

HMS HOLDINGS CORP

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

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

For the quarterly period ended **June 30, 2011**

Or

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

For the transition period from _____ to _____

Commission File Number **000-50194**

HMS HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

New York

(State or Other Jurisdiction of Incorporation or Organization)

11-3656261

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

401 Park Avenue South, New York, NY

(Address of principal executive offices)

10016

(Zip Code)

(Registrant's Telephone Number, Including Area Code)
(212) 725-7965

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 shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of August 2, 2011 there were approximately 84,734,457 shares of the registrant's common stock (par value \$0.01 per share) outstanding.

**HMS HOLDINGS CORP. AND SUBSIDIARIES
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTER ENDED JUNE 30, 2011
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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. From time to time, we also provide forward-looking statements in other materials we release to the public, as well as oral forward-looking statements. Such statements give our expectations or forecasts of future events; they do not relate strictly to historical or current facts.

We have tried, wherever possible, to identify such statements by using words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “will,” “target,” “seek,” “forecast” and similar expressions. In particular, these include statements relating to future actions, business plans, objects and prospects, future operating or financial performance or results of current and anticipated services, acquisitions and the performance of companies we have acquired, sales efforts, expenses, interest rates, and the outcome of contingencies, such as financial results.

We cannot guarantee that any forward-looking statement will be realized. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. We caution you, therefore, against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K, and in particular, the risks discussed under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K, Part II of this 10-Q and those discussed in other documents we file with the Securities and Exchange Commission.

Any forward-looking statements made by us in this Report on Form 10-Q speak only as of the date on which they are made. Factors or events that could cause actual results to differ may emerge from time to time and it is not possible for us to predict all of them. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. You are advised, however, to consult any further disclosures we make on related subjects in our 10-K and 8-K reports to the Securities and Exchange Commission.

HMS HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

| | June 30, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 117,656 | \$ 94,836 |
| Accounts receivable, net of allowance of \$725 at June 30, 2011 and \$799 at December 31, 2010 | 80,794 | 75,123 |
| Prepaid expenses | 6,527 | 5,521 |
| Prepaid income taxes | 3,392 | 3,533 |
| Other current assets | 199 | 371 |
| Net deferred tax asset | 749 | 664 |
| Total current assets | 209,317 | 180,048 |
| Property and equipment, net | 46,212 | 44,713 |
| Goodwill, net | 106,675 | 107,414 |
| Intangible assets, net | 17,596 | 19,826 |
| Other assets | 5,867 | 904 |
| Total assets | <u>\$ 385,667</u> | <u>\$ 352,905</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable, accrued expenses and other liabilities | \$ 24,789 | \$ 32,502 |
| Contingent payables | 2,972 | — |
| Total current liabilities | 27,761 | 32,502 |
| Long-term liabilities: | | |
| Contingent payables | — | 2,573 |
| Accrued deferred rent | 1,575 | 1,842 |
| Other liabilities | 1,976 | 2,582 |
| Deferred tax liabilities | 6,692 | 5,768 |
| Total long-term liabilities | 10,243 | 12,765 |
| Total liabilities | 38,004 | 45,267 |
| Shareholders' equity: | | |
| Preferred stock - \$0.01 par value; 5,000,000 shares authorized; none issued | — | — |
| Common Stock - \$0.01 par value; 125,000,000 shares authorized; 89,686,170 shares issued and 84,697,632 shares outstanding at June 30, 2011; 88,341,546 shares issued and 83,353,008 shares outstanding at December 31, 2010 | 897 | 883 |
| Capital in excess of par value | 222,222 | 204,450 |
| Retained earnings | 133,941 | 111,702 |
| Treasury stock, at cost; 4,988,538 shares at June 30, 2011 and December 31, 2010 | (9,397) | (9,397) |
| Total shareholders' equity | 347,663 | 307,638 |
| Total liabilities and shareholders' equity | <u>\$ 385,667</u> | <u>\$ 352,905</u> |

See accompanying notes to unaudited consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 89,346 | \$ 70,726 | \$ 171,803 | \$ 135,678 |
| Cost of services: | | | | |
| Compensation | 31,531 | 25,391 | 62,842 | 49,180 |
| Data processing | 5,652 | 4,296 | 10,634 | 8,115 |
| Occupancy | 3,726 | 2,809 | 7,534 | 6,150 |
| Direct project costs | 11,064 | 8,204 | 20,653 | 15,778 |
| Other operating costs | 4,597 | 3,945 | 8,811 | 7,173 |
| Amortization of acquisition related software and intangibles | 1,648 | 1,398 | 3,388 | 2,901 |
| Total cost of services | 58,218 | 46,043 | 113,862 | 89,297 |
| Selling, general and administrative expenses | 10,668 | 9,498 | 21,372 | 18,480 |
| Total operating expenses | 68,886 | 55,541 | 135,234 | 107,777 |
| Operating income | 20,460 | 15,185 | 36,569 | 27,901 |
| Interest expense | (23) | (23) | (46) | (46) |
| Other income, net | 277 | — | 549 | — |
| Interest income | 16 | 24 | 36 | 41 |
| Income before income taxes | 20,730 | 15,186 | 37,108 | 27,896 |
| Income taxes | 8,307 | 6,074 | 14,869 | 11,205 |
| Net income | <u>\$ 12,423</u> | <u>\$ 9,112</u> | <u>\$ 22,239</u> | <u>\$ 16,691</u> |
| Basic income per common share | | | | |
| Net income per share — basic | <u>\$ 0.15</u> | <u>\$ 0.11</u> | <u>\$ 0.26</u> | <u>\$ 0.21</u> |
| Diluted income per share | | | | |
| Net income per share — diluted | <u>\$ 0.14</u> | <u>\$ 0.11</u> | <u>\$ 0.26</u> | <u>\$ 0.20</u> |
| Weighted average shares: | | | | |
| Basic | <u>83,925</u> | <u>81,320</u> | <u>84,186</u> | <u>81,040</u> |
| Diluted | <u>86,720</u> | <u>85,088</u> | <u>87,112</u> | <u>84,812</u> |

See accompanying notes to unaudited consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2011
(in thousands, except share amounts)
(unaudited)

| | Common stock | | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | | Total Shareholders' Equity |
|---|-----------------------|---------------|--------------------------------------|----------------------|------------------|-------------------|----------------------------------|
| | # of Shares Issued | Par Value | | | # of Shares | Amount | |
| Balance at December 31, 2010 | 88,341,546 | \$ 883 | \$ 204,450 | 111,702 | 4,988,538 | \$ (9,397) | \$ 307,638 |
| Comprehensive income: | | | | | | | |
| Net income | — | — | — | 22,239 | — | — | 22,239 |
| Total comprehensive income | | | | | | | 22,239 |
| Stock-based compensation cost | — | — | 3,966 | — | — | — | 3,966 |
| Exercise of Stock Options | 1,267,872 | 14 | 7,749 | — | — | — | 7,763 |
| Vesting of restricted stock awards and units, net of shares withheld for employee tax | 76,752 | — | (903) | — | — | — | (903) |
| Excess tax benefit from exercise of stock options | — | — | 6,960 | — | — | — | 6,960 |
| Balance at June 30, 2011 | <u>89,686,170</u> | <u>\$ 897</u> | <u>\$ 222,222</u> | <u>\$ 133,941</u> | <u>4,988,538</u> | <u>\$ (9,397)</u> | <u>\$ 347,663</u> |

