Deferred revenue, non-current	\$ 1,000	—
Non current portion of customer liabilities	\$ 111,032	\$ 432,477
Total customer liabilities	\$ 194,920	\$ 634,993

(1) Includes \$13.2 million and \$1.0 million in current accrued service costs and customer deposits, respectively, for a related party that are included in the current portion of customer liabilities - related party in the accompanying consolidated balance sheets at December 31, 2016.

(2) Includes \$110.0 million in deferred customer billings for a related party that are included in the non-current portion of customer liabilities - related party in the accompanying consolidated balance sheets at December 31, 2016.

Note 8. Stockholders' Equity (Deficit)

Preferred Stock and Warrant

The Company has 5,000,000 shares of authorized preferred stock, each with a par value of \$0.01. The preferred stock may be issued from time to time in one or more series. The board of directors of the Company ("Board") is authorized to determine the rights, preferences, privileges and restrictions of the Company's authorized but unissued shares of preferred stock. On February 16, 2016, at the close of the Transaction, the Company issued to TCP-ASC ACHI Series LLLP, a limited liability limited partnership jointly owned by Ascension Health Alliance and investment funds affiliated with TowerBrook (the "Investor"): (i) 200,000 shares of its 8.00% Series A Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock" or "Preferred Stock"), for an aggregate price of \$200 million and (ii) an exercisable warrant to acquire up to 60 million shares of its common stock with an exercise price of \$3.50 per common share and a term of ten years. The Series A Preferred Stock is immediately convertible into shares of common stock. As of December 31, 2015 and 2014, the Company did not have any shares of preferred stock outstanding. See Note 13, 8% Series A Convertible Preferred Stock, for additional information.

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Common Stock

Each outstanding share of the Company's common stock, par value \$0.01 per share ("common stock"), is entitled to one vote per share on all matters submitted to a vote by shareholders. Subject to the rights of any preferred stock which may from time to time be outstanding, the holders of outstanding shares of common stock are entitled to receive dividends and, upon liquidation or dissolution, are entitled to receive pro rata all assets legally available for distribution to stockholders. No dividends were declared or paid on the common stock during 2016, 2015 and 2014.

Treasury Stock

On November 13, 2013, the Board authorized a repurchase of up to \$50.0 million of the Company's common stock in the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time at the sole discretion of the Board. Any repurchased shares will be available for use in connection with the Company's stock plans and for other corporate purposes. The Company funds the repurchases from cash on hand. As of December 31, 2015, no shares of common stock had been repurchased under this plan. During the fourth quarter of 2016, the Company repurchased 158,557 shares of the Company stock for \$0.4 million. No shares have been retired. As of December 31, 2016, the Company held in treasury 4,465,919 shares of repurchased stock.

Treasury stock also includes repurchases of Company stock related to employees' tax withholding upon vesting of restricted shares. See Note 9, Share-Based Compensation.

Note 9. Share-Based Compensation

The Company maintains two stock incentive plans: the Amended and Restated Stock Option Plan (the "2006 Plan") and the Second Amended and Restated Stock 2010 Incentive Plan (the "2010 Amended Plan", together with the 2006 Plan, the "Plans"). In December 2016, the Company's stockholders approved the Second Amended and Restated 2010 Stock Incentive Plan, which authorized the issuance of an additional seventeen million shares of the Company's common stock pursuant to awards.

Under the Plans, the Company could issue (up to a maximum of 46,374,756 shares) any shares that remained available for issuance under the 2006 Plan as of the date of the IPO and any shares subject to awards that were outstanding under the 2006 Plan as of the date of the IPO that expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company without the issuance of shares thereunder. The Company will not make any further grants under the 2006 Plan. The 2010 Amended Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards ("RSAs"), restricted stock units ("RSUs") and other share-based awards. As of December 31, 2016, 15,581,377 shares were available for future grants of awards under the 2010 Amended Plan. To the extent that previously granted awards under the 2006 Plan or 2010 Amended Plan expire, terminate or are otherwise surrendered, canceled or forfeited, the number of shares available for future awards under the 2010 Amended Plan will increase.

Under the terms of the Plans, all stock options will expire if they are not exercised within ten years of their grant date. Generally all employee options, RSAs and RSUs vest ratably between one and four years.

In 2014 and 2013, the Company granted service-based, non-qualified options to purchase 3,400,000 and 4,703,801 shares of common stock and awarded 1,000,000 and 400,000 shares of restricted stock, respectively, to key employees pursuant to inducement grant rules of the New York Stock Exchange ("NYSE"), of which 3,703,801 and 7,103,801 of the stock options were outstanding as of December 31, 2016 and 2015, respectively, and 41,630 and 1,399,980 of the shares of restricted stock were outstanding as of December 31, 2016 and 2015, respectively.

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

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price of the Company's stock price equals or exceeds twice the amount of the grant date stock price. As of December 31, 2016, this RSA was no longer outstanding.

The Company uses the Black-Scholes option pricing model to estimate the fair value of its service-based options as of its grant date. The Company uses the Monte Carlo simulations to estimate the fair value of its RSAs with vesting based on market-based performance conditions as of their respective grant dates. Expected life is based on the market condition to which the vesting is tied.

The following table sets forth the significant assumptions used in the Black-Scholes option pricing model and the Monte Carlo simulations and the calculation of share-based compensation expense during 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
Expected dividend yield	—	—	—
Risk-free interest rate	1.2% to 2.06%	1.5% to 2.0%	1.9% to 2.2%
Expected volatility	45% - 50%	50%	50%
Expected term (in years)	5.96 to 6.30	6.25	6.25 to 7.50
Forfeitures	5.68% annually	5.68% annually	5.68% annually

Total share-based compensation costs that have been included in the Company's consolidated statements of operations were as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Share-Based Compensation Expense Allocation Details:			
Cost of services	\$ 6,137	\$ 7,208	\$ 6,668
Selling, general and administrative	21,965	24,463	13,503
Other costs	1,828	—	8,761
Total share-based compensation expense (1)	<u>\$ 29,930</u>	<u>\$ 31,671</u>	<u>\$ 28,932</u>

(1) Includes \$0.1 million, \$2.4 million and \$1.8 million in share-based compensation expense paid in cash during the years ended December 31, 2016, 2015 and 2014, respectively.

There was \$23.2 million, \$47.2 million and \$42.8 million of total, unrecognized share-based compensation expense related to stock options, RSAs and RSUs granted under the Plans, which the Company expects to recognize over a weighted-average period of 2.8 years, 2.9 years and 3.2 years as of December 31, 2016, 2015 and 2014, respectively. Refer to the consolidated statements of stockholders' equity (deficit) for the tax benefits realized for the tax deductions from stock option exercises.

