

R1 RCM INC.
Form 10-Q
October 31, 2017

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

(Mark One)

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

For the quarterly period ended September 30, 2017

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

02-0698101

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

401 North Michigan Avenue Suite 2700 Chicago, Illinois 60611

(Address of principal executive offices)

(Zip code)

(312) 324-7820

(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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As of October 28, 2017, the registrant had 104,515,603 shares of common stock, par value \$0.01 per share, outstanding.

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

PART I — FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 142.8	\$ 181.2
Accounts receivable, net	7.7	4.0
Accounts receivable, net - related party	18.0	1.8
Prepaid income taxes	0.9	3.8
Prepaid expenses and other current assets	16.1	13.8
Total current assets	185.5	204.6
Property, equipment and software, net	50.2	32.8
Non-current deferred tax assets	105.8	169.9
Restricted cash equivalents	1.5	1.5
Other assets	11.4	6.3
Total assets	\$ 354.4	\$ 415.1
Liabilities		
Current liabilities:		
Accounts payable	6.9	7.9
Current portion of customer liabilities	0.9	69.7
Current portion of customer liabilities - related party	20.1	14.2
Accrued compensation and benefits	29.2	24.8
Other accrued expenses	16.1	18.5
Total current liabilities	73.2	135.1
Non-current portion of customer liabilities	0.3	1.0
Non-current portion of customer liabilities - related party	9.1	110.0
Other non-current liabilities	12.2	9.7
Total liabilities	\$ 94.8	\$ 255.8
8.00% Series A convertible preferred stock: par value \$0.01 per share, 370,000 authorized, 223,023 shares issued and outstanding as of September 30, 2017 (aggregate liquidation value of \$227.5); 370,000 authorized, 210,160 shares issued and outstanding as of December 31, 2016 (aggregate liquidation value of \$214.4)	184.7	171.6
Stockholders' equity (deficit)		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 116,639,819 shares issued and 104,505,034 shares outstanding at September 30, 2017; 116,425,524 shares issued and 106,659,542 shares outstanding at December 31, 2016	1.2	1.2
Additional paid-in capital	339.8	349.2
Accumulated deficit	(204.3) (304.7)
Accumulated other comprehensive loss	(2.2) (2.8)
	(59.6) (55.2)

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Treasury stock, at cost, 12,134,785 shares as of September 30, 2017; 9,765,982 shares as of December 31, 2016

Total stockholders' equity (deficit)	74.9	(12.3)
Total liabilities and stockholders' equity (deficit)	\$ 354.4	\$ 415.1

See accompanying notes to consolidated financial statements.

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R1 RCM Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(In millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net services revenue (\$112.2 million and \$275.3 million for the three and nine months ended September 30, 2017, respectively, and \$22.7 and \$366.2 million for the three and nine months ended September 30, 2016 from related party, respectively)	\$123.2	\$ 125.5	\$309.5	\$ 486.4
Operating expenses:				
Cost of services	111.8	47.4	289.1	137.6
Selling, general and administrative	15.1	16.2	41.6	58.4
Other	1.4	0.5	2.6	20.0
Total operating expenses	128.3	64.1	333.3	216.0
Income (loss) from operations	(5.1)	61.4	(23.8)	270.4
Net interest income	—	0.1	0.1	0.2
Income (loss) before income tax provision	(5.1)	61.5	(23.7)	270.6
Income tax provision (benefit)	(1.5)	24.1	(5.1)	106.6
Net income (loss)	\$(3.6)	\$ 37.4	\$(18.6)	\$ 164.0
Net income (loss) per common share:				
Basic	\$(0.08)	\$ 0.18	\$(0.31)	\$ 0.62
Diluted	\$(0.08)	\$ 0.18	\$(0.31)	\$ 0.62
Weighted average shares used in calculating net income (loss) per common share:				
Basic	102,225,410	934,561	102,022,029	870,685
Diluted	102,225,412	1,176,280	102,022,121	1,018,450
Consolidated statements of comprehensive income (loss)				
Net income (loss)	(3.6)	37.4	(18.6)	164.0
Other comprehensive loss:				
Foreign currency translation adjustments	(0.2)	0.2	0.6	—
Comprehensive income (loss)	\$(3.8)	\$ 37.6	\$(18.0)	\$ 164.0
Reconciliation of net income (loss) to income (loss) available to common shareholders:				
Basic:				
Net income (loss)	\$(3.6)	\$37.4	\$(18.6)	\$164.0
Less dividends on preferred shares	(4.4)	(4.1)	(13.1)	(58.5)
Less income allocated to preferred shareholders	—	(15.1)	—	(43.4)
Net income (loss) available/allocated to common shareholders - basic	\$(8.0)	\$18.2	\$(31.7)	\$62.1
Diluted:				
Net income (loss)	\$(3.6)	\$37.4	\$(18.6)	\$164.0
Less dividends on preferred shares	(4.4)	(4.1)	(13.1)	(58.5)
Less income allocated to preferred shareholders	—	(15.0)	—	(43.1)
Net income (loss) available/allocated to common shareholders - diluted	\$(8.0)	\$18.3	\$(31.7)	\$62.4

See accompanying notes to consolidated financial statements.

R1 RCM Inc.

Consolidated Statements of Stockholders' Equity (Deficit) (unaudited)

(In millions, 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 December 31, 2016	116,425,524	\$ 1.2	(9,765,982)	\$(55.2)	\$ 349.2	\$ (304.7)	\$ (2.8)	\$(12.3)
Impact of adoption of Topic 606	—	—	—	—	—	113.4	—	113.4
Impact of adoption of ASU 2016-09	—	—	—	—	1.5	(0.9)	—	0.6
Adjusted Balance at January 1, 2017	116,425,524	1.2	(9,765,982)	(55.2)	350.7	(192.2)	(2.8)	101.7
Share-based compensation expense	—	—	—	—	8.6	—	—	8.6
Issuance of common stock related to share-based compensation plans	155,535	—	—	—	—	—	—	—
Exercise of vested stock options	58,760	—	—	—	0.1	—	—	0.1
Dividends paid/accrued dividends	—	—	—	—	(13.1)	—	—	(13.1)
Acquisition of treasury stock related to equity award plans	—	—	(728,798)	—	—	—	—	—
Treasury stock purchases and forfeitures	—	—	(1,640,005)	(4.4)	—	—	—	(4.4)
Reclassification of excess share-based compensation	—	—	—	—	(6.5)	6.5	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	0.6	0.6
Net (loss) income	—	—	—	—	—	(18.6)	—	(18.6)
Balance at September 30, 2017	116,639,819	\$ 1.2	(12,134,785)	\$(59.6)	\$ 339.8	\$ (204.3)	\$ (2.2)	\$74.9

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2017 2016 (Unaudited)	
Operating activities		
Net income (loss)	\$(18.6)	\$164.0
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization	11.5	7.3
Share-based compensation	8.2	25.2
Loss on disposal	0.2	—
Provision (recovery) for doubtful receivables	0.1	0.1
Deferred income taxes	(5.6)	106.5
Changes in operating assets and liabilities:		
Accounts receivable and related party accounts receivable	(15.4)	1.2
Prepaid income taxes	3.0	0.2
Prepaid expenses and other assets	(6.7)	(7.9)
Accounts payable	0.3	(1.4)
Accrued compensation and benefits	4.3	8.3
Other liabilities	(0.3)	3.0
Customer liabilities and customer liabilities - related party	14.7	(375.8)
Net cash used in operating activities	(4.3)	(69.3)
Investing activities		
Purchases of property, equipment, and software	(30.1)	(10.4)
Proceeds from maturation of short-term investments	—	1.0
Net cash used in investing activities	(30.1)	(9.4)
Financing activities		
Series A convertible preferred stock and warrant issuance, net of issuance costs	—	178.7
Exercise of vested stock options	—	0.1
Purchase of treasury stock	(2.0)	(2.0)
Shares withheld for taxes	(2.4)	—
Net cash (used in) provided by financing activities	(4.4)	176.8
Effect of exchange rate changes in cash	0.4	0.3
Net increase (decrease) in cash and cash equivalents	(38.4)	98.4
Cash and cash equivalents, at beginning of period	181.2	103.5
Cash and cash equivalents, at end of period	\$142.8	\$201.9
Supplemental disclosures of cash flow information		
Accrued dividends payable to Preferred Stockholders	\$4.5	\$6.1
Accrued liabilities related to purchases of property, equipment and software	\$2.6	\$0.5
Accounts payable related to purchases of property, equipment and software	\$0.6	\$—
Income taxes paid	\$(1.1)	\$(0.7)
Income taxes refunded	\$3.4	\$0.6

See accompanying notes to consolidated financial statements.

R1 RCM Inc.

Notes to Unaudited Consolidated Financial Statements

1. Business Description and Basis of Presentation

Business Description

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 the Company's 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 its 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.

Basis of Presentation

The accompanying unaudited consolidated financial statements reflect the Company's financial position as of September 30, 2017, the results of operations for the three and nine months ended September 30, 2017 and 2016, and the cash flows of the Company for the nine months ended September 30, 2017 and 2016. These financial statements include the accounts of R1 RCM Inc. and its wholly owned subsidiaries. All material intercompany amounts have been eliminated in consolidation. These financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial reporting and as required by the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the interim financial information, have been included. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2017. Beginning with the quarter ended March 31, 2017, the Company changed the presentation in its financial statements to be stated in millions instead of thousands. Therefore, previously reported amounts for

fiscal 2016 may differ due to rounding.