See accompanying notes to unaudited consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

| | <u>Six months ended June 30,</u> | |
|---|----------------------------------|------------------|
| | <u>2011</u> | <u>2010</u> |
| Operating activities: | | |
| Net income | \$ 22,239 | \$ 16,691 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,805 | 7,307 |
| Stock-based compensation expense | 3,966 | 3,428 |
| Deferred income taxes | 839 | (782) |
| Decrease in allowance for doubtful debts | (74) | — |
| Change in fair value of contingent consideration | 399 | — |
| Loss on disposal of fixed assets | 2 | 21 |
| Changes in assets and liabilities: | | |
| (Increase)/Decrease in accounts receivable | (5,597) | 831 |
| (Increase)/Decrease in prepaid expenses | (1,006) | (134) |
| (Increase)/Decrease in prepaid income taxes | 141 | (624) |
| (Increase)/ Decrease in other current assets | 11 | (58) |
| (Increase)/Decrease in other assets | (154) | 682 |
| Decrease in accounts payable, accrued expenses and other liabilities | (6,377) | (5,058) |
| Net cash provided by operating activities | <u>24,194</u> | <u>22,304</u> |
| Investing activities: | | |
| Investment in certificate of deposit | (4,809) | — |
| Purchases of property and equipment | (8,986) | (5,430) |
| Purchase of building and land | — | (9,886) |
| Acquisition of AMG-SIU | 161 | (12,795) |
| Acquisition of Verify Solutions | (500) | |
| Investment in capitalized software | (1,060) | (1,006) |
| Net cash used in investing activities | <u>(15,194)</u> | <u>(29,117)</u> |
| Financing activities: | | |
| Proceeds from exercise of stock options | 7,763 | 3,713 |
| Payments of tax withholdings on behalf of employees for net-share settlement for stock-based compensation | (903) | — |
| Excess tax benefit from exercised stock options | 6,960 | 4,972 |
| Net cash provided by financing activities | <u>13,820</u> | <u>8,685</u> |
| Net increase in cash and cash equivalents | 22,820 | 1,872 |
| Cash and cash equivalents at beginning of period | 94,836 | 64,863 |
| Cash and cash equivalents at end of period | <u>\$ 117,656</u> | <u>\$ 66,735</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | <u>\$ 7,027</u> | <u>\$ 7,667</u> |
| Cash paid for interest | <u>\$ 47</u> | <u>\$ 23</u> |
| Supplemental disclosure of noncash investing activities: | | |
| Accrued property and equipment purchases | <u>\$ 1,012</u> | <u>\$ 502</u> |
| Accrued acquisition related contingent consideration | <u>\$ —</u> | <u>\$ 2,573</u> |

See accompanying notes to unaudited consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2011 and 2010
(unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary (consisting only of normal recurring adjustments) for a fair presentation of our and our subsidiaries' financial position at June 30, 2011, the results of our operations for the three and six months ended June 30, 2011 and 2010 and cash flows for the six months ended June 30, 2011 and 2010. Interim financial statements are prepared on a basis consistent with our annual financial statements. The financial statements included herein should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010, which we refer to as our Annual Report.

We provide a variety of cost containment, coordination of benefits and program integrity services for government and private healthcare payors and sponsors. These services are designed to help our clients recover amounts due from liable third parties, save dollars, reduce fraud, waste and abuse and ensure regulatory compliance. In September 2008, we purchased the assets and liabilities of Prudent Rx, expanding our portfolio of program integrity service offerings for government healthcare programs and managed care organizations, particularly in the pharmacy arena. In September 2009, we further expanded our portfolio of program integrity service offerings for government healthcare programs, particularly in the Medicare and Medicaid programs with our acquisition of IntegriGuard LLC, or IntegriGuard. In December 2009, with the acquisition of Verify Solutions, Inc., or Verify Solutions, we moved into the employer-based market with valuable new services that ensure that dependents covered by employees are eligible to receive healthcare benefits. In June 2010, we acquired Allied Management Group — Special Investigation Unit, or AMG-SIU, which provides fraud, waste and abuse prevention and detection solutions for healthcare payors. In August 2010, we acquired Chapman Kelly, Inc., or Chapman Kelly, which provides claims audit and beneficiary eligibility audit services to employers and managed care organizations.

These consolidated financial statements include our accounts and transactions and those of our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

We are managed and operated as one business, with a single management team that reports to the Chief Executive Officer. We do not operate separate lines of business with respect to any of our product lines.

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Our actual results could differ from those estimates.

We consider all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of deposits that are readily convertible into cash.

Our financial instruments are categorized into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2011 and 2010
(unaudited)

the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. Financial assets recorded at fair value on our consolidated balance sheets are categorized as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Our policy is to limit our credit exposure by placing our investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk. We maintain our cash primarily in investment accounts within large financial institutions. Currently, the Federal Deposit Insurance Corporation insures these balances up to \$250,000 per bank account. We have not experienced any losses on our bank deposits and we believe these deposits do not expose us to any significant credit risk.

We are subject to potential credit risk related to changes in economic conditions within the healthcare market. However, we believe that our billing and collection policies are adequate to minimize the potential credit risk.

We evaluate the recoverability of goodwill and long-lived assets either annually or whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to (i) a significant decrease in the market value of an asset, (ii) a significant adverse change in the extent or manner in which an asset is used, or (iii) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. If the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated, an impairment charge would be recognized. The impairment charge would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The determination of fair value is based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. We did not recognize any impairment charges related to our long-lived assets, property and equipment, goodwill or intangible assets, during the six months ended June 30, 2011 and 2010, as management believes that carrying amounts were not impaired.

The carrying amounts for our cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short-term nature.

On April 28, 2011, our Board of Directors approved a three-for-one stock split of our outstanding shares of common stock which required the approval of our shareholders on July 6, 2011 to increase our authorized shares. The stock split will be effected in the form of a stock dividend of two additional common shares for each share owned by shareholders of record at the close of business on July 22, 2011 and will be payable on August 16, 2011. All common share and per share information in our consolidated financial statements have been revised retroactively to reflect the stock split.

Certain reclassifications were made to prior year amounts to conform to the current presentation. These reclassifications had no impact on previously reported net income or financial position. This includes reclassifications of certain expenses from cost of services to selling, general and administration expenses.

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2011 and 2010
(unaudited)

Recently Issued Accounting Pronouncements

On May 12, 2011 the Financial Accounting Standards Board (“FASB”) issued authoritative accounting guidance for updates on Fair Value Measurements, specifically, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This update amends Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurement and Disclosure,” clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This authoritative guidance is effective for annual and interim reporting periods beginning on or after December 15, 2011. This new guidance is to be adopted prospectively and early adoption is not permitted. We do not believe that adoption of this guidance will have a material effect on our consolidated financial statements.

In December 2010, the FASB issued authoritative accounting guidance on the disclosure of supplementary pro forma information for business combinations to clarify the reporting of pro forma financial information related to business combinations of public entities and expand certain supplemental pro forma disclosures. This guidance is effective prospectively for business combinations that occur on or after the beginning of the fiscal year beginning on or after December 15, 2010, with early adoption permitted. We do not expect that this guidance will have a material effect on our consolidated financial statements.

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05 for the presentation of comprehensive income thereby amending Accounting Standards Codification (ASC) 220, *Comprehensive Income*. The amendments require that all non-owner changes in stockholder’s equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective in fiscal years beginning after December 15, 2011 and should be applied retrospectively. These amendments will impact the presentation of our financial statements upon adoption.

Excluding the recently issued authoritative accounting guidance noted above, there have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on our consolidated financial statements, from those disclosed in the our Annual Report on Form 10-K for the year ended December 31, 2010.

2. Acquisitions

The results of operations for our 2010 acquisitions have been included in our consolidated financial statements from the date of acquisition. We have concluded that these acquisitions were not material to our financial statements; therefore, pro forma financial information is not presented herein.

Chapman Kelly, Inc.

In August 2010, we acquired the assets and liabilities of Chapman Kelly for \$13.0 million in cash. Chapman Kelly, which is based in Jeffersonville, Indiana, provides dependent eligibility audits to large, self-insured employers, as well as plan and claims audits to both employers and managed care organizations. The acquisition of Chapman Kelly was accounted for under the acquisition method of accounting.