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Stock options

The following table sets forth a summary of all employee and non-employee option activity under all plans and inducement grants for the years ended December 31, 2016, 2015 and 2014:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2014	20,540,273	\$ 11.77	7.4	\$ 15,673
Granted	4,406,856	8.78		
Exercised	—	—		
Canceled/forfeited	(5,022,724)	13.17		
Outstanding at December 31, 2014	19,924,405	10.91	6.9	9,444
Granted	2,231,504	5.60		
Exercised	(1,374,438)	1.13		
Canceled/forfeited	(5,521,205)	13.17		
Outstanding at December 31, 2015	15,260,266	10.23	7.0	261
Granted	11,186,107	2.39		
Exercised	(94,240)	1.93		
Canceled/forfeited	(5,933,526)	9.22		
Outstanding at December 31, 2016	20,418,607	6.26	7.9	256
Outstanding, vested and exercisable at December 31, 2014	9,605,505	\$ 11.89	5.9	\$ 15,096
Outstanding, vested and exercisable at December 31, 2015	11,879,209	\$ 11.73	5.6	\$ 9,444
Outstanding, vested and exercisable at December 31, 2016	7,993,168	\$ 11.34	5.3	\$ 15

The weighted-average grant date fair value of options granted during the years ended December 31, 2016, 2015 and 2014 was \$1.07, \$2.78 and \$4.40 per share, respectively. The total intrinsic value of the options exercised in the years ended December 31, 2016 and 2015 was \$0.1 million and \$4.9 million, respectively. No options were exercised in the year ended December 31, 2014. The total fair value of options vested during the years ended December 31, 2016, 2015 and 2014 was \$15.0 million, \$14.9 million and \$22.9 million, respectively.

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Restricted stock awards

In the third quarter of 2011, the Company began to grant RSAs to its employees. A summary of the activity during the years ended December 31, 2016, 2015 and 2014 is shown below:

	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at January 1, 2014	458,299	\$ 11.45
Granted	2,365,000	8.39
Vested	(127,084)	11.46
Forfeited	(218,750)	9.40
Outstanding and unvested at December 31, 2014	2,477,465	\$ 8.71
Granted	8,994,729	3.34
Vested	(1,892,049)	5.24
Forfeited	(324,213)	7.61
Outstanding and unvested at December 31, 2015	9,255,932	\$ 4.24
Granted	3,071,876	2.58
Vested	(3,361,336)	4.37
Forfeited	(3,103,760)	4.69
Outstanding and unvested at December 31, 2016	5,862,712	\$ 3.01

The total fair value of RSAs vested during the years ended December 31, 2016, 2015 and 2014 was \$14.7 million, \$9.9 million and \$1.5 million, respectively. The Company's RSA agreements allow employees to deliver to the Company shares of stock upon vesting of their RSAs in lieu of their payment of the required personal employment-related taxes. The Company does not withhold taxes in excess of minimum required statutory requirements. During the years ended December 31, 2016, 2015 and 2014, employees delivered to the Company 996,510, 441,537 and 45,142 shares of stock, respectively, which the Company recorded at a cost of approximately \$2.2 million, \$1.6 million and \$0.4 million, respectively. As of December 31, 2016, the Company held 1,529,937 shares of surrendered common stock in treasury related to the vesting of RSAs.

Forfeited and canceled RSAs are added to treasury stock. For the years ended December 31, 2016, 2015 and 2014, 3,103,760, 324,213 and 218,750 shares were respectively added to treasury stock due to canceled RSAs.

Restricted stock units

In the fourth quarter of 2016, the Company began to grant RSUs to its employees. A summary of the activity during the years ended December 31, 2016 is shown below:

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	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at December 31, 2015	—	\$ —
Granted	1,361,794	2.35
Vested	—	—
Forfeited	(15,020)	2.35
Outstanding and unvested at December 31, 2016	<u>1,346,774</u>	\$ 2.35

The Company's RSU agreements allow employees to receive shares of stock upon vesting of their RSUs. As of December 31, 2016, no RSUs had vested.

Modifications of share-based awards

During the second quarter of 2014, the Company modified the terms of awards granted to 39 employees (including the 13 who were affected in 2013) who were terminated under the 2013 restructuring plan to allow for the extension of the exercise period for vested options until such time as the Company's registration statement on Form S-8 had been effective for 60 consecutive days. Such modifications resulted in a net increase in share-based compensation expense of \$2.3 million for the year ended December 31, 2014.

During the first quarter of 2014, in connection with the resignation of a senior executive from the Company, the Company modified the terms of awards previously granted to such executive. Such modification extended the term to exercise vested options from 60 days following his effective resignation date to such time as the Company's registration statement on Form S-8 had been effective for 60 consecutive days. Such modification resulted in a net increase of share-based compensation expense for the year ended December 31, 2014 of \$5.6 million.

During the second quarter of 2013, the Company modified the terms of an award granted to Mary Tolan, the Company's former chief executive officer, in connection with her transition to the role of the Chairman of the Board of the Company. This modification allowed for the extension of the exercise period for options vested as of the date of the modification from 60 days following the termination of employment to the expiration of the original award (ten years from the grant date). This modification resulted in a net increase in share-based compensation expense of \$1.5 million for the year ended December 31, 2014.

During the second quarter of 2014, the Company granted to the Chief Operating Officer (the "COO") retention equity awards subject to the approval of our stockholders of an amendment to our Amended 2010 Plan. In the event that the stockholders did not approve the amendment prior to December 31, 2014, then in lieu of the incentive equity awards, the COO would be entitled to receive cash payments following each date that any portion of such equity grant would have otherwise vested equal to: (i) for stock options, the difference between the exercise price and the closing price of the common stock on the vesting date and (ii) for restricted stock, the closing price of the common stock on the vesting date. The Company determined that stockholder approval to amend the 2010 Plan would not occur by December 31, 2014 and accrued for these grants at the value as explained above. For the years ended December 31, 2016, 2015 and 2014, the Company incurred \$0.1 million, \$0.6 million and \$0.9 million of share-based compensation expense related to this grant, respectively.

Additionally, as part of the COO's retention agreement, the Company modified the terms of a stock option granted to the COO at the commencement of his employment. This modification would be triggered upon termination of employment by the Company without cause or by the COO for good reason and if triggered, the vested portion of the stock option would remain exercisable for a period of time equal to 60 days plus the number of days of service with the Company, but not longer than two years, or until the stock option otherwise expires, if

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earlier. This modification resulted in a net increase in share-based compensation expense of \$0.2 million for year ended December 31, 2014.