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Notes to Unaudited Consolidated Financial Statements

When preparing financial statements in conformity with GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements. Actual results could differ from those estimates. For a more complete discussion of the Company's significant accounting policies and other information, the unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 10-K"). As of January 1, 2017, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") and ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). See Note 6, Revenue Recognition, and Note 9, Share-Based Compensation, for discussion on the impact of the adoption of these standards on the Company's policies for revenue and stock compensation, respectively.

2. Recent Accounting Pronouncements

Recently Issued Accounting Standards and Disclosures

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 consolidated balance sheet. 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 financial statements.

In November 2016, the FASB issued 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. ASU 2016-18 requires that the Consolidated Statement of Cash Flows explain the change in total cash and cash 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 cash equivalents and restricted cash presented in the Consolidated Statement of Cash Flows and the cash and cash equivalents balance presented in 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 financial statements.

3. Fair Value of Financial Instruments

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value (i) defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date, (ii) establishes a framework for measuring fair value, (iii) establishes a hierarchy of fair value measurements based upon the 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

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Notes to Unaudited Consolidated Financial Statements

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 equivalents, accounts receivable, net, 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.

4. 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):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Beginning balance	\$151	\$41	\$66	\$99
Provision (recoveries)	(6)	114	85	87
Write-offs	—	(7)	(6)	(38)
Ending balance	\$145	\$148	\$145	\$148

5. Property, Equipment and Software

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

	September 30, 2017	December 31, 2016
Computer and other equipment	\$ 29.2	\$ 23.3
Leasehold improvements	21.4	16.0
Software	42.8	28.1
Office furniture	7.4	4.9
Property, equipment and software, gross	100.8	72.3
Less accumulated depreciation and amortization	(50.6)	(39.5)
Property, equipment and software, net	\$ 50.2	\$ 32.8

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Notes to Unaudited Consolidated Financial Statements

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Cost of services	\$4.0	\$2.6	\$10.4	\$6.9
Selling, general and administrative	0.5	0.1	1.1	0.4
Total depreciation and amortization	\$4.5	\$2.7	\$11.5	\$7.3

6. Revenue Recognition

The Company follows the guidance under Topic 606, Revenue from Contracts with Customers, ("Topic 606"). Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a service to a customer, which is typically over the contract term. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved.

Periods prior to January 1, 2017

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

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Notes to Unaudited Consolidated Financial Statements

The Company generates net operating fees to the extent the Company is able to assist customers in reducing the cost of revenue cycle operations. In limited cases, the Company earns a fixed fee instead of a fee based on the mechanics described below. 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.

Periods commencing January 1, 2017

Nature of Goods and Services

The Company's primary source of revenue is its end-to-end RCM services fees. The Company also generates revenue through its modular RCM services, where customers will engage the Company for only specific components of its end-to-end RCM service offering on a fixed-fee or transactional basis, as well as its PAS offering.

Revenue Cycle Management

RCM services fees are primarily variable and performance related, and are generally viewed as the consideration earned in satisfaction of a single performance obligation. RCM services fees consist of net operating fees, incentive fees, and other fees.

Net Operating Fees

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.

The Company recognizes revenue related to net operating fees ratably as the performance obligation for the RCM services is satisfied. Base fees are typically billed in advance of the quarter and paid in three monthly payments as the entity performs and the customer simultaneously receives and consumes the benefits provided by the services provided. The costs of customers' revenue cycle operations which the company pays pursuant to its RCM agreements are accrued based on the service period.

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Notes to Unaudited Consolidated Financial Statements

Incentive Fees

The Company recognizes revenue related to incentive fees ratably as the performance obligation for RCM services is satisfied, to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. Incentive fees are structured to reflect quarterly or annual, performance and are evaluated on a contract-by-contract basis. Incentive fees are typically billed and paid on a quarterly basis.

RCM Other

The Company recognizes revenue related to other RCM fees as RCM services are provided. These services typically consist of the Company's modular RCM services offering, which consists of an obligation to provide services for a specific component of its end-to-end RCM service offering. Fees are typically variable in nature with the entire amount being included in revenue in the month of service. The customer simultaneously receives and consumes the benefits provided by the services and the fees are typically billed on a monthly basis with payment terms of up to 30 days. To the extent that certain service fees are fixed and not subject to refund, adjustment or concession, these fees are generally recognized into revenue ratably as the performance obligation is satisfied.

Other Services

The Company recognizes revenue from PAS in the period in which the service is performed. The Company's PAS arrangements typically consist of an obligation to provide specific services to customers on a when and if needed basis. These services are provided under a fixed price per unit arrangement. These contracts are evaluated on a contract-by-contract basis. Fees for the Company's PAS arrangements are typically billed on a monthly basis with 30 to 60 day payment terms.

Bundled Services

Modular RCM services may be sold separately or bundled in a contract and end-to-end RCM services are typically sold separately but may be bundled with PAS services. PAS services are commonly sold separately. The typical length of an end-to-end RCM contract is three to ten years (subject to the parties' respective termination rights) but varies from customer to customer. PAS and modular RCM agreements generally vary in length between one and three years.

For bundled arrangements, the Company accounts for individual services as a separate performance obligation if a service is separately identifiable from other items in the bundled arrangement and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The transaction price is allocated between separate services in a bundle based on their relative standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells its RCM, PAS, or modular services. PAS services are provided at a customer's election but do not represent material rights as the services are priced at standalone selling price throughout the life of the agreement. In certain situations, the Company allocates variable consideration to a distinct service, or services, within a contract. The Company allocates variable payments to one or more, but not all, of the distinct services in a contract when (i) the variable payment relates specifically to the Company's efforts to transfer the distinct service and (ii) the variable payment is for an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised services to its customer.

Disaggregation of Revenue

In the following table, revenue is disaggregated by source of revenue (in millions):

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R1 RCM Inc.

Notes to Unaudited Consolidated Financial Statements

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
RCM services: net operating fees	\$ 104.6	\$ 255.4
RCM services: incentive fees	7.5	20.2
RCM services: other	2.8	9.8
Other services fees	8.3	24.1
Total net service revenue	\$ 123.2	\$ 309.5

Contract Balances

The following table provides information about receivables, contracts assets, and contract liabilities from contracts with customers (in millions):

	September 30, 2017	At adoption
Receivables, which are included in accounts receivable, net	25.7	30.5
Contract assets	—	—
Contract liabilities	12.5	20.9

The Company recognized revenue of \$0.3 million for the three months ended September 30, 2017 related to changes in transaction price estimates during the quarter for certain revenue cycle management contracts.

The Company recognized a decrease in revenue of \$0.4 million during the three months ended September 30, 2017, which amount was included in contract liabilities at the beginning of the period.

A receivable is recognized in the period the Company provides services when the Company's right to consideration is unconditional. Payment terms on invoiced amounts are typically 30-60 days.

Significant changes in the contract assets and the contract liabilities balances during the three months ended September 30, 2017 are as follows (in millions):

	Three Months Ended September 30, 2017	
	Contract assets	Contract liabilities
Revenue recognized that was included in the contract liability balance at the beginning of the period	—	40.9
Increases due to cash received, excluding amounts recognized as revenue during the period	—	1.9
Transferred to receivables from contract assets recognized at the beginning of the period	—	—
Increases as a result of cumulative catch-up adjustment arising from changes in the estimate of the stage of completion, excluding amounts transferred to receivables during the period	—	—

Transaction Price Allocated to the Remaining Performance Obligation

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period (in millions). The estimated revenue does not include amounts of variable consideration that are constrained.

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R1 RCM Inc.

Notes to Unaudited Consolidated Financial Statements

	RCM Net operating fees	Incentive fees	Other Other Services fees	Other Services fees	
2017	\$3.4	\$ 6.1	\$1.4	\$	—
2018	13.5	9.7	2.9	—	—
2019	—	—	2.7	—	—
2020	—	—	2.2	—	—
Thereafter	—	—	11.3	—	—
Total	\$16.9	\$ 15.8	\$20.5	\$	—

The amounts presented in the table above primarily consist of fixed fees which are typically recognized ratably as the performance obligation is satisfied or incentive fees which are measured cumulatively over the contractually defined performance period.

Estimates of revenue expected to be recognized in future periods also exclude unexercised customer options to purchase services within the Company's PAS contracts that do not represent material rights to the customer. Customer options that do not represent a material right are only accounted for in accordance with Topic 606 when the customer exercises its option to purchase additional goods or services.

The Company has elected certain of the optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. Accordingly, the Company applies the practical expedient in paragraph 606-10-55-18 to its stand-alone PAS contracts and modular RCM services and does not disclose information about variable consideration from remaining performance obligations for which the Company recognizes revenue. PAS performance obligations are typically short in duration (often less than 1 day) with any uncertainty related to the associated variable consideration resolved as each increment of service (completion of a level of care review or an appeal) is completed which reflects the value the Customer receives from the Company's fulfillment of the performance obligation. Modular RCM services performance obligations for variable consideration are of short duration with fees corresponding to the value the customer has realized, for example, patient accounts collected on behalf of the Customer or medical record lines transcribed.

The Company also applies the guidance in paragraph 606-10-50-14A(b) to variable consideration within its end-to-end RCM contracts and does not disclose information about remaining, wholly unsatisfied performance obligations for variable consideration that the Company is able to allocate to one or more, but not-all, of the performance obligations in its contracts in accordance with paragraph 606-10-32-40. The Company's end-to-end RCM services performance obligations are satisfied over time and are substantially the same from period to period under either a co-managed or operating partner model. Fees are variable and consist of net operating fees and incentive fees with the uncertainty related to net operating fees and certain incentive fees being resolved quarterly with the uncertainty of other incentive fees being resolved annually. The information presented in the table above includes estimates for incentive fees where the uncertainty related to the final fee is resolved on longer than a quarterly basis and to the extent the Company does not believe the associated consideration is constrained.