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2011 and 2010
(unaudited)

The following table summarizes the final amounts recognized for assets acquired and liabilities assumed (in thousands):

| | | |
|---------------------------------|-----------|---------------|
| Goodwill | \$ | 9,468 |
| Identifiable intangible assets | | 2,239 |
| Assets and liabilities acquired | | 1,018 |
| Capitalized software | | 276 |
| Total purchase price | <u>\$</u> | <u>13,001</u> |

Identifiable intangible assets principally include covenants not to compete, customer relationships and Chapman Kelly's trade name.

During the first quarter of 2011, we finalized the purchase price allocation which resulted in an increase to customer relationships of \$739 thousand and an offsetting decrease to goodwill as compared to the amounts recorded at December 31, 2010.

Allied Management Group - Special Investigation Unit

In June 2010, we purchased all of the issued and outstanding common stock of AMG-SIU for a purchase price valued at \$15.1 million, consisting of a \$13.0 million initial cash payment (subsequently reduced by a working capital reduction of \$0.2 million) and future contingent payments estimated and recognized as of the acquisition date at \$2.3 million. These payments are contingent upon AMG-SIU's financial performance for each of the twelve month periods ending June 30, 2011 and June 30, 2012. The contingent payments are not subject to any cap. Any contingent payments owed for the periods ending June 30, 2011 and 2012 shall be payable by September 30, 2011 and 2012, respectively. The undiscounted contingent payments are currently estimated to be \$3.4 million and relate to the 12 month period ending June 30, 2012. AMG-SIU, which is based in Santa Ana, California, specializes in fraud, waste and abuse prevention and detection solutions for healthcare payors, which further strengthens our ability to service this segment of the market. The acquisition of AMG-SIU was accounted for under the acquisition method of accounting.

The fair value of the contingent consideration recognized on the acquisition date of June 30, 2010 was estimated by applying the income approach. The measure is based on significant inputs not observable in the market that are defined by the FASB, guidance on fair value as Level 3 inputs. We are obligated to make contingent payments subject to satisfaction of certain financial results of AMG-SIU as discussed in stock purchase agreement. As of June 30, 2011 and December 31, 2010, the fair value of the contingent payments was \$2.8 million and \$2.6 million, respectively.

Verify Solutions, LLC

In December 2009, we acquired the assets of Verify Solutions, an Alpharetta, Georgia-based company specializing in dependent eligibility audit services for large, self insured employers. With this acquisition, we moved into the large and mid-market employer-based market.

The purchase price for Verify Solutions was \$8.1 million, with additional future payments of up to \$5.5 million (\$2.7 million and \$2.8 million for the years ended December 31, 2010 and 2011, respectively) contingent upon Verify Solutions' achievement of financial performance milestones. The purchase price includes an additional \$148,000 working capital payment made in 2010 and

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2011 and 2010
(unaudited)

\$500,000 initially not due to the seller until 2011, which has been paid. Verify Solutions did not meet the 2010 financial performance milestones and as such did not earn the related milestone payment.

The allocation of the purchase price for Verify Solutions was based upon the fair value estimate of its assets and liabilities. The acquisition of Verify Solutions was based on management's consideration of past and expected future performance as well as the potential strategic fit with our long-term goals. The expected long-term growth, market position and expected synergies to be generated by Verify Solutions were the primary factors that gave rise to an acquisition price that resulted in the recognition of identifiable intangible assets.

In December 2010, following our acquisition of Chapman Kelly, which together with Verify Solutions forms HMS Employer Solutions, we amended the terms of the contingent payment for 2011. Under the terms of this amendment, the former owners of Verify Solutions could earn a contingent payment of between \$1.3 million and \$2.8 million based on the revenue generated by HMS Employer Solutions for the year ending December 31, 2011. If earned, the contingent payment will be accrued and recorded to compensation expense in 2011. It has been determined that the conditions to earn the 2011 contingent payment will not be achieved, accordingly no amounts have been accrued.

3. Intangible Assets

Intangible assets consisted of the following at June 30, 2011 and December 31, 2010 (in thousands):

| | June 30, 2011 | December 31, 2010 | Useful Life |
|-------------------------------|------------------|----------------------|-------------|
| Customer relations | \$ 32,987 | \$ 32,247 | 5-10 years |
| Trade name | 3,932 | 3,932 | 3-7 years |
| Restrictive covenant | 2,626 | 2,626 | 3-5 years |
| | <u>39,545</u> | <u>38,805</u> | |
| Less accumulated amortization | (21,949) | (18,979) | |
| Intangible assets, net | <u>\$ 17,596</u> | <u>\$ 19,826</u> | |

Estimated amortization expense for intangible assets is expected to approximate the following (in thousands):

| <u>Year Ending December 31,</u> | |
|---------------------------------|----------|
| Remainder of 2011 | \$ 2,920 |
| 2012 | 5,816 |
| 2013 | 4,263 |
| 2014 | 1,320 |
| 2015 | 994 |
| Thereafter | 2,283 |

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2011 and 2010
(unaudited)

The changes in the carrying amount of goodwill for the six months ended June 30, 2011 are as follows (in thousands):

| | |
|--|-------------------|
| Balance at December 31, 2010 | \$ 107,414 |
| Chapman Kelly acquisition measurement period adjustments | (739) |
| Balance at June 30, 2011 | <u>\$ 106,675</u> |

For the three and six months ended June 30, 2011, amortization expense related to intangible assets amounted to \$1.5 million and \$3.0 million, respectively. For the three and six months ended June 30, 2010, amortization expense related to intangible assets amounted to \$1.2 million and \$2.5 million, respectively.

4. Income Taxes

Our effective tax rate decreased to 40.1% for the six months ended June 30, 2011 from 40.2% for the six months ended June 30, 2010, primarily due to a change in state apportionments. The principal difference between the statutory rate and our effective rate is state taxes.

We file income tax returns with the U.S. federal government and various state jurisdictions. We are no longer subject to U.S. federal income tax examinations for years before 2007. We operate in a number of state and local jurisdictions, most of which have never audited our records. Accordingly, we are subject to state and local income tax examinations based upon the various statutes of limitations in each jurisdiction.

During the six months ended June 30, 2011 and 2010, we recorded a tax benefit of \$7.0 million and \$5.0 million, respectively, related to the utilization of the income tax benefit from stock transactions by reducing income tax payable and crediting capital.

At June 30, 2011 and 2010, we had approximately \$1.3 million and \$1.2 million of net unrecognized tax benefits, respectively, for which there is uncertainty about the allocation and apportionment impacting state taxable income. We do not expect any significant change in unrecognized tax benefits during the next twelve months. We have recognized interest accrued related to unrecognized tax benefits in interest expense and penalties in tax expense. The accrued liabilities related to uncertain tax positions were \$0.5 million for each of the six month periods ending June 30, 2011 and 2010.

We believe that it is reasonably possible that decreases in unrecognized tax benefits of up to \$70,000 may be recorded within the next year.

5. Debt

We have a credit agreement with several banks and other financial institutions, with JPMorgan Chase Bank, N.A. (JPMCB) as administrative agent, which we refer to as the Credit Agreement. The Credit Agreement, which expires in September of 2011, provided for a term loan of \$40.0 million, which we refer to as the Term Loan, and revolving credit loans of up to \$25.0 million, which we refer to as the Revolving Loan. The term loan was fully repaid in 2009. To date, we have not borrowed under the Revolving Loan. The amount available under the Revolving Loan as of June 30, 2011 is \$25.0 million.

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We secured the Term and Revolving Loans with the grant of a security interest, covering our assets and subsidiaries, in favor of the lenders. Interest on borrowings under the Credit Agreement is calculated, at our option, at either (i) LIBOR, including statutory reserves, plus a variable margin based on our leverage ratio, or (ii) the higher of (a) the prime lending rate of JPMCB, and (b) the Federal Funds Effective Rate plus 0.50%, in each case plus a variable margin based on our leverage ratio. In connection with the Revolving Loan, we agreed to pay a commitment fee on the unused portion of the Revolving Loan, payable quarterly in arrears, at a variable rate based on our leverage ratio.