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

During the second quarter of 2015, in connection with the resignation of a member of the Board who was also the former Chief Executive Officer of the Company, the Company modified the terms of awards previously granted to such Board member. This modification allowed for the continuation of vesting of options despite his resignation from the Board. Such modification resulted in a net increase of share-based compensation expense for the year ended December 31, 2015 of \$3.1 million.

During the third quarter of 2015, the Compensation Committee of the Board approved the grant of cash bonuses to the participants in the Company's 2014 annual cash incentive bonus plan who received all or a portion of their 2014 annual cash incentive award in the form of restricted shares of the Company's common stock (the "2014 Bonus Plan RSA Grantees"). Such bonuses were paid to 2014 Bonus Plan RSA Grantees on the second regularly scheduled payroll date following the Company's scheduled second quarter earnings release on August 5, 2015 and were equal to the product of (i) \$2.66 (which amount represents the difference of \$5.38, the trading price per share of the Company's common stock as of the close of trading on the date that the Company determined the number of restricted shares to be granted to 2014 Bonus Plan RSA Grantees, minus \$2.72, the trading price per share of the Company's common stock as of the close of trading on the second business day following the earnings release), multiplied by (ii) the number of restricted shares granted to the applicable 2014 Bonus Plan RSA Grantee. The aggregate number of restricted shares granted to 2014 Bonus Plan RSA Grantees was 683,401. This modification resulted in a net increase of share-based compensation expense for the year ended December 31, 2015 of \$1.8 million.

During the second quarter of 2016, in connection with the resignation of the Company's Chief Executive Officer, Chief Financial Officer and the Restructuring Plan as further described in Note 11, the vesting of certain options and RSAs was accelerated pursuant to the agreements previously entered into by the former employees and resulted in an increase of share-based compensation expense for the year ended December 31, 2016 of \$7.0 million.

Note 10. Retirement Plan

The Company maintains a 401(k) retirement plan (the "401(k) plan") that is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. In general, all employees are eligible to participate. The 401(k) plan includes a salary deferral arrangement pursuant to which participants may elect to reduce their current compensation by up to the statutorily prescribed limit, equal to \$18,000, \$18,000 and \$17,500 in 2016, 2015 and 2014, respectively, and have the amount of the reduction contributed to the 401(k) plan. The Company currently matches employee contributions up to 50% of the first 3% of base compensation that a participant contributes to the 401(k) plan. In 2016, 2015 and 2014, director-level and above employees were excluded from the matching contribution feature of the plan. For the years ended December 31, 2016, 2015 and 2014, total Company contributions to the plan were \$0.7 million, \$0.4 million and \$0.5 million, respectively.

Note 11. Other

Other costs are comprised of reorganization-related and certain other costs. For the years ended December 31, 2016 and 2015, the Company incurred \$20.8 million and 9.3 million in other costs, respectively.

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Other costs consist of the following (in millions):

	Year Ended December 31,		
	2016	2015	2014
Severance and employee benefits	\$ 3.5	\$ 0.6	\$ 9.2
Facility charges	1.1	2.6	5.0
Non-cash share based compensation	1.8	—	7.9
Reorganization-related	6.4	3.2	22.1
Restatement costs	1.2	2.5	57.3
Transaction fees (1)	12.7	—	—
Defined Contribution plan contributions (2)	0.5	—	—
Strategic Alternative Exploration	—	3.8	—
Prior year employment tax expense	—	(0.2)	0.9
Office Transformation	—	—	6.5
Other	14.4	6.1	64.7
Total other	\$ 20.8	\$ 9.3	\$ 86.8

(1) Costs related to retention payments and legal fees paid in connection with the closing of the Transaction (see Note 8).

(2) Additional contributions to the Company's defined contribution plan for the year ended December 31, 2016.

Reorganization-related

In 2013, the Company initiated a restructuring plan (the "Restructuring Plan") consisting of reductions in workforce in order to align its organizational structure and resources to better serve its customers. In January 2014, the Company revised the Restructuring Plan to include additional reductions to its workforce in certain corporate, administrative and management functions. During the second and fourth quarter of 2016, the Company initiated a restructuring plan consisting of reductions in its workforce in order to align the size and composition of its workforce to its current client base, better position itself for already committed future growth, and enable the Company to more efficiently serve contracted demand.

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The Company's reorganization activity was as follows (in thousands):

	Severance and Employee Benefits	Facilities and Other Costs	Total
Reorganization liability at January 1, 2014	\$ 1,143	\$ —	\$ 1,143
Restructuring charges	17,108	5,010	22,118
Cash payments	(7,050)	(3,482)	(10,532)
Non-cash charges	(7,905)	(1,370)	(9,275)
Reorganization liability at December 31, 2014	\$ 3,296	\$ 158	\$ 3,454
Restructuring charges	596	2,564	3,160
Cash payments	(3,575)	(546)	(4,121)
Non-cash charges	—	—	—
Reorganization liability at December 31, 2015	\$ 317	\$ 2,176	\$ 2,493
Restructuring charges	5,369	1,080	6,449
Cash payments	(2,272)	(2,731)	(5,003)
Non-cash charges	(1,800)	\$ —	(1,800)
Reorganization liability at December 31, 2016	\$ 1,614	\$ 525	\$ 2,139

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Note 12. Income Taxes

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

	Year Ended December 31,		
	2016	2015	2014
Domestic	\$ 292,400	\$ (139,058)	\$ (130,945)
Foreign	5,798	3,245	2,594
Total income (loss) before income taxes	<u>\$ 298,198</u>	<u>\$ (135,813)</u>	<u>\$ (128,351)</u>

For the years ended December 31, 2016, 2015 and 2014, the Company's current and deferred income tax expense (benefit) attributable to income (loss) from operations are as follows (in thousands):

	Current	Deferred	Total
Year Ended December 31, 2014			
U.S. Federal	\$ (627)	\$ (42,240)	\$ (42,867)
State & Local	46	(6,363)	(6,317)
Foreign	1,025	(572)	453
	<u>\$ 444</u>	<u>\$ (49,175)</u>	<u>\$ (48,731)</u>
Year Ended December 31, 2015			
U.S. Federal	\$ 68	\$ (43,199)	\$ (43,131)
State & Local	(176)	(8,468)	(8,644)
Foreign	530	(312)	218
	<u>\$ 422</u>	<u>\$ (51,979)</u>	<u>\$ (51,557)</u>
Year Ended December 31, 2016			
U.S. Federal	\$ (210)	\$ 95,613	\$ 95,403
State & Local	(25)	24,977	24,952
Foreign	1,176	(404)	772
	<u>\$ 941</u>	<u>\$ 120,186</u>	<u>\$ 121,127</u>

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

	Year Ended December 31,		
	2016	2015	2014
Federal statutory tax rate	35%	35 %	35%
Increase in income tax rate resulting from:			
State and local income taxes, net of federal tax benefits	5%	4 %	3%
Other	1%	(1)%	
Actual tax rate	<u>41%</u>	<u>38 %</u>	<u>38%</u>

In the three month period ended March 31, 2014, the Company corrected the statutory rate used in one of its state deferred calculations for the year ended December 31, 2013. The Company discovered this error in the process of preparing its annual and quarterly financial statements for the year ended December 31, 2014, and recorded the amount in the first quarter of 2014. The correction of this error increased tax expense for the year

R1 RCM Inc.
Notes to Consolidated Financial Statements

ended December 31, 2014 by approximately \$2.4 million. The Company has determined the amount is immaterial for the year ended December 31, 2014.