Changes in Accounting Policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Company adopted Topic 606 with a date of the initial application of January 1, 2017. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company adopted Topic 606, effective January 1, 2017, using the modified retrospective method, applying Topic 606 to contracts that were not complete as of the date of initial application. Therefore, the comparative information

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has not been adjusted and continues to be reported under Topic 605. The details of the significant changes and quantitative impact of the changes are set out below.

RCM services fees

RCM services fees that are variable in nature were recognized under Topic 605 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 previously has been recognized for RCM service 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.

Under Topic 606, the Company recognizes service fees that are variable in nature over time as the service is provided to the customer to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty related to the estimated revenue is subsequently resolved. Net operating fees are typically recognized on a quarterly basis as the RCM services are rendered and measurement of the net operating fees earned during the distinct performance period is objectively determinable. Incentive fees are calculated quarterly based upon contractually defined agreed-upon performance metrics and are recognized as revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty related to the estimated revenue is subsequently resolved.

Fixed fees are generally recognized over the term of the contract on a ratable basis as the performance obligation is satisfied.

Other services fees

The PAS contract between the Company and customer typically stipulates the price per unit the Company is entitled to for each unit of service performed. Certain contracts include minimum fees and volume discounts but the Company does not know the quantity or mix of service types the customer will request until the request is made. The length of time it takes the Company to perform each service can vary depending on the nature of the service or complexity of the specific situation or case. Revenue previously had been recognized for PAS service fees when the service was completed.

Under Topic 606, the Company recognizes revenue on a monthly basis when services are completed during the month consistent with recognition under Topic 605.

Deferred contract costs

Eligible, one-time, nonrecurring fulfillment costs associated with the initial phases of the Ascension A&R MPSA and with the transition of additional Ascension hospitals under separate contracts are deferred and subsequently amortized. These costs are amortized on a straight-line basis over the expected period of benefit. Under Topic 606, the Company will continue to amortize associated assets over the remaining life of the contract as services are provided.

Impacts on Financial Statements

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements as of and for the three and nine months ended September 30, 2017 (in millions, except per share data):

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Notes to Unaudited Consolidated Financial Statements

i. Consolidated balance sheets

	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of Topic 606
	September 30, 2017		
Assets			
Current assets:			
Cash and cash equivalents	\$142.8	\$ —	\$ 142.8
Accounts receivable, net	7.7	(0.3)	7.4
Accounts receivable, net - related party	18.0	(11.2)	6.8
Prepaid income taxes	0.9	—	0.9
Prepaid expenses and other current assets	16.1	(0.3)	15.8
Total current assets	185.5	(11.8)	173.7
Property, equipment and software, net	50.2	—	50.2
Non-current deferred tax assets	105.8	158.4	264.2
Restricted cash equivalents	1.5	—	1.5
Other assets	11.4	0.2	11.6
Total assets	\$354.4	\$ 146.8	\$ 501.2
Liabilities			
Current liabilities:			
Accounts payable	6.9	(1.1)	5.8
Current portion of customer liabilities	0.9	41.9	42.8
Current portion of customer liabilities - related party	20.1	(1.2)	18.9
Accrued compensation and benefits	29.2	—	29.2
Other accrued expenses	16.1	(1.3)	14.8
Total current liabilities	73.2	38.3	111.5
Non-current portion of customer liabilities	0.3	—	0.3
Non-current portion of customer liabilities - related party	9.1	360.2	369.3
Other non-current liabilities	12.2	—	12.2
Total liabilities	\$94.8	\$ 398.5	\$ 493.3
8.00% Series A convertible preferred stock	184.7	—	184.7
Stockholders' equity (deficit)			
Common stock	1.2	—	1.2
Additional paid-in capital	339.8	—	339.8
Accumulated deficit	(204.3)	(251.7)	(456.0)
Accumulated other comprehensive loss	(2.2)	—	(2.2)
Treasury stock	(59.6)	—	(59.6)
Total stockholders' equity (deficit)	74.9	(251.7)	(176.8)
Total liabilities and stockholders' equity (deficit)	\$354.4	\$ 146.8	\$ 501.2

R1 RCM Inc.

Notes to Unaudited Consolidated Financial Statements

ii. Consolidated statements of operations and comprehensive income (loss) -

	Impact of changes in accounting policies					
	As reported			As reported		
	three months ended	Adjustments	Balances without adoption of Topic 606	nine months ended	Adjustments	Balances without adoption of Topic 606
	September 30, 2017			September 30, 2017		
Net services revenue	\$ 123.2	\$ (82.4)	\$ 40.8	\$ 309.5	\$ (236.5)	\$ 73.0
Operating expenses:						
Cost of services	111.8	(3.8)	108.0	289.1	(10.3)	278.8
Selling, general and administrative	15.1	—	15.1	41.6	—	41.6
Other	1.4	—	1.4	2.6	—	2.6
Total operating expenses	128.3	(3.8)	124.5	333.3	(10.3)	323.0
Income (loss) from operations	(5.1)	(78.6)	(83.7)	(23.8)	(226.2)	(250.0)
Net interest income	—	—	—	0.1	—	0.1
Income (loss) before income tax provision	(5.1)	(78.6)	(83.7)	(23.7)	(226.2)	(249.9)
Income tax provision (benefit)	(1.5)	(30.1)	(31.6)	(5.1)	(87.9)	(93.0)
Net income (loss)	\$(3.6)	\$(48.5)	\$(52.1)	\$(18.6)	\$(138.3)	\$(156.9)
Consolidated statements of comprehensive income (loss)						
Net income (loss)	\$(3.6)	\$(48.5)	\$(52.1)	\$(18.6)	\$(138.3)	\$(156.9)
Other comprehensive loss:						
Foreign currency translation adjustments	(0.2)	—	(0.2)	0.6	—	0.6
Comprehensive income (loss)	\$(3.8)	\$(48.5)	\$(52.3)	\$(18.0)	\$(138.3)	\$(156.3)

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Notes to Unaudited Consolidated Financial Statements

iii. Consolidated statements of cash flows -

	Impact of changes in accounting policies	
	As reported	Balances without adoption of Topic 606
	September 30, 2017	Adjustments
Operating activities		
Net income (loss)	\$(18.6)	\$(138.3)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization	11.5	—
Share-based compensation	8.2	—
Loss on disposal	0.2	—
Provision (recovery) for doubtful receivables	0.1	—
Deferred income taxes	(5.6)	(87.9)
Changes in operating assets and liabilities:		
Accounts receivable and related party accounts receivable	(15.4)	6.9
Prepaid income taxes	3.0	—
Prepaid expenses and other assets	(6.7)	—
Accounts payable	0.3	(1.1)
Accrued compensation and benefits	4.3	—
Other liabilities	(0.3)	(1.4)
Customer liabilities and customer liabilities - related party	14.7	221.8
Net cash used in operating activities	(4.3)	—
Investing activities		
Purchases of property, equipment, and software	(30.1)	—
Proceeds from maturation of short-term investments	—	—
Net cash used in investing activities	(30.1)	—
Financing activities		
Series A convertible preferred stock and warrant issuance, net of issuance costs	—	—
Exercise of vested stock options	—	—
Purchase of treasury stock	(2.0)	—
Shares withheld for taxes	(2.4)	—
Net cash (used in) provided by financing activities	(4.4)	—
Effect of exchange rate changes in cash	0.4	—
Net increase (decrease) in cash and cash equivalents	(38.4)	—
Cash and cash equivalents, at beginning of period	181.2	—
Cash and cash equivalents, at end of period	\$142.8	\$ —

7. Customer Liabilities

Customer liabilities include (i) accrued service costs (amounts due and accrued for cost reimbursements), (ii) deferred customer billings (net operating fees invoiced or accrued and incentive fees collected that have not met all revenue recognition criteria), (iii) refund liabilities (amounts potentially due as a refund to the Company's customers on incentive fees), (iv) 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 the Company's customers on incentive fees) and (v) Deferred Revenue (contract liabilities) (fixed or variable fees amortized to revenue over the

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service period). 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, refund liabilities and contract liabilities 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.

Customer liabilities consist of the following (in millions):

	September	December
	30,	31,
	2017	2016
Deferred customer billings, current	\$ —	\$ 68.2
Accrued service costs, current (1)	17.6	14.8
Customer deposits, current	—	0.9
Refund liabilities, current (1)	0.3	—
Deferred revenue (contract liabilities), current (1)	3.1	—
Current portion of customer liabilities	\$ 21.0	\$ 83.9
Deferred customer billings, non-current (2)	\$ —	\$ 110.0
Refund liabilities, non-current	—	—
Customer deposits, non-current	—	—
Deferred revenue (contract liabilities), non-current (2)	9.4	1.0
Non current portion of customer liabilities	\$ 9.4	\$ 111.0
Total customer liabilities	\$ 30.4	\$ 194.9

(1) Includes \$17.6 million, \$0.3 million and \$2.2 million in current accrued service costs, refund liabilities and deferred revenue respectively, for a related party that are included in the current portion of customer liabilities - related party in the accompanying consolidated balance sheets at September 30, 2017. 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 sheet at December 31, 2016.

(2) Includes \$9.1 million in deferred revenue for a related party that are included in the non-current portion of customer liabilities - related party in the accompanying consolidated balance sheet at September 30, 2017. 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 sheet at December 31, 2016.

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 September 30, 2017 and December 31, 2016, the Company had 223,023 and 210,160 shares of preferred stock outstanding, respectively. See Note 12, 8% Series A Convertible Preferred Stock, for additional information.

Common Stock

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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 2017 or 2016.