Commitments under the Credit Agreement will be reduced and borrowings are required to be repaid with the net proceeds of, among other things, sales or issuances of equity (excluding equity issued under employee benefit plans and equity issued to sellers as consideration in acquisitions), sales of assets and any incurrence of indebtedness by us, subject, in each case, to limited exceptions. Our obligations under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which encompasses customary events of default including, without limitation, payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to such matters as ERISA, uninsured judgments and the failure to pay certain indebtedness and a change of control default.

In addition, the Credit Agreement contains affirmative, negative and financial covenants customary for financings of this type. The negative covenants include restrictions on indebtedness, liens, fundamental changes, dispositions of property, investments, dividends and other restricted payments. The financial covenants include a consolidated fixed charge coverage ratio, as defined, of not less than 1.75 to 1.0 and a consolidated leverage ratio, as defined, not to exceed 3.0 to 1.0 through June 30, 2011. As of the date hereof, we are in full compliance with these covenants.

In March 2010, we entered into an amendment to the Credit Agreement, which we refer to as the First Amendment, to increase the total amount we could spend on acquisitions in any one year from \$10.0 million to \$30.0 million .

In June 2011, we purchased a certificate of deposit in the amount of \$4.8 million to collateralize an existing irrevocable standby Letter of Credit that we entered into as part of our contractual agreement with a client. The certificate of deposit is included within other non-current assets on our balance sheet.

6. Earnings Per Share

Basic income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income per share is calculated by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding during the period. Our common share equivalents consist of stock options and restricted stock awards and units.

The following table reconciles the basic to diluted weighted average shares outstanding using the treasury stock method (shares in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted average shares outstanding — basic | 83,925 | 81,320 | 84,186 | 81,040 |
| Dilutive effect of stock options | 2,671 | 3,655 | 2,781 | 3,670 |
| Dilutive effect of restricted stock awards and units | 124 | 113 | 145 | 102 |
| Weighted average shares outstanding - diluted | <u>86,720</u> | <u>85,088</u> | <u>87,112</u> | <u>84,812</u> |

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For the three months ended June 30, 2011 and 2010, 231,225 and 36,495 stock options, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive. For the three months ended June 30, 2011 and 2010, restricted stock units representing 50,211 and 1,325 shares of common stock, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive.

For the six months ended June 30, 2011 and 2010, 554,526 and 577,074 stock options, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive. For the six ended June 30, 2011 and 2010, restricted stock units representing 37,170 and 666 shares of common stock, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive.

We issue restricted stock units under the terms of our 2006 Stock Plan, as amended, or the 2006 Stock Plan. For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the statutory withholding requirements that we pay on behalf of our employees. During 2011, net restricted stock awards and restricted stock units of 76,752 were vested after the withholding of 37,158 shares to satisfy \$0.9 million of employees' tax obligations. Although shares withheld are not issued, they are treated as common stock repurchases for accounting and disclosure purposes, as they reduce the number of shares that would have been issued upon vesting.

7. Stock-Based Compensation

Total stock-based compensation expense charged as a selling, general and administrative expense in our consolidated statements of income related to our stock compensation plans was \$1.9 million and \$1.7 million for the three months ended June 30, 2011 and June 30, 2010, respectively, and \$4.0 million and \$3.4 million for the six months ended June 30, 2011 and June 30, 2010, respectively.

The total income tax benefit related to stock-based compensation expense recognized in our consolidated statements of income was \$0.8 million and \$0.7 million, for the three months ended June 30, 2011 and 2010, respectively, and \$1.6 million and \$1.4 million, for the six months ended June 30, 2011 and 2010, respectively.

Presented below is a summary of our stock option activity for the six months ended June 30, 2011 (shares in thousands):

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Terms | Aggregate Intrinsic Value |
|-----------------------------------|--------------|--|--|---------------------------------|
| Outstanding at | | | | |
| December 31, 2010 | 6,969 | \$ 8.07 | | |
| Granted | 15 | \$ 22.39 | | |
| Exercised | (1,269) | \$ 6.12 | | |
| Forfeitures | (33) | \$ 15.33 | | |
| Expired | — | — | | |
| Outstanding at June 30, 2011 | <u>5,682</u> | <u>\$ 8.50</u> | <u>4.27</u> | <u>\$ 97,322</u> |
| Expected to vest at June 30, 2011 | <u>2,514</u> | <u>\$ 12.33</u> | <u>5.00</u> | <u>\$ 33,422</u> |
| Exercisable at June 30, 2011 | <u>3,090</u> | <u>\$ 5.29</u> | <u>3.69</u> | <u>\$ 62,847</u> |

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The fair value of each option grant was estimated using the Black-Scholes option pricing model. Expected volatilities are calculated based on the historical volatility of our common stock. Management monitors share option exercise and employee termination patterns to estimate forfeiture rates within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected holding period of options represents the period of time that options granted are expected to be outstanding. The expected terms of options granted are based upon our historical experience for similar types of stock option awards. The risk-free interest rate is based on U.S. Treasury notes.

We estimated the fair value of each stock option grant on the date of the grant using a Black-Scholes option-pricing model and the weighted-average assumptions set forth in the following table:

| | <u>Six months ended June 30,</u> | |
|-------------------------|----------------------------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| Expected dividend yield | 0% | 0% |
| Risk-free interest rate | 3.04% | 2.47% |
| Expected volatility | 43.7% | 43.8% |
| Expected life | 4.0 years | 4.0 years |

During the three months ended June 30, 2011 and 2010, we issued 0.3 million shares, and 0.7 million shares, respectively, of our common stock upon the exercise of outstanding stock options and received proceeds of \$1.5 million, and \$2.5 million, respectively. For the three months ended June 30, 2011 and 2010, we realized a \$3.7 million and \$3.6 million tax benefit from the exercise of stock options, respectively.

For the six months ended June 30, 2011 and 2010, we issued 1.3 million shares, and 1.1 million shares, respectively, of our common stock upon the exercise of outstanding stock options and received proceeds of \$7.8 million, and \$3.7 million, respectively. For the six months ended June 30, 2011 and 2010, we realized a \$7.0 million and \$5.0 million tax benefit from the exercise of stock options, respectively.

For the three months ended June 30, 2011, and 2010, approximately \$1.2 million, and \$1.4 million, respectively, of stock-based compensation cost relating to stock options has been charged against income. For the six months ended June 30, 2011, and 2010, approximately \$2.7 million, and \$2.9 million, respectively, of stock-based compensation cost relating to stock options has been charged against income. As of June 30, 2011, there was approximately \$6.8 million of total unrecognized compensation cost, adjusted for estimated forfeitures, related to stock options outstanding, which is expected to be recognized over a weighted-average period of 1.0 year.

The aggregate intrinsic value in the previous table reflects the total pretax intrinsic value (the difference between our closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011. The intrinsic value of our stock options changes based on the closing price of our common stock. The total intrinsic value of options exercised (the difference in the market price of our common stock on the exercise date and the price paid by the optionee to exercise the option) for the three months ended June 30, 2011 and 2010 was approximately \$5.2 million and \$9.7 million, respectively. The total intrinsic value of options exercised

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during the six month periods ended June 30, 2011 and 2010 was \$23.2 million and \$14.1 million, respectively.

Restricted Stock Units

In February 2011, October 2010 and October 2009, certain employees received restricted stock units under the Third Amended and Restated 2006 Stock Plan, or the 2006 Stock Plan. In October 2010, our Board or Directors also received restricted stock units under the 2006 Stock Plan. The fair value of restricted stock units is estimated based on the closing sale price of our common stock on the NASDAQ Global Select Market on the date of issuance. The total number of restricted stock units expected to vest is adjusted by estimated forfeiture rates.

For the three months ended June 30, 2011, we granted 690 restricted stock units, with an aggregate fair market value of \$17,000. For the six months ended June 30, 2011, we granted 202,197 restricted stock units, with an aggregate fair market value of \$4.9 million. At June 30, 2011 approximately 347,652 restricted stock units remained unvested and there was approximately \$6.2 million of unamortized compensation cost related to restricted stock units, which is expected to be recognized over the remaining weighted-average vesting period of 2.51 years. Stock-based compensation expense related to restricted stock units was \$0.5 million and \$73,000 for the three months ended June 30, 2011 and 2010, respectively and \$0.9 million and \$147,000 for the six months ended June 30, 2011 and 2010, respectively.