The following table sets forth the Company's net deferred tax assets as of December 31, 2016 and 2015 (in thousands):

	As of December 31,	
	2016	2015
Deferred Tax assets:		
Deferred customer billings	67,935	220,075
Net operating loss carryforwards	70,953	48,201
Share-based compensation	22,905	24,995
Accrued bonus	4,786	2,008
Other reserves	699	606
Alternative minimum tax	1,857	1,537
Other	919	2,446
Fixed assets	238	435
R&D credit	289	189
Charitable contributions	539	534
Stock warrants	72	101
Total gross deferred tax assets	171,192	301,127
Less valuation allowance	(1,276)	(302)
Net deferred tax asset	\$ 169,916	\$ 300,825

At December 31, 2016, the Company had cumulative U.S. federal net operating loss carryforwards of approximately \$181.2 million which are available to offset U.S. federal taxable income in future periods through 2036.

At December 31, 2016, the Company has cumulative state net operating loss ("NOL") carryforwards of approximately \$185.8 million which are available to offset state taxable income in future periods through 2036. A valuation allowance is required to be established when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The guidance on accounting for income taxes provides important factors in determining whether a deferred tax asset will be realized, including whether there has been sufficient taxable income in recent years and whether sufficient income can reasonably be expected in future years in order to utilize the deferred tax asset. The valuation allowance recorded relates to state NOL carryforwards where the Company no longer has business activities in that state, or where the activity level has decreased to such a level where it is not more likely than not the NOL will be realized.

Consideration is given to the weight of all available evidence, both positive and negative. Generally, a cumulative loss in recent years is negative evidence in determining the need for a deferred tax asset valuation allowance. However, the recent cumulative losses in book income are primarily the result of a delay in revenue recognition on contracts that have been in place for a number of years. Revenue is being deferred by the Company until a future event occurs and the revenue becomes fixed, per the terms of each contract. The Company notes that the majority of the remaining deferred revenue from contracts that the Company has previously entered are recognized in the cumulative effect transition adjustment that was recognized with the adoption of the new revenue recognition standard on January 1, 2017 as discussed in Note 3. The majority of the deferred revenue amounts have already been reported on income tax returns filed in accordance with a previously established and approved method of accounting for federal and state income tax reporting. The significant positive evidence related to the projected realization of the deferred customer billings from existing contracts and projected taxable income outweighs the negative evidence from the cumulative losses incurred in recent years. The Company estimates its already contracted business growth associated with the Ascension A&R MPSA will be profitable and allow the Company to utilize its

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NOL carryforwards and other deferred tax assets. Accordingly, the Company believes that it is more likely than not that the remaining deferred tax assets will be realized. Should the Company not operationally execute as expected, and the growth in the Ascension business not be as profitable as expected, such realizability assessment may change.

The Company has recorded valuation allowances at December 31, 2016 and 2015 of \$1.3 million and \$0.3 million, respectively, based on our assessment that it is more likely than not that a portion of the Company's separate state income tax net operating loss will not be realized.

The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign subsidiaries that arose in 2016 or 2015 because the Company considers such earnings to be indefinitely reinvested outside of the United States. As of December 31, 2016 and 2015, the undistributed earnings of such subsidiaries were \$11.9 million and \$9.0 million, respectively. It is not practicable to estimate the amount of recognized deferred tax liabilities, if any, for these undistributed foreign earnings.

The 2016, 2015 and 2014 current tax provision includes \$1.2 million, \$0.5 million and \$1.0 million, respectively, for income taxes arising from the pre-tax income of the Company's India subsidiaries. The tax provisions are net of the impact of a tax holiday in India. The Company's benefits from this tax holiday were \$0.9 million for the year ended December 31, 2016, \$0.7 million for the year ended December 31, 2015 and \$0.5 million for the year ended December 31, 2014. The tax holiday is set to expire on March 31, 2021.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company's unrecognized tax benefits as of December 31, 2016, 2015 and 2014 totaled \$0.3 million, \$1.2 million and \$1.1 million, respectively.

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The following table summarizes the activity related to the unrecognized tax benefits (in thousands):

	Tax Benefit
Unrecognized tax benefits at December 31, 2013	\$ 1,302
Increases in positions taken in a current period	66
Increases in positions taken in prior period	94
Decreases in positions taken in a prior period	(51)
Decreases due to lapse of statute of limitations	(313)
Decreases due to settlement	—
Unrecognized tax benefits at December 31, 2014	\$ 1,098
Increases in positions taken in a current period	134
Increases in positions taken in prior period	597
Decreases in positions taken in a prior period	—
Decreases due to lapse of statute of limitations	(587)
Decreases due to settlement	—
Unrecognized tax benefits at December 31, 2015	\$ 1,242
Increases in positions taken in prior period	—
Increases in positions taken in a current period	504
Decreases in position taken in prior period	(465)
Decreases due to lapse of statute of limitations	—
Decreases due to settlement	(940)
Unrecognized tax benefits at December 31, 2016	\$ 341

As of December 31, 2016, approximately \$0.3 million of the total gross unrecognized tax benefits represented the amount that, if recognized, would result in an adjustment to the effective income tax rate in future periods. The Company recognizes interest and penalties related to income tax matters as part of income tax expense. The Company recorded adjustments to interest and potential penalties related to these unrecognized tax benefits during 2016, and in total, as of December 31, 2016, the Company has recorded a liability for interest and potential penalties of \$0.0 million. The Company anticipates changes to the reserves within the next 12 months to be primarily related to interest. The Company believes it has sufficient accruals for contingent tax liabilities.

In connection with tax return examinations, contingencies can arise that generally result from different interpretations of tax laws and regulations as they pertain to the amount, timing or inclusion of revenues and expenses in taxable income, or the ability to utilize tax credits to reduce income taxes payable. While it is probable, based on the potential outcome of the Company's federal and state tax examinations or the expiration of the statute of limitations for specific jurisdictions, that the liability for unrecognized tax benefits may increase or decrease within the next 12 months, the Company does not expect any such change would have a material effect on our financial condition, results of operations or cash flow.