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. During the year ended December 31, 2016, the Company repurchased 158,557 shares of the Company stock for \$0.4 million. During the three and nine months ended September 30, 2017, 342,130 and 855,474 shares were repurchased for \$1.3 million and \$2.5 million, respectively. No shares have been retired. As of September 30, 2017 and December 31, 2016, the Company held in treasury 5,341,481 and 4,465,919 shares of repurchased stock, respectively.

Treasury stock also includes repurchases of Company stock related to employees' tax withholding upon vesting of restricted shares. For the three and nine months ended September 30, 2017, the Company repurchased 19,988 and 784,531 shares related to employees' tax withholding upon vesting of restricted shares. Additionally, treasury stock includes restricted stock awards that have been canceled or forfeited. See Note 9, Share-Based Compensation.

9. Share-Based Compensation

The share-based compensation expense relating to the Company's stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs") and performance-based restricted stock units ("PBRsUs") for the three months ended September 30, 2017 and 2016 was \$2.4 million and \$4.8 million, respectively, with related tax benefits of approximately \$0.9 million and \$1.9 million, respectively. The share-based compensation expense relating to the Company's stock options, RSAs, RSUs and PBRsUs for the nine months ended September 30, 2017 and 2016 was \$8.2 million and \$25.3 million, respectively, with related tax benefits of approximately \$3.2 million and \$10.0 million, respectively.

As of January 1, 2017, the Company adopted ASU 2016-09. The Company elected to change its accounting policy to account for forfeitures as they occur under the new standard. The change was applied on a modified retrospective basis with a cumulative effect adjustment recorded to increase accumulated deficit by \$1.0 million, increase additional paid-in capital by \$1.5 million and increase non-current deferred tax assets by \$0.5 million as of January 1, 2017. Excess tax benefits and shortfalls for share-based payments are now included in operating activities rather than in financing activities. The changes have been applied prospectively in accordance with ASU 2016-09 and prior periods have not been adjusted.

Amendments related to accounting for excess tax benefits and shortfalls have been adopted prospectively, resulting in recognition of excess tax benefits and shortfalls in income tax expenses (benefit) rather than additional paid-in capital. For the three and nine months ended September 30, 2017, the Company recognized \$0.0 million and \$0.9 million of income tax expense from shortfalls associated with vesting and exercises of equity awards.

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

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	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Share-Based Compensation Expense Allocation Details:				
Cost of services	\$ 1.2	\$ 1.3	\$ 3.3	\$ 4.8
Selling, general and administrative	1.2	3.5	4.8	18.7
Other	—	—	0.1	1.8
Total share-based compensation expense (1)	\$ 2.4	\$ 4.8	\$ 8.2	\$ 25.3

(1) Includes \$0 million and \$0.1 million in share-based compensation expense paid in cash during the three and nine months ended September 30, 2016, respectively. In addition to the share-based compensation expense recorded above, \$0.1 million and \$0.4 million of share-based compensation expense was capitalized to deferred contract costs for the three and nine months ended September 30, 2017, respectively. See Note 16, Deferred Contract Costs, for further discussion.

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 Monte Carlo simulations to estimate the fair value of its PBRsUs. The PBRsUs vest upon satisfaction of both time-based requirements and performance targets based on share price. 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 for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30, 2017		2016	
Expected dividend yield	—	—		
	1.8%			
Risk-free interest rate	to	1.2% to 1.9%		
	2.3%			
	40%			
Expected volatility	to	45% to 50%		
	45%			
	2.34			
Expected term (in years)	to	6.25		
	6.29			
Forfeitures	—%	5.68% annually		

The risk-free interest rate input is based on U.S. Treasury instruments, and expected volatility of the share price based upon review of the historical volatility levels of the Company's 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 a projection of this information toward its future expected volatility. The Company used the simplified method to estimate the expected option life for 2017 and 2016 option grants. The simplified method was used due to the lack of sufficient historical data available to provide a reasonable basis upon which to estimate the expected term of each stock option.

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Stock options

A summary of the options activity during the nine months ended September 30, 2017 is shown below:

	Shares	Weighted- Average Exercise Price
Outstanding at December 31, 2016	20,418,607	\$ 6.26
Granted	3,581,904	3.32
Exercised	(58,760)	2.37
Canceled/forfeited	(5,897,038)	9.42
Outstanding at September 30, 2017	18,044,713	4.66
Outstanding, vested and exercisable at September 30, 2017	5,676,001	\$ 8.99
Outstanding, vested and exercisable at December 31, 2016	7,993,168	\$ 11.34

On May 12, 2017, the Company offered certain employees and directors an opportunity to elect to exchange certain stock options for new options covering a fewer number of shares of common stock. Under this offer, the Company accepted for exchange 4,279,463 options. All surrendered options were canceled and the Company issued 1,728,795 new stock options in exchange for such tendered options. The exchange ratios were established with the intent not to generate incremental share-based compensation expense and were established just prior to commencement of the offer. The incremental compensation associated with the fluctuations in the Company's common stock price between the date the exchange ratios were established and the commencement of the offer was insignificant.

Restricted stock awards

A summary of the restricted stock activity during the nine months ended September 30, 2017 is shown below:

	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at December 31, 2016	5,862,712	\$ 3.01
Granted	—	—
Vested	(2,675,782)	3.50
Forfeited	(728,798)	1.31
Outstanding and unvested at September 30, 2017	2,458,132	\$ 2.98

RSA vesting is based on the passage of time. The amount of share-based compensation expense is based on the fair value of the Company's common stock on the respective grant dates and is recognized ratably over the vesting period.

The Company's RSA agreements allow employees to surrender to the Company shares of common stock upon vesting of their RSAs in lieu of their payment of the required personal employment-related taxes. During the nine months ended September 30, 2017 and 2016, employees delivered to the Company 733,769 and 981,505 shares of stock, respectively, which the Company recorded at a cost of approximately \$1.8 million and \$2.0 million, respectively. Shares surrendered for payment of personal employment-related taxes are held in treasury.

Restricted stock units

A summary of the restricted stock activity during the nine months ended September 30, 2017 is shown below:

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	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at December 31, 2016	1,346,774	\$ 2.35
Granted	265,345	2.88
Vested	(155,535)	2.35
Forfeited	(250,960)	2.35
Outstanding and unvested at September 30, 2017	1,205,624	\$ 2.47

The Company's RSU agreements allow employees to surrender to the Company shares of common stock upon vesting of their RSUs in lieu of their payment of the required personal employment-related taxes. During the nine months ended September 30, 2017 and 2016, employees delivered to the Company 50,762 and no shares of stock, respectively, which the Company recorded at a cost of approximately \$0.2 million and \$0.0 million, respectively. Shares surrendered for payment of personal employment-related taxes are held in treasury.

Performance-based restricted stock units

In the third quarter of 2017, the Company began to grant PBRsUs to its employees. The PBRsUs vest upon satisfaction of both time-based requirements and performance targets based on share price with certain awards vesting on December 31, 2019 and certain awards vesting on December 31, 2020. If certain price targets are reached, the number of shares vesting could be up to 150% or, in certain cases, up to 200% of the number of PBRsUs originally granted. A summary of the PBRsU activity during the three months ended September 30, 2017 is shown below:

	Shares	Weighted- Average Grant Date Fair Value
Outstanding and unvested at June 30, 2017	—	\$ —
Granted	3,117,297	3.21
Vested	—	—
Forfeited	(17,230)	3.21
Outstanding and unvested at September 30, 2017	3,100,067	\$ 3.21

10. Other

Other costs are comprised of reorganization-related and certain other costs. For the three months ended September 30, 2017 and 2016, the Company incurred \$1.4 million and \$0.5 million in other costs, respectively. For the nine months ended September 30, 2017 and 2016, the Company incurred \$2.6 million and \$20.0 million in other costs, respectively.

Other costs consist of the following (in millions):

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Notes to Unaudited Consolidated Financial Statements

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Severance and employee benefits	\$—	\$(0.3)	\$0.3	\$2.5
Facility charges	—	—	—	0.7
Non-cash share based compensation	—	—	0.1	1.8
Reorganization-related	—	(0.3)	0.4	5.0
Transaction fees (1)	—	—	—	13.3
Defined contribution plan contributions (2)	—	—	—	0.9
Restatement costs	—	0.8	—	0.8
Acquisition related diligence and costs (3)	1.4	—	1.4	—
Transitioned employees restructuring expense (4)	—	—	0.8	—
Other	1.4	0.8	2.2	15.0
Total other	\$1.4	\$0.5	\$2.6	\$20.0

(1) Costs related to retention payments and legal fees paid in connection with the closing of the Transaction (see Note 12).

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

(3) Costs related to evaluating and pursuing acquisition opportunities as part of the Company's inorganic growth strategy.

(4) 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.

Reorganization-related

During the second and fourth quarters of 2016, the Company initiated restructuring plans 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.

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

	Severance and Employee Benefits	Facilities and Other Costs	Total
Reorganization liability at December 31, 2016	\$ 1.6	\$ 0.5	\$2.1
Restructuring charges	0.4	—	0.4
Cash payments	(1.7)	(0.5)	(2.2)
Non-cash charges	(0.1)	\$ —	(0.1)
Reorganization liability at September 30, 2017	\$ 0.2	\$ —	\$0.2

11. Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant and infrequent or unusual items which are required to be discretely recognized within the current interim period. The Company's intention is to permanently reinvest its foreign earnings outside

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Notes to Unaudited Consolidated Financial Statements

the United States. As a result, the effective tax rates in the periods presented are largely based upon the projected annual pre-tax earnings by jurisdiction and the allocation of certain expenses in various taxing jurisdictions where the Company conducts its business. These taxing jurisdictions apply a broad range of statutory income tax rates.