A summary of the status of our restricted stock units as of June 30, 2011 and of changes in restricted stock units outstanding under the 2006 Stock Plan for the six months ended June 30, 2011 is as follows (in thousands, except for weighted average grant date fair value per unit):

| | Number of Units | Weighted Average Grant Date Fair Value per Unit | Aggregate Intrinsic Value |
|---|-----------------------|---|---------------------------------|
| Outstanding balance at December 31, 2010 | 171 | \$ 17.15 | |
| Granted | 202 | \$ 24.56 | |
| Vesting of Restricted Units, net of shares withheld for taxes | (3) | \$ 19.47 | |
| Cancelled | (7) | \$ 18.65 | |
| Outstanding balance at June 30, 2011 | <u>363</u> | <u>\$ 21.28</u> | <u>9,186</u> |

Restricted Stock Awards

Our executive officers have received grants of restricted stock awards under the 2006 Stock Plan. The vesting of restricted stock awards is subject to the executive officers' continued employment with us. Recipients of restricted stock awards are not required to provide us with any consideration other than rendering service. Holders of restricted stock are permitted to vote and to receive dividends.

The stock-based compensation expense for restricted stock awards is determined based on the closing market price of our common stock on the grant date of the awards applied to the total number of awards that are anticipated to fully vest. Upon the vesting of the restricted stock units, shares withheld to pay taxes are retired. We did not issue restricted stock awards during the six months ended June 30, 2011. At June 30, 2011 approximately 287,820 shares underlying restricted stock awards remained unvested

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and there was approximately \$2.0 million of unrecognized compensation cost related to restricted stock awards, which is expected to be recognized over the weighted-average period of 1.6 years. Stock-based compensation expense related to restricted stock awards was \$0.2 million for each of the three months ended June 30, 2011 and 2010, and \$0.4 million for each of the six months ended June 30, 2011 and 2010.

A summary of the status of our restricted stock awards at June 30, 2011 and of changes in restricted stock awards outstanding under the 2006 Stock Plan for the six months ended June 30, 2011 is as follows (in thousands, except for weighted average grant date fair value):

| | Shares | Weighted Average Grant Date Fair Value per Share | Aggregate Intrinsic Value |
|--|------------|--|---------------------------------|
| Outstanding balance at December 31, 2010 | 384 | \$ 10.42 | |
| Granted | — | — | |
| Vesting of Restricted Awards | (63) | \$ 10.42 | |
| Shares withheld for payment of taxes upon vesting of restricted stock awards | (33) | \$ 10.42 | |
| Outstanding balance at June 30, 2011 | <u>288</u> | <u>\$ 10.42</u> | <u>\$ 7,375</u> |

The total fair value of restricted stock awards vested during the six months ended June 30, 2011 was \$1.0 million.

8. Subsequent Events

At our Annual Meeting of Shareholders held on July 6, 2011, shareholders, among other matters, approved the increase in number of shares of common stock that we are authorized to issue from 45,000,000 to 125,000,000. Shareholders also approved our Fourth Amended and Restated 2006 Stock Plan, which increases the number of shares of common stock that may be delivered there under by 2,000,000 shares.

In connection with the preparation of these Consolidated Financial Statements, an evaluation of subsequent events was performed through the date these Consolidated Financial Statements were issued and other than the stock split disclosed in Note 1, there are no other events that have occurred that would require adjustments or disclosure to our Consolidated Financial Statements.

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

We begin Management’s Discussion and Analysis of Financial Condition and Results of Operations with a discussion of the critical accounting policies that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then present a business overview followed by a discussion of our results of operations. Lastly, we provide an analysis of our liquidity and capital resources, including discussions of our cash flows, sources of capital and financial commitments.

The following discussions and analysis of financial condition and results of operations should be read in conjunction with the other sections of the Annual Report, including the Consolidated Financial Statements and Supplemental Data thereto appearing in Part II, Item 8 of the Annual Report, the Risk Factors appearing in Part I, Item 1A of the Annual Report and the disclaimer regarding forward-looking statements appearing at the beginning of Part I, Item 1 of the Annual Report. Historical results set forth in Part II, Item 6, Item 7 and Item 8 of the Annual Report should not be taken as necessarily indicative of our future operations.

Critical Accounting Policies

Since the date of our Annual Report on Form 10-K for the year ended December 31, 2010, there have been no material changes to our critical accounting policies.

General Overview

We provide a variety of cost containment services, including coordination of benefits and program integrity services, for government and private healthcare payors and sponsors. These services are designed to help our clients recover amounts due from liable third parties, save dollars, reduce fraud, waste and abuse and ensure regulatory compliance.

Our clients are state Medicaid agencies, Medicaid and Medicare managed care plans, government and private self-funded employers, Pharmacy Benefit Managers, or PBMs, child support agencies, the Veterans Health Administration, or VHA, the Centers for Medicare & Medicaid Services, or CMS, commercial plans, other healthcare payors and large business outsourcing and technology firms. We help these entities contain healthcare costs by ensuring that claims are paid correctly, through our program integrity services and by ensuring that claims are paid by the responsible party, through our coordination of benefits services.

In September 2010, we acquired privately-held Chapman Kelly, Inc., or Chapman Kelly, based in Jeffersonville, Indiana. Chapman Kelly provides dependent eligibility audits to large, self-insured employers, as well as plan and claims audits to employers and managed care organizations. With our acquisition of Chapman Kelly we have developed a robust Employer Solutions product area that provides dependent eligibility audit services to employers of all sizes and also augments our claim audit offering for healthcare plans.

In June 2010, we acquired privately-held Allied Management Group — Special Investigation Unit, or AMG-SIU, a leading provider of fraud, waste and abuse prevention and detection solutions for healthcare payors. Based in Santa Ana, California, AMG-SIU provides audit and consulting services to both government and commercial healthcare payors and offers a proprietary forensic claim editing system to analyze claim data for patterns of fraud, waste and abuse. AMG-SIU employs an in-house special investigation unit to conduct preliminary research, investigations, medical record reviews and pharmacy reviews.

At June 30, 2011, we had cash and cash equivalents of \$117.7 million, and net working capital of \$181.6 million. We have a credit agreement with several banks and other financial institutions with JPMorgan Chase Bank, N.A. (JPMCB), as administrative agent, which we refer to as the Credit Agreement. The Credit Agreement, which expires in September 2011, provided for a term loan of \$40 million, which we refer to as the Term Loan, and revolving credit loans of up to \$25 million, which we refer to as the Revolving Loan. The term loan was repaid in 2009. To date, we have not borrowed under the Revolving Loan. Although we expect that operating cash flows will continue to be a primary source of liquidity for our operating needs, we also have the Revolving Loan available for future cash flow needs, if necessary.

Our revenue, most of which is derived from contingency fees, has increased at an average compounded rate of approximately 38.2% per year for the last five years. Our growth has been attributable to our expansion of existing product offerings and acquisitions, as well as an overall increase in Medicaid costs, which has historically averaged approximately 8% annually. In addition, state governments have increased their use of vendors for the coordination of benefits and other cost containment functions, and we have been able to increase our revenue through these initiatives. Leveraging our work on behalf of state Medicaid fee-for-service programs, we have penetrated the Medicaid managed care market, into which more Medicaid lives are being shifted. In addition to acting as a subcontractor for certain business outsourcing and technology firms, as of June 30, 2011, we served the District of Columbia and 42 state Medicaid programs, and 129 Medicaid health plans under an aggregate of 60 contracts.