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

Pursuant to the acquisition of a business in May 2006, the sellers, certain of which were former employees of the Company, are obligated to indemnify the Company for federal and state income taxes, including 50% of any interest and penalties incurred, related to periods up to and including the date of the acquisition. The potential

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amount due to the Company related to this indemnity was \$1.3 million as of December 31, 2014 and 2013. As of December 31, 2015, the Company released \$1.3 million due to the lapse of the statute of limitations (of which \$0.7 million related to interest and penalties). The amount due from the related party was secured by the fair value of shares and cost held by the Company in escrow. The escrow agreement expired on June 15, 2015. The cost and fair value of the shares were \$0.8 million and \$1.0 million at December 31, 2014 and 2013, respectively. Given that the fair value of the shares was less than the amount due from the related party in 2014 and 2013, the Company recorded a reserve of \$0.5 million and \$0.3 million, respectively, to reflect the difference between the fair value of the shares and the receivable they securitized. Subsequent to the expiration of the escrow agreement in 2015, the shares held as security by the Company were released to the former sellers.

Note 13. 8.00% Series A Convertible Preferred Stock

At the close of the Transaction on February 16, 2016 (as described in Note 1), the Company issued to the Investor: (i) 200,000 shares of Preferred Stock, for an aggregate price of \$200 million, and (ii) a warrant with a term of ten years to acquire up to 60 million shares of common stock, par value \$0.01 per share ("common stock"), at an exercise price of \$3.50 per share, on the terms and subject to the conditions set forth in the Warrant Agreement ("Warrant"). The Preferred Stock is immediately convertible into shares of common stock.

The Company incurred direct and incremental expenses of \$21.3 million (including \$14.0 million in closing fees paid to the Investor) relating to financial advisory fees, closing costs, legal expenses and other offering-related expenses in connection with the Transaction. These direct and incremental expenses reduced the carrying amount of the Preferred Stock. In connection with the issuance of the Preferred Stock, a beneficial conversion feature of \$48.3 million was recognized. Since the Preferred Stock is presently convertible into common stock, this amount was subsequently accreted to the carrying amount of the Preferred Stock, and treated as a deemed preferred stock dividend in the calculation of earnings per share.

Dividend Rights

The holders of the Preferred Stock are entitled to receive cumulative dividends January 1, April 1, July 1 and October 1 of each year (dividend payment dates), commencing on April 1, 2016, at a rate equal to 8% per annum (preferred dividend) multiplied by the liquidation preference per share, initially \$1,000 per share adjusted for any unpaid cumulative preferred dividends. For the first seven years after issuance, the dividends on the Preferred Stock will be paid-in-kind. As of December 31, 2016, the Company had accrued dividends of \$4.2 million associated with the Preferred Stock, of which \$4.2 million was paid in additional shares of Preferred Stock and \$0.0002 million was paid in cash in January 2017. For the year ended December 31, 2016, the dividends that were paid, or accrued, in additional shares of Preferred Stock totaled \$14.4 million.

Conversion Features

Each share of the Preferred Stock may be converted to common stock on any date at the option of the holder into the per share amount (as defined in the Certificate of Designations of the 8.00% Series A Convertible Preferred Stock (the "Series A COD")). Fractional shares will be rounded to the nearest whole share.

Redemption Rights

Since the redemption of the Preferred Stock is contingently or optionally redeemable and therefore not certain to occur, the Preferred Stock is not required to be classified as a liability under ASC 480, *Distinguishing Liabilities from Equity*. As the Preferred Stock is redeemable at the option of the holders upon a fundamental change (as defined in the Series A COD) and is redeemable in certain circumstances upon the occurrence of an event that is not solely within the Company's control, the Company has classified the Preferred Stock in mezzanine equity on the Condensed Consolidated Balance Sheets. In the event the Company believes that redemption of the Preferred Stock is probable, the Company would be required to accrete changes in the carrying value to the redemption value over the period until the expected redemption date.

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Voting Rights

Each holder of the Preferred Stock is entitled to vote with the common stock on an as-converted basis, and has full voting rights and powers equal to the voting rights and powers of the holders of common stock.

The following summarizes the Preferred Stock activity for the year ended December 31, 2016:

	Preferred Stock	
	Shares Issued and Outstanding	Carrying Value
Balance at December 31, 2015	—	\$ —
Issuance of preferred stock	200,000	108,909
Beneficial conversion feature deemed dividend	—	48,320
Dividends paid/accrued dividends	10,160	14,364
Balance at December 31, 2016	<u>210,160</u>	<u>\$ 171,593</u>

Note 14. Earnings (Loss) Per Share

Basic net income per share is computed by dividing net income, less any dividends, accretion or decrction, redemption or induced conversion on the Preferred Stock, by the weighted average number of common shares outstanding during the period. As the Preferred Stock participates in dividends alongside the Company's common stock (per their participating dividends), the Preferred Stock would constitute participating securities under ASC 260-10 and are applied to earnings per share using the two-class method. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends.

Diluted net income per share is calculated using the more dilutive of the if-converted or the two-class method. For the year ended December 31, 2016, the two-class method was more dilutive and was computed by adjusting the denominator used in the basic net income per share computation by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options, shares issuable upon vesting of RSAs, RSUs and Preferred Stock.

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Basic and diluted net income (loss) per common share are calculated as follows (in thousands, except share and per share data):

	2016	2015	2014
<i>Basic EPS:</i>			
Net income (loss)	\$ 177,071	\$ (84,256)	\$ (79,620)
Less dividends on preferred shares	(62,684)	—	—
Less income allocated to preferred shareholders	(48,955)	—	—
Net income (loss) available/(allocated) to common shareholders - basic	<u>\$ 65,432</u>	<u>\$ (84,256)</u>	<u>\$ (79,620)</u>
<i>Diluted EPS:</i>			
Net income (loss)	177,071	(84,256)	(79,620)
Less dividends on preferred shares	(62,684)	—	—
Less income allocated to preferred shareholders	(48,955)	—	—
Net income (loss) available/(allocated) to common shareholders - diluted	<u>\$ 65,432</u>	<u>\$ (84,256)</u>	<u>\$ (79,620)</u>
Basic weighted-average common shares	100,160,206	96,806,885	95,760,762
Add: Effect of dilutive securities	—	—	—
Diluted weighted average common shares	<u>100,160,206</u>	<u>96,806,885</u>	<u>95,760,762</u>
Net income (loss) per common share (basic)	<u>\$ 0.65</u>	<u>\$ (0.87)</u>	<u>\$ (0.83)</u>
Net income (loss) per common share (diluted)	<u>\$ 0.65</u>	<u>\$ (0.87)</u>	<u>\$ (0.83)</u>

Because of their anti-dilutive effect, 27,628,093 common share equivalents comprised of stock options, RSAs and RSUs have been excluded from the diluted earnings per share calculation for the year ended December 31, 2016. Due to the net loss, stock options and RSAs totaling 24,516,198 and 22,401,870 were not included in the computation of diluted income (loss) per share for the years ended December 31, 2015 and 2014, respectively.