The income tax benefit for the three and nine months ended September 30, 2017 was lower than the amount derived by applying the federal statutory tax rate of 35% primarily due to discrete items recognized in the period. The income tax expense for the three and nine months ended September 30, 2016 was higher than the amount derived by applying the federal statutory tax rate of 35% primarily due to discrete items as well as the impact of state taxes.

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 2013 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.

As of January 1, 2017, the Company adopted ASU 2016-09. The Company elected to change its accounting policy to account for forfeitures as they occur under the new standard. The change was applied on a modified retrospective basis with a cumulative effect adjustment recorded to increase non-current deferred tax assets by \$0.5 million as of January 1, 2017. Excess tax benefits for share-based payments are now included in net cash used in operating activities rather than net cash used in financing activities. The changes have been applied prospectively in accordance with ASU 2016-09 and prior periods have not been adjusted.

Amendments related to accounting for excess tax benefits and shortfalls have been adopted prospectively, resulting in recognition of excess tax benefits and shortfalls as part of income tax expense rather than additional paid-in capital. For the three and nine months ended September 30, 2017, the Company recognized \$0.0 and \$0.9 million of income tax expense from shortfalls associated with vesting and exercises of equity awards.

The Company wrote-off approximately \$0.4 million and \$1.5 million of deferred tax assets due to the expiration of share-based awards and recognized as discrete expense during the three and nine months ended September 30, 2017. During 2016, deferred tax assets written-off due to the expiration of share-based awards were recognized as a reduction in additional paid-in capital.

During the nine months ended September 30, 2017, the Company corrected the deferred tax asset balance associated with share-based compensation. In 2015 and 2016, the Company incorrectly recorded excess share-based compensation of approximately \$2.6 and \$4.0 million. This excess share-based compensation expense resulted in deferred tax assets of approximately \$2.5 million being erroneously recorded in the consolidated balance sheet at December 31, 2016. The Company has determined these amounts are immaterial to the quarterly and annual periods in 2015, 2016 and 2017. In addition to correcting the deferred tax balance, the Company reclassified approximately \$6.5 million from additional paid-in-capital to accumulated deficit to correct for the excess share-based compensation expense recorded in 2015 and 2016.

At December 31, 2016, the Company had deferred tax assets of \$169.9 million, of which \$71.0 million related to net operating loss carryforwards. In conjunction with the adoption of ASU 2016-09 and Topic 606, a cumulative effect adjustment was recorded to increase deferred tax assets by \$0.5 million for ASU 2016-09 and decrease deferred tax assets by \$70.3 million for Topic 606 as of January 1, 2017. The majority of the Company's carryforwards were generated in 2013, 2014 and 2015 when the Company incurred substantial expenses related to the restatement. The Company expects its business growth contracted for under the Ascension A&R MPSA will be profitable and allow the Company to utilize its 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.

12. 8.00% Series A Convertible Preferred Stock

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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.

During the twelve months ended December 31, 2016, 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), which commenced 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 September 30, 2017, the Company had accrued dividends of \$4.5 million associated with the Preferred Stock, which was paid in additional shares of Preferred Stock in October 2017.

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 resulting from any conversion 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 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.

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 nine months ended September 30, 2017:

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Notes to Unaudited Consolidated Financial Statements

	Preferred Stock Shares Issued and Outstanding	Carrying Value
Balance at December 31, 2016	210,160	\$ 171.6
Dividends paid/accrued dividends	12,863	13.1
Balance at September 30, 2017	223,023	\$ 184.7

13. Earnings (Loss) Per Share

Basic net income per share is computed by dividing net income, less any dividends, accretion or decurtion, 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 three and nine months ended September 30, 2017 and 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, PBRsUs and Preferred Stock.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Basic EPS:				
Net income (loss)	\$(3.6)	\$ 37.4	\$(18.6)	\$ 164.0
Less dividends on preferred shares	(4.4)	(4.1)	(13.1)	(58.5)
Less income allocated to preferred shareholders	—	(15.1)	—	(43.4)
Net income (loss) available/(allocated) to common shareholders - basic	\$(8.0)	\$ 18.2	\$(31.7)	\$ 62.1
Diluted EPS:				
Net income (loss)	(3.6)	37.4	(18.6)	164.0
Less dividends on preferred shares	(4.4)	(4.1)	(13.1)	(58.5)
Less income allocated to preferred shareholders	—	(15.0)	—	(43.1)
Net income (loss) available/(allocated) to common shareholders - diluted	\$(8.0)	\$ 18.3	\$(31.7)	\$ 62.4
Basic weighted-average common shares	102,225,400	934,561	102,022,929	870,685
Add: Effect of dilutive securities	—	1,241,719	—	1,147,765
Diluted weighted average common shares	102,225,400	2,176,280	102,022,929	2,018,450
Net income (loss) per common share (basic)	\$(0.08)	\$ 0.18	\$(0.31)	\$ 0.62
Net income (loss) per common share (diluted)	\$(0.08)	\$ 0.18	\$(0.31)	\$ 0.62

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Because of their anti-dilutive effect, 24,808,536 common share equivalents comprised of stock options, RSAs, PBRs and RSUs have been excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2017. 16,706,526 and 12,967,519 common share equivalents were excluded for the three and nine months ended September 30, 2016 due to their anti-dilutive effect. Additionally, the Investor's exercisable warrant to acquire up to 60 million shares of the Company's common stock has been excluded from the diluted earnings per share calculation because it is anti-dilutive for all periods presented.

14. Commitments and Contingencies

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.*), seeking statutory damages, injunctive relief and attorneys' fees. The primary allegations are that the Company attempted to collect debts without providing the notice required by the Fair Debt Collection Practices Act ("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 the Company's motion to dismiss. An amended complaint was filed on November 30, 2015. Discovery was underway, but on July 15, 2016, the court postponed all deadlines in the case as the parties attempted to finalize a confidential agreement in principle to settle the case. On February 23, 2017, the parties reached a settlement in principle and filed the proposed class action settlement with the Court, which conducted a Class Action Fairness Act (CAFA) hearing on whether to approve of the settlement. Members of the putative class were notified of the settlement and were given an opportunity to object or opt-out of the settlement. No objections to the settlement were entered before or at the CAFA hearing on October 4, 2017, and the Court approved the settlement by Order dated October 11, 2017. Accordingly, the Company will pay the \$1.3 million settlement amount, less amounts already paid, to a settlement fund to assist members of the class Ascension Michigan ministry patients pay off healthcare debt, to pay for class notice and administration, to pay \$15,000 to each of the named class representatives and to reimburse plaintiff's attorneys' fees.

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 improper termination 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 filed a parallel qui tam action in the District of Maine (*Worthy v. Eastern Maine Healthcare Systems*) making the same allegations, and seeking money damages, False Claims Act penalties and plaintiff's attorneys' fees. 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 mediated the case before the Magistrate Judge on July 24, 2017 and reached an agreement in principle, and subsequently resolved an additional contingency in order to settle the case. The settlement, which is now finalized, did not have a material impact to the consolidated financial statements.

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.), and seeking money damages, False Claims Act penalties and plaintiff's attorneys' fees. The Second Amended Complaint alleges that the Company's PAS business violates the federal False Claims Act. The case was originally

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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 filed a motion to dismiss the Second Amended Complaint on July 29, 2016. On March 22, 2017, the district court dismissed all claims against all hospital defendants other than Medstar Inc.'s WHC, and dismissed all claims related to TriCare-related episodes of care. The parties are currently engaged in an initial discovery phase in which the plaintiff has sought broad discovery and brought a motion to compel discovery relating to the defendants that have been dismissed. The motion was denied and 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.

15. 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 12, 8% Series A Convertible Preferred Stock, for additional information.

The Company provides RCM and PAS services to Ascension. The execution of the A&R MPSA, as discussed in Note 1, Business Description and Basis of Presentation, was a contractual settlement agreement of the prior Master Professional Services Agreement between the Company and Ascension. The Company recorded revenue of \$22.7 million and \$366.2 million in connection with these services for the three and nine months ended September 30, 2016. For the three and nine months ended September 30, 2017, the Company recorded revenue of \$112.2 million and \$275.3 million from services provided to Ascension, respectively.

At September 30, 2017, the Company had \$20.1 million in current portion of customer liabilities for a related party, consisting of \$17.6 million, \$0.3 million and \$2.2 million in current accrued service costs, refund liabilities and deferred revenue. The Company had \$9.1 million in non-current portion of customer liabilities for a related party related to non-current deferred revenue as of September 30, 2017. 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 September 30, 2017 and December 31, 2016, the Company had \$18.0 million and \$1.8 million in accounts receivable with Ascension, respectively.

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. As of September 30, 2017 and December 31, 2016, the Company had \$0.7 million and \$1.7 million in accrued compensation and benefits related to these costs, respectively.

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.

16. Deferred Contract Costs

One-time, non-recurring costs associated with the initial phases of the Ascension A&R MPSA and with the transition of additional Ascension hospitals are deferred. These fulfillment costs relate directly to the Company's responsibilities under the A&R MPSA, generate or enhance resources of the Company that will be used in satisfying its performance obligations under the A&R MPSA in the future, and are expected to be recovered through the margins realized under the A&R MPSA. At September 30, 2017, the Company had \$10.6 million in total deferred contract costs and \$4.8 million at December 31, 2016.

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Of the \$10.6 million in deferred eligible costs, \$1.3 million is included in prepaid expenses and other current assets and \$9.3 million is included in other assets in the accompanying consolidated balance sheets. As of December 31, 2016, deferred eligible costs were included in the other current assets in the accompanying consolidated balance sheets.