To date, we have grown our business through the internal development of new services and through acquisitions of businesses whose core services strengthen our overall mission to help our clients control healthcare costs. In addition, we leverage our expertise to acquire new clients at the state, federal and employer levels and to expand our current contracts to provide new services to current clients. We are continuously evaluating opportunities that will enable us to expand the breadth of the services we provide and will consider acquisition opportunities that enable us to continue to grow our business to address the increasing needs of the healthcare industry in the post-healthcare reform era.

In March 2010, the Patient Protection and Affordable Care Act, or the Affordable Care Act, was signed into law. According to Centers for Medicare & Medicaid Services, or CMS, under the Affordable Care Act, approximately an additional 18 million lives will be added to Medicaid by 2019. In addition, the Affordable Care Act includes a number of provisions for combating fraud and abuse throughout the healthcare system, allows for significant increases in funding for program integrity initiatives and provides for the creation of insurance exchanges. The Affordable Care Act largely preserves and builds upon the employer-sponsored health coverage model. However, under the Affordable Care Act, employers are faced with new compliance guidelines, coverage requirements and mandates that will challenge their systems and processes and will likely raise their healthcare costs. We plan to build on our existing partnerships with states, the federal government, and health plans to provide services that address the program integrity, fraud and abuse initiatives created by the Affordable Care Act and to assist these clients in meeting the requirements of the Affordable Care Act. In addition, we believe that we are well-positioned to work with employers to address the new requirements of the Affordable Care Act and plan to work with our clients to develop collaborations that support the overarching goal of controlling healthcare costs.

In addition to the information provided below, you should refer to the items disclosed as our Critical Accounting Policies in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report.

SUMMARY OF OPERATING RESULTS

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

The following table sets forth, for the periods indicated, certain items in our consolidated statements of income expressed as a percentage of revenue:

| | Three months ended June 30, | |
|---|--------------------------------|--------|
| | 2011 | 2010 |
| Revenue | 100.0% | 100.0% |
| Cost of service | | |
| Compensation | 35.3% | 35.8% |
| Data processing | 6.3% | 6.1% |
| Occupancy | 4.2% | 4.0% |
| Direct project costs | 12.4% | 11.6% |
| Other operating costs | 5.2% | 5.6% |
| Amortization of intangibles | 1.8% | 2.0% |
| Total cost of services | 65.2% | 65.1% |
| Selling, general, and administrative expenses | 11.9% | 13.4% |
| Total operating expenses | 77.1% | 78.5% |
| Operating income | 22.9% | 21.5% |
| Interest expense | 0% | 0.0% |
| Other income, net | 0.3% | 0.0% |
| Interest income | 0% | 0.0% |
| Income before income taxes | 23.2% | 21.5% |
| Income taxes | (9.3)% | (8.6)% |
| Net income | 13.9% | 12.9% |

Revenue for the three months ended June 30, 2011 was \$89.3 million, an increase of \$18.6 million, or 26.3%, compared to revenue of \$70.7 million in the same quarter for the prior year. Organic growth in existing client accounts, together with changes in the yield and scope of those projects, and differences in the timing of when client projects were completed in the current year compared to the prior year, provided \$13.4 million of the increase in revenue. Revenue generated by our 2010 acquisitions, AMG-SIU and Chapman Kelly, was \$3.1 million. Revenue generated by eleven new clients for whom there was no revenue in the same quarter of the prior year was \$2.4 million. Expired contracts accounted for a decrease of \$0.3 million.

Compensation expense as a percentage of revenue was 35.3% for the three months ended June 30, 2011, compared to 35.8% for the three months ended June 30, 2010. Compensation expense for the current quarter was \$31.5 million, a \$6.1 million, or 24.2%, increase over compensation expense of \$25.4 million for the same quarter in the prior year. During the quarter ended June 30, 2011, we averaged 1,625 employees, a 24.5% increase over our average of 1,305 employees during the quarter ended June 30, 2010. This increase reflects the addition of new staff as a result of our acquisitions of AMG-SIU and Chapman Kelly during the second and third quarters of 2010, respectively, and the addition of staff in the areas of client support, technical support and operations.

Data processing expense as a percentage of revenue was 6.3% for the three months ended June 30, 2011, compared to 6.1% for the three months ended June 30, 2010. Data processing expense was \$5.7 million for the current quarter, an increase of \$1.4 million, or 31.6%, over data processing expense of \$4.3 million for the same quarter in the prior year. Revenue growth as well as acquisitions drove the need for increased capacity in our data processing environment. This increase reflects \$0.7 million in additional software related costs, \$0.6 million in additional hardware costs, and \$0.1 million in additional data communications and data costs due to the growth of our business, including the number of field offices and employees.

Occupancy expense as a percentage of revenue was 4.2% for the three months ended June 30, 2011, compared to 4.0% for the three months ended June 30, 2010. Occupancy expense for the current quarter was \$3.7 million, a \$0.9 million, or 32.6%, increase compared to occupancy of expense of \$2.8 million for the same quarter in the prior year. This increase reflects \$0.6 million in additional rent and related expense, \$0.2 million in additional depreciation of leasehold improvements, furniture and equipment, and \$0.1 million in other occupancy related costs including common area maintenance charges, additional telephone and utilities expense.

Direct project expense as a percentage of revenue was 12.4% for the three months ended June 30, 2011, compared to 11.6% for the three months ended June 30, 2010. Direct project expense for the current quarter was \$11.1 million, a \$2.9 million, or 34.9%, increase, compared to direct project expense of \$8.2 million for the same quarter in the prior year. This increase resulted from a \$1.3 million increase for temporary help, consultants and marketing partners, a \$1.0 million increase for subcontractor expenses primarily driven by new projects and revenue increases, a \$0.3 million increase for lockbox, postage and delivery expense, a \$0.2 million increase for project-specific software costs, and a \$0.1 million increase for travel expenses.

Other operating costs as a percentage of revenue were 5.2% for the three months ended June 30, 2011 compared to 5.6% for the three months ended June 30, 2010. Other operating costs for the current quarter were \$4.6 million, an increase of \$0.7 million, or 16.5%, compared operating costs of \$3.9 million for the same quarter in the prior year. This increase resulted from \$0.3 million in additional accretion expense related to the future contingent payments that may be payable to the former owners of AMG-SIU and Prudent Rx, \$0.2 million for supplies and related expenses, \$0.1 million in professional services, consisting of temporary help and consulting services, and \$0.1 million of employee relocation expenses.

Amortization of acquisition-related software and intangibles as a percentage of revenue was 1.8% for the three months ended June 30, 2011, compared to 2.0% for the three months ended June 30, 2010. Amortization of acquisition-related software and intangibles for the current quarter was \$1.6 million, a \$0.2 million, or 17.9%, increase compared to amortization of \$1.4 million for the same quarter in the prior year. The increase resulted from the amortization of \$0.4 million related to our acquisitions of AMG-SIU and Chapman Kelly for which there was no amortization expense in the prior year period, which was partially offset by a reduction of \$0.2 million related to prior year acquisitions having been fully amortized.

Selling, general, and administrative expense as a percentage of revenue was 11.9% for the three months ended June 30, 2011 compared to 13.4% for the three months ended June 30, 2010. Selling, general, and administrative expense for the current quarter was \$10.7 million, a \$1.2 million, or 12.3%, increase compared to \$9.5 million for the same quarter in the prior year. During the quarter ended June 30, 2011, we averaged 120 corporate employees, a 6.2% increase over our average of 113 corporate employees during the quarter ended June 30, 2010. Compensation expense increased by \$0.3 million as a result of increased headcount and related fringe benefits expense. Other operating expenses increased by \$0.5 million, of which \$0.4 million related to non-recurring management and training events and \$0.1

million related to employee relocation. Data processing expense increased by \$0.4 million relating to expenses for hosting services and disaster recovery preparedness. Occupancy expenses were roughly equivalent in both periods.

Operating income for the three months ended June 30, 2011 was \$20.5 million, an increase of \$5.3 million, or 34.7%, compared to \$15.2 million for the three months ended June 30, 2010. This increase was primarily the result of increased revenue, which was partially offset by incremental operating costs incurred during the quarter ended June 30, 2011.