Note 15. Commitments and Contingencies

Operating Leases

The Company rents office space and equipment under operating leases, primarily for its Chicago corporate office, U.S. shared services centers and India operations. Office space lease terms range from one to 10 years, whereas equipment lease terms range from one to three years. The Company's leases contain various rent holidays and rent escalation clauses and entitlements for tenant improvement allowances. Lease payments are amortized to expense on a straight-line basis over the lease term.

Total rent expense under all operating leases was \$5.6 million, \$6.2 million and \$4.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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The aggregate future minimum rental commitments under all noncancelable operating leases having remaining terms in excess of one year as of December 31, 2016 are as follows (in thousands):

2017	5,962
2018	6,365
2019	5,957
2020	5,393
2021	4,198
Thereafter	10,511
Total	<u>\$ 38,386</u>

Legal Proceedings

Other than as described below, the Company is not presently a party to any material litigation or regulatory proceeding and is not aware of any pending or threatened litigation or regulatory proceeding against the Company which, individually or in the aggregate, could have a material adverse effect on its business, operating results, financial condition or cash flows.

On July 22, 2014, the Company was named as a defendant in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Michigan (*Anger v. Accretive Health, Inc.*). The primary allegations are that the Company attempted to collect debts without providing the notice required by the Fair Debt Collection Practices Act and Michigan Fair Debt Collection Practices Act and failed to abide by the terms of an agreed payment plan in violation of those same statutes. On August 27, 2015, the Court granted in part and denied in part the Company's motion to dismiss. An amended complaint was filed on November 30, 2015. Discovery is underway, but on July 15, 2016, the court postponed all deadlines in the case as the parties attempt to finalize a confidential agreement in principle to settle the case. On February 23, 2017, the parties reached a settlement in principle and are preparing a motion for pre-approval and class settlement. The Company believes that it has meritorious defenses and intends to vigorously defend itself against these claims, if the settlement in principle is not finalized.

In April 2015, the Company was named among other defendants in an employment action brought by a former employee before the Maine Human Rights Commission ("MHRC"), alleging that she was improperly terminated in retaliation for uncovering alleged Medicare fraud. The Company filed its response with the MHRC on May 19, 2015 seeking that the Company be dismissed entirely from the action. On June 23, 2015, the MHRC issued its Notice of Right to Sue and decision to terminate its process with respect to all charges asserted by the former employee. The Plaintiff has filed a parallel *qui tam* action in the District of Maine (*Worthy v. Eastern Maine Healthcare Systems*) in which she makes the same allegations. The U.S. Department of Justice declined to intervene in the federal court action, and the case was unsealed in April 2015. The Company and other defendants filed motions to dismiss the Third Amended Complaint on March 21, 2016. Those motions were granted with respect to the retaliation claims, but denied with respect to the False Claims Act claims by the federal district court in January 2017. The parties are currently engaged in an initial discovery phase. There is a scheduling conference with the court scheduled for April 5, 2017. The Company believes that it has meritorious defenses to all of the claims in the federal *qui tam* case, and intends to vigorously defend itself against these claims. The outcomes are not presently determinable.

In May 2016, the Company was served with a False Claims Act case brought by a former emergency department service associate who worked at a hospital of one of the Company's customers, MedStar Inc.'s Washington Hospital Center ("WHC"), along with WHC and three other hospitals that were PAS clients and a place holder, John Doe hospital, representing all PAS clients (*USA ex rel. Graziosi vs. Accretive Health, Inc. et al.*). The Second Amended Complaint, which seeks monetary damages, alleges that the Company's PAS business violates the federal False Claims Act. The case was originally filed under seal in 2013 in the federal district court in Chicago, was presented to the U.S. Attorney in Chicago twice, and the U.S. Attorneys declined to intervene. The Company

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filed a motion to dismiss the Second Amended Complaint on July 29, 2016. Those motions are now fully briefed and awaiting decision by the federal district court. The Company believes that it has meritorious defenses to all claims in the case, and intends to vigorously defend itself against these claims. The outcome is not presently determinable.

Note 16. Related Party Transactions

As a result of the closing of the Transaction on February 16, 2016 and Ascension's ownership interest in the Investor, Ascension became a related party to the Company. See Note 13, 8% Series A Convertible Preferred Stock, for additional information.

The Company provides RCM services to Ascension. The execution of the A&R MPSA, as discussed in Note 1, was a contractual settlement agreement of the prior Master Professional Services Agreement between the Company and Ascension. Therefore, the Company recorded revenue of \$437.4 million in connection with these services for the year ended December 31, 2016. In addition to the revenue recorded related to the execution of the A&R MPSA, the Company recorded revenue from services provided to Ascension of \$24.0 million for the year ended December 31, 2016. At December 31, 2016, the Company had \$14.2 million in current portion of customer liabilities for a related party, consisting of \$13.2 million in current accrued service costs and \$1.0 million in current customer deposits. The Company had \$110.0 million in non-current portion of customer liabilities for a related party related to deferred customer billings as of December 31, 2016. At December 31, 2016, the Company had \$1.8 million in accounts receivable with Ascension.

As part of the transition of Ascension personnel to the Company in conjunction with the A&R MPSA, the Company has agreed to reimburse Ascension for certain severance and retention costs related to certain Ascension employees who will not be transitioned to the Company. The Company has accrued \$1.7 million in accrued compensation and benefits at December 31, 2016 related to these costs.

As Ascension is the Company's largest customer, a significant percentage of the Company's cost of services is associated with providing services to Ascension. However, due to the nature of the Company's shared services and information technology operations, it is impractical to assign the dollar amount associated with services provided to Ascension.

Note 17. Deferred Contract Costs

Eligible, one-time, nonrecurring costs associated with the initial phases of the Ascension A&R MPSA and with the transition of additional Ascension hospitals are deferred and subsequently amortized. The costs related to transition or setup activities for personnel, process, and systems are amortized on a straight-line basis over the expected period of benefit. At December 31, 2016, the Company had \$4.8 million in deferred eligible costs and had no eligible costs deferred at December 31, 2015. These deferred costs are included in other assets in the accompanying condensed consolidated balance sheets.