The associated assets are amortized as services are transferred to the customer over the remaining life of the contract. For the three and nine months ended September 30, 2017, total amortization was \$0.2 million and \$0.6 million, respectively, and there were no associated impairment losses. For the three and nine months ended September 30, 2016, \$1.9 million and \$2.8 million amounts had been capitalized, respectively, and no amounts had been amortized.

17. 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 three months ended September 30, 2017 and 2016, net services revenue from hospitals affiliated with Ascension accounted for 91% and 18% of the Company's total net services revenue, respectively. For the nine months ended September 30, 2017 and 2016, net services revenue from hospitals affiliated with Ascension accounted for 89% and 75% of the Company's total net services revenue, respectively. The loss of customers within the Ascension health system would have a material adverse impact on the Company's operations.

As of September 30, 2017 and 2016, the Company had a concentration of credit risk with hospitals affiliated with Ascension accounting for 70% and 31% of accounts receivable, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context indicates otherwise, references in this Quarterly Report on Form 10-Q to "R1," "the Company," "we," "our," and "us" mean R1 RCM Inc., and its subsidiaries.

The following discussion and analysis is an integral part of understanding our financial results and is provided as an addition to, and should be read in connection with, our consolidated financial statements and the accompanying notes. Also refer to Note 1 of our consolidated financial statements.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, that involve substantial risks and uncertainties. These statements are often identified by the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "designed", "may," "plan," "predict," "project," "would" and similar expressions and variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," in Part II, Item 1A of this Quarterly Report on Form 10-Q, and elsewhere in this Report, as well as those set forth in Part I, Item 1A of the 2016 10-K as well as our other filings with the SEC. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

Our Business

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.

Business Update

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. We started onboarding the first phase of new hospitals in mid-2016, which was followed by the second phase of new hospitals in mid-2017. We expect the final phase of hospitals to be onboarded in mid-2018. The A&R MPSA is structured as an operating partner model, whereby a significant number of Ascension's revenue cycle employees become our employees. As a result, our employee count has increased by over 5,000 employees since mid-2016. The operating partner model also requires the transition of the non-payroll expenses supporting a hospital's revenue cycle operations to become direct expenses of the Company. New hospitals onboarded, along with direct control of payroll and non-payroll expenses, have been the primary drivers of the growth in our revenue and cost of services in 2017.

In May 2017, we announced the expansion of our relationship with Ascension. The expanded relationship adds a health system which was acquired by Ascension after the signing of the A&R MPSA and increases the scope of our contract by adding physician RCM services for all Ascension ministries in Wisconsin. We expect to begin onboarding this expanded scope of business in the fourth quarter of 2017.

By the end of 2017, we expect to have onboarded or started the onboarding process for more than 85% of the new Ascension hospitals under the A&R MPSA. Consequently, we believe we are in a position to meaningfully increase our sales and marketing efforts to win new business. In July 2017, we launched a portfolio of five modular solutions to complement our end-to-end RCM offerings. The sophistication of our capabilities and additional flexibility for health systems to contract with us for specific components of the revenue cycle should position us favorably to win new business. Additionally, we also announced the appointment of a new chief commercial officer in August 2017. In addition to organic growth, we also expect to continue to actively pursue acquisitions to complement our existing capabilities and further enhance our market presence.

CONSOLIDATED RESULTS OF OPERATIONS

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

	Three Months		2017 vs. 2016		Nine Months			
	Ended	September 30,	Change	%	Ended	September 30, 2017	Change	%
	2017	2016	Amount	%	2017	2016	Amount	%
(In millions except percentages)								
Consolidated Statement of Operations Data:								
RCM services: net operating fees	\$104.6	\$49.0	\$55.6	113.5 %	255.4	300.3	\$(44.9)	(15.0) %
RCM services: incentive fees	7.5	68.5	(61.0)	(89.1) %	20.2	166.5	(146.3)	(87.9) %
RCM services: other	2.8	3.8	(1.0)	(26.3) %	9.8	8.3	1.5	18.1 %
Other service fees	8.3	4.2	4.1	97.6 %	24.1	11.3	12.8	113.3 %
Total net services revenue	123.2	125.5	(2.3)	(1.8) %	309.5	486.4	(176.9)	(36.4) %
Operating expenses:								
Cost of services	111.8	47.4	64.4	135.9 %	289.1	137.6	151.5	110.1 %
Selling, general and administrative	15.1	16.2	(1.1)	(6.8) %	41.6	58.4	(16.8)	(28.8) %
Other	1.4	0.5	0.9	180.0 %	2.6	20.0	(17.4)	(87.0) %
Total operating expenses	128.3	64.1	64.2	100.2 %	333.3	216.0	117.3	54.3 %
Income (loss) from operations	(5.1)	61.4	(66.5)	(108.3) %	(23.8)	270.4	(294.2)	(108.8) %
Net interest income	—	0.1	(0.1)	(100.0) %	0.1	0.2	(0.1)	(50.0) %
Net income (loss) before income tax provision	(5.1)	61.5	(66.6)	(108.3) %	(23.7)	270.6	(294.3)	(108.8) %
Income tax provision (benefit)	(1.5)	24.1	(25.6)	(106.2) %	(5.1)	106.6	(111.7)	(104.8) %
Net income (loss)	\$(3.6)	\$37.4	\$(41.0)	(109.6) %	(18.6)	164.0	\$(182.6)	(111.3) %

Use of Non-GAAP Financial Information

As of January 1, 2017, the Company adopted Topic 606, Revenue from Contracts with Customers (“Topic 606”) and thus for the three and nine months ended September 30, 2017, the Company followed the guidance under Topic 606. Under the newly adopted guidance, revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a service to a customer, which is typically over the contract term. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. For periods prior to 2017, we typically invoiced customers for base fees and incentive fees on a quarterly or monthly basis, and typically received cash from customers on a similar basis. For GAAP reporting purposes, we only recognized those net operating fees and incentive fees as net services revenue to the extent that all the criteria for revenue recognition were met, which was generally upon contract renewal, termination or other contractual agreement event. As such, net operating and incentive fees were 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 typically included the effects of billings and collections from periods prior to the period in which revenue was recognized.

We supplement our GAAP consolidated financial statements with the following non-GAAP financial measures: gross cash generated from customer contracting activities (2016), net cash generated from customer contracting activities (2016) and adjusted EBITDA. Adjusted EBITDA is utilized by our Board and management team 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. The non-GAAP measures of gross and net cash generated from customer contracting activities, that were utilized by the Company in 2016, are the metrics most comparable to net services revenue and net income, respectively. The Company will provide these metrics for comparability in light of the differences in our revenue recognition year over year.

Selected Non-GAAP Measures

Gross and Net Cash Generated from Customer Contracting Activities

Gross and net cash generated from customer contracting activities reflects the change in the deferred customer billings, relative to GAAP net services revenue. 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. We anticipate the use of these non-GAAP measures to be limited to the year and quarters ended in 2017. Beginning in 2018, there will be two comparable periods of GAAP metrics under Topic 606 and we expect disclosure of these metrics to not be necessary on a go forward basis.

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.

These non-GAAP measures are used throughout this Quarterly Report on Form 10-Q including in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Adjusted EBITDA

We define adjusted EBITDA as net income before net interest income, income tax provision, depreciation and amortization expense, share-based compensation expense, reorganization-related expense and certain other items. Prior to 2017, the use of adjusted EBITDA to measure operating and financial performance was limited by our revenue recognition criteria, pursuant to which GAAP net services revenue was recognized at the end of a contract or "other contractual agreement event". As such, adjusted EBITDA did not adequately match corresponding cash flows resulting from customer contracting activities.

We understand that, although non-GAAP measures are frequently used by investors, securities analysts, and others in their evaluation of companies, these 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 collected incentive fees which may be subject to adjustment or concession prior to the end of a contract or "other contractual agreement event";

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;

Adjusted EBITDA and net cash generated from customer contracting activities do not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA and net cash generated from customer contracting activities do not reflect share-based compensation expense;

Adjusted EBITDA and net cash generated from customer contracting activities do not reflect income tax expenses or cash requirements to pay taxes;

Adjusted EBITDA and net cash generated from customer contracting activities do not reflect certain Other expenses which may require cash payments;

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 neither adjusted EBITDA nor net cash generated from customer contracting activities reflect cash requirements for such replacements or other purchase commitments, including lease commitments; and

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

Reconciliation of GAAP and Non-GAAP Measures

The following table represents a reconciliation of gross cash generated from customer contracting activities to net services revenue, the most comparable GAAP measure, for each of the periods indicated:

	Three Months Ended September 30,		2017 vs. 2016 Change		Nine Months Ended September 30, 2017		2017 vs. 2016 Change	
	2017	2016	Amount	%	2017	2016	Amount	%
(In millions except percentages)								
RCM services: net operating fees	\$104.6	\$49.0	\$55.6	113.5 %	255.4	300.3	\$(44.9)	(15.0) %
RCM services: incentive fees	7.5	68.5	(61.0)	(89.1) %	20.2	166.5	(146.3)	(87.9) %
RCM services: other	2.8	3.8	(1.0)	(26.3) %	9.8	8.3	1.5	18.1 %
Other services fees	8.3	4.2	4.1	97.6 %	24.1	11.3	12.8	113.3 %
Net services revenue	123.2	125.5	(2.3)	(1.8) %	309.5	486.4	(176.9)	(36.4) %
Change in deferred customer billings (non-GAAP) (1)	n.a.	(65.8)	n.m.	n.m.	n.a.	(347.5)	n.m.	n.m.
Gross cash generated from customer contracting activities (non-GAAP)	n.a.	\$59.7	n.m.	n.m.	n.a.	138.9	n.m.	n.m.

n.m. - not meaningful

n.a. - Due to the adoption of Topic 606 as of January 1, 2017, the non-GAAP measure of gross cash generated from customer contracting activities, that was utilized by the Company in 2016, is not applicable for 2017. Gross cash generated from customer contracting activities has been provided for the three and nine months ended September 30, 2016 as it is the most comparable metric to net services revenue for the three and nine months ended September 30, 2017.