Interest expense was \$23,000 for the three months ended June 30, 2011 and 2010. Interest expense represents commitment fees for our Credit Agreement and issuance fees for our Letter of Credit. Interest income was \$16,000 for the three months ended June 30, 2011, compared to interest income of \$24,000 for the three months ended June 30, 2010. Net other income primarily relating to rental income from our office building in Irving, Texas was \$277,000 for the quarter ended June 30, 2011. We purchased the office building in Irving, Texas in June 2010, as a result, we did not realize any rental income during the second quarter of 2010.

We recorded income tax expense of \$8.3 million for the quarter ended June 30, 2011, compared to income tax expense of \$6.1 million for the three months ended June 30, 2010, an increase of \$2.2 million. Our effective tax rate increased to 40.1% for the quarter ended June 30, 2011 from 40.0% for the quarter ended June 30, 2010, primarily due to a change in state apportionments. The principal difference between the statutory rate and our effective rate is state taxes.

Net income of \$12.4 million in the current quarter represents an increase of \$3.3 million, or 36.3%, compared to net income of \$9.1 million in the same quarter for the prior year.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

The following table sets forth, for the periods indicated, certain items in our consolidated statements of income expressed as a percentage of revenue:

| | Six months ended June 30, | |
|---|------------------------------|--------|
| | 2011 | 2010 |
| Revenue | 100.0% | 100.0% |
| Cost of service | | |
| Compensation | 36.6% | 36.3% |
| Data processing | 6.2% | 6.0% |
| Occupancy | 4.4% | 4.5% |
| Direct project costs | 12.0% | 11.6% |
| Other operating costs | 5.1% | 5.3% |
| Amortization of intangibles | 2.0% | 2.1% |
| Total cost of services | 66.3% | 65.8% |
| Selling, general, and administrative expenses | 12.4% | 13.6% |
| Total operating expenses | 78.7% | 79.4% |
| Operating income | 21.3% | 20.6% |
| Interest expense | 0% | 0.0% |
| Other income, net | 0.3% | 0.0% |
| Interest income | 0% | 0.0% |
| Income before income taxes | 21.6% | 20.6% |
| Income taxes | (8.7)% | (8.3)% |
| Net income | 12.9% | 12.3% |

Revenue for the six months ended June 30, 2011 was \$171.8 million, an increase of \$36.1 million, or 26.6%, compared to revenue of \$135.7 million in the same quarter for the prior year. Organic growth in existing client accounts, together with changes in the yield and scope of those projects, and differences in the timing of when client projects were completed in the current year compared to the prior year, provided \$28.2 million of the increase in revenue. Revenue generated by our 2010 acquisitions, AMG-SIU and Chapman Kelly, was \$5.1 million. Revenue generated by eleven new clients for whom there was no revenue in the same six month period of the prior year was \$3.6 million. Expired contracts accounted for a decrease of \$0.8 million.

Compensation expense as a percentage of revenue was 36.6% for the six months ended June 30, 2011, compared to 36.3% for the six months ended June 30, 2010. Compensation expense for the current quarter was \$62.8 million, a \$13.6 million, or 27.8%, increase over compensation expense of \$49.2 million for the same quarter in the prior year. During the six months ended June 30, 2011, we averaged 1,621 employees, a 26.6% increase over our average of 1,280 employees during the six months ended June 30, 2010. This increase reflects the addition of new staff as a result of our acquisitions of AMG-SIU and Chapman Kelly during the second and third quarters of 2010, respectively, and the addition of staff in the areas of client support, technical support and operations.

Data processing expense as a percentage of revenue was 6.2% for the six months ended June 30, 2011, compared to 6.0% for the six months ended June 30, 2010. Data processing expense was \$10.6 million for the six months ended June 30, 2011, an increase of \$2.5 million, or 31.0%, over data processing expense of \$8.1 million for the same period for the prior year. Revenue growth as well as acquisitions drove the need for increased capacity in our data processing environment. This increase reflects \$1.3 million in additional software related costs, \$1.0 million in additional hardware costs, and \$0.2 million in additional data communications and data costs due to the growth of our business, including the number of field offices and employees.

Occupancy expense as a percentage of revenue was 4.4% for the six months ended June 30, 2011, compared to 4.5% for the six months ended June 30, 2010. Occupancy expense for the current period was \$7.5 million, a \$1.3 million, or 22.5%, increase compared to occupancy expense of \$6.2 million for the same period in the prior year. This increase reflects \$0.8 million in additional rent and related expense, \$0.3 million in additional depreciation of leasehold improvements, furniture and equipment, and \$0.2 million in other occupancy related costs including common area maintenance charges, telephone and utilities expense.

Direct project expense as a percentage of revenue was 12.0% for the six months ended June 30, 2011, compared to 11.6% for the six months ended June 30, 2010. Direct project expense for the current period was \$20.7 million, a \$4.9 million, or 30.9%, increase, compared to direct project expense of \$15.8 million for the same period in the prior year. This increase resulted from a \$2.3 million increase for temporary help, consultants and marketing partners, a \$1.8 million increase for subcontractor expenses primarily driven by new projects and revenue increases, a \$0.4 million increase for project-specific software costs, and a \$0.4 million increase for lockbox, postage and delivery expense.

Other operating costs as a percentage of revenue were 5.1% for the six months ended June 30, 2011 compared to 5.3% for the six months ended June 30, 2010. Other operating costs for the current period were \$8.8 million, an increase of \$1.6 million, or 22.8%, compared to operating costs of \$7.2 million for the same period in the prior year. This increase resulted from additional expenses of \$0.6 million in professional services, consisting of temporary help and consulting services, \$0.4 million in accretion expense related to the future contingent payment that may be payable to the former owners of AMG-SIU and Prudent Rx, \$0.2 million of travel expenses related to business expansion, \$0.2 million of employee relocation expenses, and \$0.2 million for supplies, delivery and other office-related expenses.

Amortization of acquisition-related software and intangibles as a percentage of revenue was 2.0% for the six months ended June 30, 2011, compared to 2.1% for the six months ended June 30, 2010. Amortization of acquisition-related software and intangibles for the current period was \$3.4 million, a \$0.5 million, or 16.8%, increase compared to amortization of \$2.9 million for the same period in the prior year. The increase resulted from \$0.9 million related to our acquisitions of AMG-SIU and Chapman Kelly for which there was no amortization expense in the prior year period, partially offset by a reduction of \$0.4 million related to prior year acquisitions having been fully amortized.

Selling, general, and administrative expense as a percentage of revenue was 12.4% for the six months ended June 30, 2011 compared to 13.6% for the six months ended June 30, 2010. Selling, general, and administrative expense for the current period was \$21.4 million, a \$2.9 million, or 15.6%, increase compared \$18.5 million for the same period in the prior year. During the period ended June 30, 2011, we averaged 118 corporate employees, a 5.4% increase over our average of 112 corporate employees during the period ended June 30, 2010. Compensation expense increased by \$0.6 million as a result of increased and related fringe benefits expense. Other operating expenses increased by \$1.5 million related to professional fees, including consultants, legal fees and costs associated with annual

audit expenses and SEC filings, and \$0.9 million related to data processing expense for hosting services and disaster recovery preparedness. Occupancy expenses decreased by \$0.1 million.

Operating income for the six months ended June 30, 2011 was \$36.6 million, an increase of \$8.7 million, or 31.1%, compared to \$27.9 million for the six months ended June 30, 2010. This increase was primarily the result of increased revenue, which was partially offset by incremental operating costs incurred during the period ended June 30, 2011.

Interest expense was \$46,000 for the six months ended June 30, 2011 and June 30, 2010. Interest expense represents commitment fees for our Credit Agreement and issuance fees for our Letter of Credit. Interest income was \$36,000 for the six months ended June 30, 2011, compared to interest income of \$41,000 for the six months ended June 30, 2010. Net other income primarily relating to rental income from our office building in Irving, Texas was \$549,000 for the period ended June 30, 2011. We purchased the office building in Irving, Texas in June 2010, as a result, we did not realize any rental income during the second quarter of 2010.