Note 18. Segments and Customer Concentrations

The Company has determined that it has a single operating segment in accordance with how its business activities are managed and evaluated. All of the Company's significant operations are organized around the single business of providing end-to-end management services of revenue cycle operations for U.S.-based hospitals and other medical providers. Accordingly, for purposes of segment disclosures, the Company has only one reporting segment. All of the Company's net services revenue and trade accounts receivable are derived from healthcare providers domiciled in the United States.

Hospital systems affiliated with Ascension have accounted for a significant portion of the Company's net services revenue each year since the Company's formation. For the years ended December 31, 2016, 2015 and 2014,

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net services revenue from hospitals affiliated with Ascension accounted for 78%, 45% and 12% of the Company's total net services revenue, respectively. For the year ended December 31, 2016, Intermountain Healthcare accounted for 15% of the Company's total net services revenue. For the year ended December 31, 2015, one customer, unaffiliated with Ascension, accounted for 17% of the Company's total net services revenue. For the year ended December 31, 2014, three different customers, unaffiliated with Ascension, accounted for 71% of the Company's total net services revenue.

The Ascension system, through its individual customer contracts with the Company, accounted for 62%, 75% and 76% of the Company's total deferred customer billings at December 31, 2016, 2015 and 2014, respectively. The loss of customers within the Ascension health system would have a material adverse impact on the Company's operations.

The Company did not have a concentration of credit risk within accounts receivable as reported in the consolidated balance sheets with any one large customer at December 31, 2015 or December 31, 2016.

Note 19. Quarterly Financial Information (Unaudited)

The following tables provide our Quarterly Condensed Consolidated Statements of Operations (in thousands, except per share data):

	1st Quarter Ended March 31,		2nd Quarter Ended June 30,		3rd Quarter Ended September, 30		4th Quarter Ended December 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
Net services revenue	\$ 352,193	\$ 10,971	\$ 8,672	\$ 22,085	\$ 125,535	\$ 15,842	\$ 106,157	\$ 68,341
Total operating expenses	73,472	60,833	78,423	64,342	64,113	70,685	78,648	57,423
Income (loss) from operations	278,721	(49,862)	(69,751)	(42,257)	61,422	(54,843)	27,509	10,918
Net income (loss)	\$ 167,403	\$ (30,445)	\$ (40,791)	\$ (26,288)	\$ 37,333	\$ (32,970)	\$ 13,126	\$ 5,447
Net income (loss) per common share								
Basic	\$ 0.85	\$ (0.32)	\$ (0.45)	\$ (0.27)	\$ 0.18	\$ (0.34)	\$ 0.05	\$ 0.06
Diluted	\$ 0.85	\$ (0.32)	\$ (0.45)	\$ (0.27)	\$ 0.18	\$ (0.34)	\$ 0.05	\$ 0.06

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.4 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)
3.4	Amendment No.1 to the Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-34746) filed on August 20, 2015)
3.5	Certificate of Designations of the Registrant's 8.00% Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.5 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)
3.6	Certificate of Amendment to Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (file No. 001-34746) filed on January 5, 2017)
3.7	Certificate of Amendment to Certificate of Designation of 8.00% Series A Convertible Preferred Stock, Par Value \$0.01 per Share, of the Company (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K (file No. 001-34746) filed on January 5, 2017)
3.8	Amendment No. 2 to the Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K (file No. 001-34746) filed on January 5, 2017)
4.1	Specimen Certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
10.1*	Amended and Restated Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
10.2*	Form of Acknowledgment of Grant, used to evidence option grants under the Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 (File No. 333-162186) filed on September 29, 2009)
10.3*	Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
10.4*	Form of Restricted Stock Award Agreement under the Restricted Stock Plan, as amended (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on September 29, 2009)
10.5*	Form of Indemnification Agreement, entered into between the Registrant and each director and executive officer (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K (File No. 001-34746) filed on February 16, 2016)
10.6*	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
10.7*	Form of Restricted Stock Unit Grant Agreement under the Amended and Restated 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34746) filed on November 2, 2016)
10.8*	Form of Performance Based Restricted Stock Unit Grant Agreement under the Amended and Restated 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34746) filed on November 2, 2016)