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 account in the consolidated balance sheet. 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 under Topic 605.

The following table represents a reconciliation of adjusted EBITDA and net cash generated from customer contracting activities to net income (loss), the most comparable GAAP measure, for each of the periods indicated:

	Three Months Ended September 30,		2017 vs. 2016 Change		Nine Months Ended September 30, 2017		2017 vs. 2016 Change	
	2017	2016	Amount	%	2017	2016	Amount	%
(In millions except percentages)								
Net income (loss)	(3.6)	37.4	\$(41.0)	(109.6) %	(18.6)	164.0	\$(182.6)	(111.3) %
Net interest income	—	(0.1)	0.1	(100.0) %	\$(0.1)	(0.2)	0.1	(50.0) %
Income tax provision (benefit)	(1.5)	24.1	(25.6)	(106.2) %	(5.1)	106.6	(111.7)	(104.8) %
Depreciation and amortization expense	4.5	2.7	1.8	66.7 %	11.5	7.3	4.2	57.5 %
Share-based compensation expense (1)	2.4	4.8	(2.4)	(50.0) %	8.2	23.5	(15.3)	(65.1) %
Other (2)	1.4	0.5	0.9	180.0 %	2.6	20.0	(17.4)	(87.0) %
Adjusted EBITDA (non-GAAP)	3.1	69.4	(66.3)	(95.5) %	(1.6)	321.2	(322.8)	(100.5) %
Change in deferred customer billings (non-GAAP) (3)	n.a.	(65.8)	n.m.	n.m.	n.a.	(347.5)	n.m.	n.m.
Net cash generated from customer contracting activities (non-GAAP)	n.a.	\$3.6	n.m.	n.m.	n.a.	\$(26.4)	n.m.	n.m.

n.m. - not meaningful

n.a. - Due to the adoption of Topic 606 as of January 1, 2017, the non-GAAP measure of gross cash generated from customer contracting activities, that was utilized by the Company in 2016, is not applicable for 2017. Net cash generated from customer contracting activities has been provided for the three and nine months ended September 30, 2016 as it is the most comparable metric to adjusted EBITDA for the three and nine months ended September 30, 2017.

Due to rounding, numbers presented in this table may not add up precisely to the totals provided.

Share-based compensation expense represents the expense associated with stock options, restricted stock units and restricted stock awards granted, as reflected in our Consolidated Statements of Operations and Comprehensive

(1) Income (Loss). See Note 9, Share-Based Compensation, to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for the detail of the amounts of share-based compensation expense.

(2) Other costs consist of the following (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Severance and employee benefits	\$—	\$(0.3)	\$0.3	\$2.5
Facility charges	—	—	—	0.7
Non-cash share based compensation	—	—	0.1	1.8
Reorganization-related	—	(0.3)	0.4	5.0
Transaction fees (i)	—	—	—	13.3
Defined contribution plan contributions (ii)	—	—	—	0.9
Restatement costs	—	0.8	—	0.8
Acquisition related diligence and costs (iii)	1.4	—	1.4	—
Transitioned employees restructuring expense (iv)	—	—	0.8	—
Other	1.4	0.8	2.2	15.0
Total other	\$1.4	\$0.5	\$2.6	\$20.0

(i) Costs related to retention payments and legal fees paid in connection with the closing of the Transaction (see Note 12).

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

(iii) Costs related to evaluating and pursuing acquisition opportunities as part of the Company's inorganic growth strategy.

(iv) 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.

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 account in the consolidated balance sheet. 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.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenue

Revenue decreased by \$2.3 million from \$125.5 million for the three months ended September 30, 2016 to \$123.2 million for three months ended September 30, 2017. As noted above, the Company adopted new guidance on revenue recognition as of January 1, 2017. Under the new revenue recognition standard adopted as of January 1, 2017, we recognize revenue when a performance obligation is satisfied by transferring control over a service to a customer, which is typically over the contact term. For the three months ended September 30, 2017, we recognized \$123.2 million in revenue. Prior to the adoption of the new standard, revenue was recognized when all the criteria for revenue recognition was met, which was generally upon contract renewal, termination or other contractual agreement event. For the three months ended September 30, 2016, we recognized \$116.8 million in revenue due to contractual agreement events. See Note 6, Revenue Recognition, for further explanation of the Company's revenue recognition policy related to periods starting on or after January 1, 2017.

Net Services Revenue (2017) (GAAP) compared to Gross Cash Generated from Customer Contracting Activities (2016) (non-GAAP)

Due to the adoption of Topic 606 as of January 1, 2017, the non-GAAP measure of gross cash generated from customer contracting activities, that was utilized by the Company in 2016, is not applicable for 2017. However, we have provided a year-over-year comparison of net services revenue to gross cash generated from customer contracting activities as gross cash generated from customer contracting activities for the three months ended September 30, 2016 is the most comparable metric to net services revenue for the three months ended September 30, 2017.

Net services revenue as compared to gross cash generated from customer contracting activities increased by \$63.5 million, or 106.4%, from \$59.7 million for the three months ended September 30, 2016, to \$123.2 million for the three months ended September 30, 2017. The increase was primarily driven by the onboarding of new Ascension hospitals under the A&R MPSA. The transition to the A&R MPSA for Ascension hospitals served

prior to 2016 also contributed to the increase, due to a change in classification of costs from an offset to net operating fees to cost of services due to on-boarding of employees. These two factors resulted in an increase in revenue of \$59.3 million. In addition, other services fees increased by \$4.1 million, driven by our PAS business.

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 revenue, the most comparable GAAP measure.

Cost of Services

Cost of services increased by \$64.4 million, or 135.9%, from \$47.4 million for the three months ended September 30, 2016, to \$111.8 million for the three months ended September 30, 2017. The increase was primarily driven by costs associated with providing services to new Ascension hospitals. In addition, costs also increased due to the transition to the A&R MPSA, which led to change in classification of costs from an offset to net operating fees to cost of services due to on-boarding of employees (discussed above) and an increase in shared services costs driven by increased volume. These two factors resulted in an increase in costs of \$61.5 million. In addition, the increase in PAS volume resulted in a \$2.2 million increase in cost of services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$1.1 million, or 6.8%, from \$16.2 million for the three months ended September 30, 2016 to \$15.1 million for the three months ended September 30, 2017. This decrease was primarily driven by a \$2.2 million decline in stock compensation expense, offset by an increase in general and administrative costs related to scaling of the business.

Other Costs

Other costs increased by \$0.9 million, from \$0.5 million, or 180.0%, for the three months ended September 30, 2016, to \$1.4 million for the three months ended September 30, 2017. The increase in costs was primarily related to acquisition-related diligence expenditures.

Income Taxes

Income tax provision decreased by \$25.6 million from \$24.1 million income tax provision for the three months ended September 30, 2016 to a \$1.5 million benefit for the three months ended September 30, 2017, primarily due to a decrease in pretax income. Our effective tax rate was approximately 29% and 39% for the three months ended September 30, 2017 and 2016, respectively. Our tax rate is affected by discrete items that may occur in any given year, but not consistent from year to year. Our rate for the three months ended September 30, 2017 was impacted by the write-off of deferred tax assets related to stock-based compensation due to the adoption of ASU 2016-09.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Revenue

Revenue decreased by \$176.9 million, or 36.4%, from \$486.4 million for the nine months ended September 30, 2016 to \$309.5 million for nine months ended September 30, 2017. As noted above, the Company adopted new guidance on revenue recognition as of January 1, 2017. For the nine months ended September 30, 2016, revenue was recognized when all the criteria for revenue recognition was met, which was generally upon contract renewal, termination or other contractual agreement. For the nine months ended September 30, 2016, \$450.2 million in revenue was recognized due to contractual agreement events related to Ascension and other RCM clients. A significant portion of this revenue related to services prior to the period of revenue recognition. For the nine months ended September 30, 2017, we recognize revenue when a performance obligation is satisfied by transferring control

over a service to a customer, which is typically over the contact term. The amount recognized in 2016 associated with the contractual termination event was partially offset by services provided to new Ascension hospitals under the A&R MPSA that we were not previously servicing.

See Note 6, Revenue Recognition, for further explanation of the Company's revenue recognition policy related to periods starting on or after January 1, 2017.

Net Services Revenue (2017) (GAAP) compared to Gross Cash Generated from Customer Contracting Activities (2016) (non-GAAP)

Due to the adoption of Topic 606 as of January 1, 2017, the non-GAAP measure of gross cash generated from customer contracting activities, that was utilized by the Company in 2016, is not applicable for 2017. However, we have provided a year-over-year comparison of net services revenue to gross cash generated from customer contracting activities as gross cash generated from customer contracting activities for the nine months ended September 30, 2016 is the most comparable metric to net services revenue for the nine months ended September 30, 2017.

Net services revenue as compared to gross cash generated from customer contracting activities increased by \$170.6 million or 122.8%, from \$138.9 million for the nine months ended September 30, 2016, to \$309.5 million for the nine months ended September 30, 2017. The increase was primarily driven by the onboarding of new Ascension hospitals under the A&R MPSA. In addition, the increase was also driven by the transition to the A&R MPSA, which 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. These two factors primarily resulted in an increase of \$157.7 million in revenue. In addition, other service fees increased by \$12.8 million primarily due to revenue being recognized in conjunction with the execution of PAS supplements for Ascension affiliates which were executed during 2017, as well as volume increases for Non-Ascension PAS customers.