- 10.9* Form of Nonstatutory Stock Option Agreement under the Amended and Restated 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34746) filed on November 2, 2016)
- 10.10* Accretive Health, Inc. Second Amended and Restated 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No. 001-34746) filed on December 12, 2016)
- 10.11 Third Amended and Restated Stockholders' Agreement, dated as of February 22, 2009, among the Registrant and the parties named therein, as amended (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 (File No. 333-172707) filed on March 9, 2011)
- 10.12 Form of Share Exchange Agreement, entered into in February 2009, with each of Etienne H. Deffarges, Steven N. Kaplan, Gregory N. Kazarian, The Shultz 1989 Family Trust, Spiegel Family LLC and John T. Staton Declaration of Trust (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 (File No. 333-162186) filed on September 29, 2009)
- 10.13 Lease Agreement, dated as of May 4, 2005, between the Registrant and Zeller Management Corporation, as amended by First Lease Amendment, dated as of January 30, 2007, and Second Lease Amendment, dated as of November 26, 2008 (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 (File No. 333-162186) filed on September 29, 2009)
- 10.14* Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-162186) filed on April 26, 2010)
- 10.15+ Amended and Restated Master Professional Services Agreement by and between Ascension Health and the Registrant effective as of February 16, 2016 (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 001-34746) filed on May 10, 2016)
- 10.16* Employment Agreement, dated April 2, 2013, between Registrant and Stephen F. Schuckenbrock (incorporated by reference to Exhibit 10.16 to Annual Report on Form 10-K filed for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.17* Stock Option Agreement, dated April 3, 2013, between Registrant and Stephen F. Schuckenbrock (incorporated by reference to Exhibit 10.17 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.18* Offer Letter, dated April 27, 2013, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.18 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.19* Restricted Stock Award, dated June 3, 2013, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.19 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.20* Nonstatutory Stock Option Award Agreement, dated June 3, 2013, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.20 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.21* Amendment to Offer Letter, dated April 29, 2014, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.25 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.22* Nonstatutory Stock Option Award Agreement, dated April 29, 2014, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.26 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.23* Restricted Stock Award Agreement, dated April 29, 2014, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.27 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.24* Offer Letter, dated July 10, 2014, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.29 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.25* Nonstatutory Stock Option Award Agreement, dated July 21, 2014, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.30 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.26* Restricted Stock Award Agreement, dated July 21, 2014, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.31 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
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- 10.27* Offer Letter, dated August 6, 2014, between Registrant and Peter Csapo (incorporated by reference to Exhibit 10.33 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.28* Nonstatutory Stock Option Award Agreement, dated August 12, 2014, between Registrant and Peter Csapo (incorporated by reference to Exhibit 10.34 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.29* Restricted Stock Award Agreement, dated August 12, 2014, between Registrant and Peter Csapo (incorporated by reference to Exhibit 10.35 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.30* Chairman Services Agreement, dated November 14, 2014, between Registrant and Steve Shulman (incorporated by reference to Exhibit 10.36 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (File No. 001-34746) filed on December 30, 2014)
- 10.31* Offer Letter, dated January 9, 2015, between Registrant and Richard Evans (incorporated by reference to Exhibit 10.37 to Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (File No. 001-34746) filed on June 23, 2015)
- 10.32* Omnibus Amendment, dated May 18, 2015, to Employment Agreement dated April 2, 2013 between Registrant and Stephen F. Schuckenbrock and Stock Option Agreement, dated April 3, 2013, between Registrant and Stephen F. Schuckenbrock (incorporated by reference to Exhibit 10.38 to Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (File No. 001-34746) filed on June 23, 2015)
- 10.33* Retention Bonus and Enhanced Severance Agreement, dated August 12, 2015, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 001-34746) filed on November 9, 2015)
- 10.34* Retention Bonus and Enhanced Severance Agreement, dated August 12, 2015, between Registrant and Peter Csapo (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 001-34746) filed on November 9, 2015)
- 10.35* Retention Bonus and Enhanced Severance Agreement, dated August 12, 2015, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 001-34746) filed on November 9, 2015)
- 10.36* Form of Restricted Stock Award Agreement under the Amended and Restated 2010 Stock Incentive Plan
- 10.37* Amendment to Retention and Severance Bonus Agreement, dated October 19, 2015, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (File No. 001-34746) filed on November 9, 2015)
- 10.38* Letter Agreement, dated December 7, 2015, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)
- 10.39* Letter Agreement, dated December 7, 2015, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.46 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)
- 10.40* Restricted Stock Award Agreement, dated December 31, 2015, between Registrant and Peter Csapo (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)
- 10.41* Restricted Stock Award Agreement, dated December 31, 2015, between Registrant and Joseph Flanagan (incorporated by reference to Exhibit 10.48 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)
- 10.42* Restricted Stock Award Agreement, dated December 31, 2015, between Registrant and Emad Rizk (incorporated by reference to Exhibit 10.49 to Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-34746) filed on March 10, 2016)
- 10.43 Securities Purchase Agreement, dated as of December 7, 2015, by and among Accretive Health, Inc., TCP-ASC ACHI Series LLLP, and, solely for the purposes set forth therein, Ascension Health Alliance d/b/a Ascension (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K (File No. 001-34746) filed December 9, 2015).
- 10.44 Investor Rights Agreement, dated as of February 16, 2016, by and among the Registrant, TCP-ASC ACHI Series LLLP, and the other parties thereto (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 001-34746) filed on May 10, 2016)
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- 10.45 Registration Rights Agreement, dated as of February 16, 2016, by and between the Registrant and TCP-ASC ACHI Series LLLP (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 001-34746) filed on May 10, 2016)
- 10.46 Warrant, dated as of February 16, 2016, by and between the Registrant and TCP-ASC ACHI Series LLLP (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (File No. 001-34746) filed on May 10, 2016)
- 10.47* Transition, Separation and General Release Agreement, dated April 25, 2016, by and between the Registrant and Peter Csapo (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-34746) filed on April 25, 2016)
- 10.48* General Release and Mutual Non-Disparagement Agreement, dated May 25, 2016, by and between the Registrant and Emad Rizk (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No. 001-34746) filed on May 26, 2016)
- 10.49 Agreement by and between TCP-ASC ACHI Series LLLP and the Registrant dated September 9, 2016 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No. 001-34746) filed on September 9, 2016)
- 10.50* Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Christopher Ricaurte and the Registrant (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file No. 001-34746) filed on October 5, 2016)
- 10.51* Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Christopher Ricaurte and the Registrant (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (file No. 001-34746) filed on October 5, 2016)
- 10.52* Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Joseph G. Flanagan and the Registrant (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K (file No. 001-34746) filed on October 5, 2016)
- 10.53* Non-Statutory Stock Option Award Grant Agreement, dated as of October 3, 2016, by and between Joseph G. Flanagan and the Registrant (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K (file No. 001-34746) filed on October 5, 2016)
- 21.1 Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to Amendment No. 4 to the Registration Statement on Form S-1 filed on April 26, 2010)
- 23.1 Consent of Ernst & Young LLP
- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Accretive Health, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes.

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

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

Subsidiaries of R1 RCM Inc.

<u>Subsidiary</u>	<u>Jurisdiction of Organization</u>
SDI Acquisition, Inc. (doing business as SureDecisions)	Delaware
Rover16, Inc.	Delaware
Accretive Mauritius, Inc.	Mauritius
R1 RCM India Private Limited	India
R1 RCM Global Private Limited	India

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-170718) pertaining to the Amended and Restated Stock Option Plan, as amended and the 2010 Stock Incentive Plan of R1 RCM Inc.;
2. Registration Statement (Form S-8 No. 333-206482) pertaining to the Amended and Restated 2010 Stock Incentive Plan and the Inducement Stock Option Awards of R1 RCM Inc.; and
3. Registration Statement (Form S-8 No. 333-215094) pertaining to the Second Amended and Restated 2010 Stock Incentive Plan of R1 RCM Inc.

of our reports dated March 1, 2017, with respect to the consolidated financial statements of R1 RCM Inc., and the effectiveness of internal control over financial reporting of R1 RCM Inc., included in this Annual Report (Form 10-K) of R1 RCM Inc. for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Chicago, Illinois
March 1, 2017

Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph Flanagan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Accretive Health, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/ Joseph Flanagan

Joseph Flanagan
President, Chief Executive Officer and Chief Operating Officer
(Principal Executive Officer)

Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher Ricaurte, certify that:

1. I have reviewed this Annual Report on Form 10-K of Accretive Health, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/ Christopher Ricaurte
Christopher Ricaurte
Chief Financial Officer and Treasurer
(Principal Financial Officer)

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

In connection with the Annual Report on Form 10-K of Accretive Health, Inc. (the "Company") for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), the undersigned, Joseph Flanagan, President, Chief Executive Officer and Chief Operating Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2017

/s/ Joseph Flanagan

Joseph Flanagan
President, Chief Executive Officer and Chief Operating Officer
(Principal Executive Officer)

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

In connection with the Annual Report on Form 10-K of Accretive Health, Inc. (the "Company") for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), the undersigned, Christopher Ricaurte, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2017

/s/ Christopher Ricaurte
Christopher Ricaurte
Chief Financial Officer and Treasurer
(Principal Financial Officer)