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 revenue, the most comparable GAAP measure.

Cost of Services

Cost of services increased by \$151.5 million, or 110.1%, from \$137.6 million for the nine months ended September 30, 2016, to \$289.1 million for the nine months ended September 30, 2017. The increase was driven by costs associated with providing services to new Ascension hospitals. In addition, costs also increased due to the transition to the A&R MPSA, which led to change in classification of costs from an offset to net operating fees to cost of services due to on-boarding of employees (discussed above) and an increase in shared service costs driven by increased volume. These two factors resulted in an increase in costs of \$142.1 million. In addition, the increase in PAS volume resulted in a \$6.8 million increase in cost of services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$16.8 million, or 28.8%, from \$58.4 million for the nine months ended September 30, 2016 to \$41.6 million for the nine months ended September 30, 2017. This decrease was primarily due to a \$13.7 million decline in stock compensation expense and \$3.0 million of severance costs related to the departure of an executive officer in 2016.

Other Costs

Other costs decreased by \$17.4 million, or 87.0% from \$20.0 million for the nine months ended September 30, 2016, to \$2.6 million for the nine months ended September 30, 2017. The decrease was primarily attributable to \$13.3 million in costs related to the closing of the Transaction with Ascension Health Alliance and TowerBrook on

February 16, 2016 and \$5.0 million in reorganization related costs during the nine months ended September 30, 2016, offset by \$1.4 million of costs incurred during the nine months ended September 30, 2017 for acquisition-related diligence expenditures.

Income Taxes

Income tax provision decreased by \$111.7 million from \$106.6 million income tax provision for the nine months ended September 30, 2016 to a \$5.1 million income tax benefit for the nine months ended September 30, 2017, primarily due to a decrease in pretax income. Our effective tax rate was approximately 22% and 39% for the nine months ended September 30, 2017 and 2016. Our tax rate is affected by discrete items that may occur in any given year, but not consistent from year to year. Our rate for the nine months ended September 30, 2017 was impacted by the write-off of deferred tax assets related to stock based compensation due to the adoption of ASU 2016-09.

CRITICAL ACCOUNTING POLICIES

Management considers an accounting policy to be critical if the accounting policy requires management to make particularly difficult, subjective or complex judgments about matters that are inherently uncertain. A summary of our critical accounting policies is included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies and Use of Estimates" of our 2016 10-K. There have been no material changes to the critical accounting policies disclosed in our 2016 Form 10-K other than the impact of adopting new accounting standards. See Note 6, Revenue Recognition, and Note 9, Share-Based Compensation, in the notes to the consolidated financial statements for discussion of the impact of the adoption of these standards on the Company's policies for revenue and stock compensation, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

For additional information regarding new accounting guidance, see Note 2, Recent Accounting Pronouncements, to our consolidated financial statements included in this Quarterly Report on Form 10-Q, which provides a summary of our recently adopted accounting standards and disclosures.

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:

	Nine Months Ended September 30, 2017 2016 (In millions)	
Net cash used in provided by operating activities	\$(4.3)	\$(69.3)
Net cash used in investing activities	(30.1)	(9.4)
Net cash (used in) provided by financing activities	(4.4)	176.8
Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016		

Operating Activities

Cash used in operating activities improved by \$65.0 million, from cash used of \$69.3 million for the nine months ended September 30, 2016, to cash used of \$4.3 million for the nine months ended September 30, 2017. The decrease resulted from stronger operating performance as evidenced by the improvement in adjusted EBITDA for

the nine months ended September 30, 2017 as compared to net cash generated for the nine months ended September 30, 2016.

Investing Activities

Cash used in investing activities increased by \$20.7 million from \$9.4 million for the nine months ended September 30, 2016, to \$30.1 million for the nine months ended September 30, 2017. Cash used in investing activities increased primarily due to an increase in purchases of computer hardware and software and spending on expanding our India operations.

Financing Activities

Cash provided by financing activities decreased by \$181.2 million from cash provided by financing activities of \$176.8 million for the nine months ended September 30, 2016 to cash used in financing activities of \$4.4 million for the nine months ended September 30, 2017. This change is primarily due to the investment of \$200 million by the Investor in connection with the Transaction offset by transaction costs of \$21.3 million during the nine months ended September 30, 2016.

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 expect to continue to invest in our shared services capabilities, and 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.

We believe that our available cash balances and the cash flows expected to be generated from operations will be sufficient to satisfy our current and planned working capital and investment needs for the next twelve months. We also believe that our longer-term working capital and other general corporate funding requirements will be satisfied through cash flows from operations and, to the extent necessary, from new borrowing facilities and future financial market activities.

OFF-BALANCE SHEET OBLIGATIONS**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.

The aggregate future minimum rental commitments under all noncancelable operating leases having remaining terms in excess of one year as of September 30, 2017 are as follows (in thousands):

2017	1,919
2018	7,645
2019	6,940
2020	7,144
2021	6,907
2022	3,964
Thereafter	19,037
Total	\$53,556

We do not have any other off-balance sheet arrangements that have or are reasonably likely to have a material current or future impact on our financial results.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Interest Rate Sensitivity. Our interest income is primarily generated from interest earned on operating cash accounts. 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 both the nine months ended September 30, 2017 and 2016, 8% of our expenses were denominated in Indian rupees. As of September 30, 2017 and 2016, we had net assets of \$21.1 million and \$15.5 million in India, respectively. The reduction in earnings from a 10% change in U.S. dollar/Indian Rupee foreign currency spot rates would be \$3.0 million and \$1.3 million at September 30, 2017 and 2016, respectively.

Item 4. Controls and Procedures**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 September 30, 2017. Our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the third quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. 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.*), seeking statutory damages, injunctive relief and attorneys' fees. 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 was underway, but on July 15, 2016, the court postponed all deadlines in the case as the parties attempted to finalize a confidential agreement in principle to settle the case. On February 23, 2017, the parties reached a settlement in principle and filed the proposed class action settlement with the Court, which conducted a Class Action Fairness Act (CAFA) hearing on whether to approve of the settlement. Members of the putative class were notified of the settlement and were given an opportunity to object or opt-out of the settlement before the CAFA hearing on October 4, 2017. No objections to the class settlement were filed. The Court approved the settlement by Order dated October 11, 2017. Accordingly, the Company will pay the \$1.3 million settlement, less amounts already paid, to a settlement fund to assist members of the class Ascension Michigan ministry patients pay off healthcare debt, to pay for class notice and administration, to pay \$15,000 to each of the named class representatives and depending upon Court approval, to reimburse plaintiff's attorneys' fees.

In April 2015, we were named among other defendants in an employment action brought by a former employee before the MHRC alleging improper termination 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 filed a parallel qui tam action in the District of Maine (*Worthy v. Eastern Maine Healthcare Systems*) making the same allegations, and seeking money damages, False Claims Act penalties and plaintiff's attorneys' fees. 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 mediated the case before the Magistrate Judge on July 24, 2017 and reached an agreement in principle, and subsequently resolved an additional contingency in order to settle the case. The settlement, which is now finalized, did not have a material impact to our consolidated financial statements.

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, 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. On March 22, 2017, the district court dismissed all claims against all hospital defendants other than Medstar Inc.'s WHC, and dismissed all claims related to TriCare-related episodes of care. The parties are currently engaged in an initial discovery phase in which the plaintiff has sought broad discovery and brought a motion to compel discovery relating to the defendants

that have been dismissed. That motion was denied and 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 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2016 10-K. The risk factors disclosed in Part I, Item 1A of our 2016 10-K, in addition to the other information set forth in this Quarterly Report on Form 10-Q, could materially affect our business, financial condition, or results. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition, or results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sale of Equity Securities

None.

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of common stock during the periods indicated (in millions, 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 millions) (2)
July 1, 2017 through July 31, 2017	342,130	\$ 3.67	—	\$ 49.0
August 1, 2017 through August 31, 2017	19,988	\$ 3.30	—	\$ 49.0
September 1, 2017 through September 30, 2017	—	\$ —	—	\$ 49.0

Amounts include strategic repurchases and repurchases of our stock related to employees' tax withholding upon (1) vesting of 19,988 RSAs for the month ended August 31, 2017. See Note 9, Share-Based Compensation, to our consolidated financial statements included in this Annual Report on Form 10-Q.

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 (2) (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-Q.

Average price paid per share of common stock repurchased under the 2013 Repurchase Program is the execution (3) price, including commissions paid to brokers.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None

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Item 6. Exhibits

The following are filed or incorporated by reference as a part of this Quarterly Report on Form 10-Q:

(a) Exhibit Number	Exhibit Description
<u>10.1*</u>	<u>Employment Offer Letter Agreement by and between the Company and Thomas A. Lesica, dated February 16, 2017</u>
<u>10.2*</u>	<u>Form of Grant of Performance Based Restricted Stock Unit Awards pursuant to the Second Amended and Restated 2010 Stock Incentive Plan (to be used for awards to a senior vice president or executive vice president)</u>
<u>10.3*</u>	<u>Form of Grant of Performance Based Restricted Stock Unit Awards pursuant to the Second Amended and Restated 2010 Stock Incentive Plan (to be used for awards to a vice president or director-level employee)</u>
<u>10.4*</u>	<u>Form of Letter Agreement (to be used for executive vice presidents)</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>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</u>
<u>32.2</u>	<u>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</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.DEF	XBRL Taxonomy Extension Document
101.PRE	XBRL Presentation Linkbase Document

*Management contract or compensatory plan or arrangement.

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 and Chief Executive Officer

By: /s/ Christopher Ricaurte
Christopher Ricaurte
Chief Financial Officer and Treasurer

Date: October 31, 2017