We recorded income tax expense of \$14.9 million for the six months ended June 30, 2011, compared to income tax expense of \$11.2 million for the six months ended June 30, 2010, an increase of \$3.7 million. Our effective tax rate decreased to 40.1% for the six months ended June 30, 2011 from 40.2% for the six months ended June 30, 2010, primarily due to a change in state apportionments. The principal difference between the statutory rate and our effective rate is state taxes.

Net income of \$22.2 million in the current period represents an increase of \$5.5 million, or 33.2%, compared to net income of \$16.7 million in the same period for the prior year.

Contractual Obligations

There have been no material changes in our contractual obligations as presented in our Annual report on Form 10-K for the year ended December 31, 2010.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements. See Footnote 5 of the Notes to Unaudited Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

Our principal source of funds has been from operations. We believe that our cash, cash equivalents, and future cash flows from operations will be adequate to fund our current operating requirements. At June 30, 2011, our cash and cash equivalents and net working capital were \$117.7 million and \$181.6 million, respectively. We expect that operating cash flows will continue to be a primary source of liquidity for our operating needs. There are currently no loans outstanding under the Revolving Loan.

Net cash provided by operating activities for the six months ended June 30, 2011 was \$24.2 million, compared to \$22.3 million for the same period in 2010. The increase in cash provided by operating activities primarily resulted from net income of \$22.2 million and non-cash expenses of depreciation and amortization, stock-based compensation, deferred income taxes and accretion of contingent consideration. These sources of cash were partially offset by increases in accounts receivable, prepaid expenses and other assets, together with decreases in accounts payable, accrued expenses and other liabilities.

Net cash used in investing activities for the six months ended June 30, 2011 was \$15.2 million compared to \$29.1 million for the same period in 2010. Investment in property and equipment for the six months ended June 30, 2011 and 2010 was \$9.0 million and \$5.4 million, respectively. Investment in capitalized software for each of the six months ended June 30, 2011 and 2010 was \$1.1 million and \$1.0 million, respectively. We purchased a certificate of deposit in the amount of \$4.8 million to collateralize an existing irrevocable standby letter of credit that we entered into as part of our contractual agreement with a client. The purchase price for Verify Solutions included a \$148,000 working capital payment made in 2010 and \$500,000 initially not due to the seller until 2011, which has been paid.

Net cash provided by financing activities for the six months ended June 30, 2011 was \$13.8 million, compared to \$8.7 million for the same period in 2010. Proceeds from stock option exercises for the six months ended June 30, 2011 and 2010 were \$7.7 million and \$3.7 million, respectively. The excess tax benefits from stock option exercises for the six months ended June 30, 2011 and 2010 were \$7.0 million and \$5.0 million, respectively. Payments of tax withholdings on behalf of employees for net-share settlements of stock-based compensation totaled \$0.9 million in the six months ended June 30, 2011.

The net increase in cash and cash equivalents for the six months ended June 30, 2011 was \$22.8 million compared to a net increase of \$1.9 million for the same period in 2010.

The number of days sales outstanding as of June 30, 2011 increased to 81 days from 78 days at December 30, 2010.

Operating cash flows could be adversely affected by a decrease in demand for our services or if contracts with our largest clients are cancelled. The majority of our client relationships have been in place for several years, as a result, we do not expect any decrease in the demand for our services in the near term.

Recently Issued Accounting Pronouncements

See “Recently Issued Accounting Pronouncements” in Note 1 of the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At June 30, 2011, we were not a party to any derivative financial instruments. We conduct all of our business in U.S. currency and hence do not have direct foreign currency risk. The interest on borrowings under the Credit Agreement is at a variable rate based on the prime rate or LIBOR and may include a spread over or under the applicable rate. Further, we currently invest substantially all of our excess cash in short-term investments, primarily money market accounts, where returns effectively reflect current interest rates. As a result, market interest rate changes may impact our interest income or expense. The impact will depend on variables such as the magnitude of rate changes and the level of borrowings or excess cash balances. We do not consider this risk to be material. We manage such risk by continuing to evaluate the best investment rates available for short-term, high quality investments.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms, and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation of our controls performed during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1A. Risk Factors

Risks that could have a negative impact on our business, results of operations and financial condition include without limitation (i) the development by competitors of new or superior services or products or the entry into the market of new competitors; (ii) all the risks inherent in the development, introduction, and implementation of new products and services; (iii) the loss of a major customer, customer dissatisfaction or early termination of customer contracts triggering significant costs or liabilities; (iv) variations in our results of operations; (v) negative results of government reviews, audits or investigations to verify our compliance with contracts and applicable laws and regulations; (vi) changing conditions in the healthcare environment, particularly as they relate to current healthcare reform initiatives; (vii) government regulatory, political and budgetary pressures that could affect the procurement practices and operations of healthcare organizations, reducing the demand for our services; and (viii) our failure to comply with laws and regulations governing health data or to protect such data from theft and misuse. A more detailed description of each of these and other risk factors can be found under the caption “Risk Factors” in our most recent Annual Report on Form 10-K, filed with the SEC on March 1, 2011. There have been no material changes to the risk factors described in our most recent Annual Report on Form 10-K.

Item 6. Exhibits

The Exhibits filed as part of this Quarterly Report on Form 10-Q are listed on the Exhibit Index immediately following the Signatures.

SIGNATURES

Pursuant to the requirements 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.

Date: August 8, 2011

HMS HOLDINGS CORP.

By: /s/ William C. Lucia
William C. Lucia
President and Chief Executive Officer and Duly
Authorized Officer
(Principal Executive Officer)

By: /s/ Walter D. Hosp
Walter D. Hosp
Chief Financial Officer and Duly Authorized Officer
(Principal Financial Officer)

Exhibit Index

| Exhibit No. | Description |
|-------------|--|
| ‡10.1 | Amended Master Teaming and Non-Compete Agreement, executed on July 26, 2011, by and between Health Management Systems, Inc. and Public Consulting Group, Inc. |
| ‡10.2 | Supplementary Medicaid RAC Contract Teaming and Confidentiality Agreement, executed on July 26, 2011, by and between Health Management Systems, Inc. and Public Consulting Group, Inc. |
| ‡31.1 | Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer of HMS Holdings Corp., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| ‡31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer of HMS Holdings Corp. , as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| ‡32.1 | Section 1350 Certification of the Principal Executive Officer of HMS Holdings Corp. , as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| ‡32.2 | Section 1350 Certification of the Principal Financial Officer of HMS Holdings Corp. , as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

‡ Furnished herewith

AMENDED MASTER TEAMING AND NON-COMPETE AGREEMENT

This AMENDED MASTER TEAMING AND NON-COMPETE AGREEMENT (the "Agreement") is made and entered into as of this 25th day of July, 2011 (the "Effective Date"), by and between PUBLIC CONSULTING GROUP, INC., a Massachusetts corporation ("PCG"), and HEALTH MANAGEMENT SYSTEMS, INC, ("HMS"), a New York corporation. Each of PCG and HMS are sometimes referred to herein individually as a "Party" and together as the "Parties." Terms used herein that are not otherwise defined herein shall have the respective meanings assigned to them in the Asset Purchase Agreement between PCG and HMS Holdings, Corp. dated June 22, 2006, where such terms are therein defined.

WHEREAS, the Parties previously executed a Master Teaming Agreement and a Non-Compete Agreement effective September 13, 2006, and mutually desire to amend and extend certain provisions of those Agreements; and

WHEREAS, the Parties have determined that they would each benefit from continued cooperation between their respective organizations, in order to provide a complimentary approach on potential new business opportunities in response to requests for proposals and procurements or other requests issued by the federal government, various states, counties, other political subdivisions, and/or other entities (each an "RFP"); and

WHEREAS, the Parties have determined that in certain situations each would benefit from the joint preparation and submission of proposals and responses ("Responses") to RFPs which offer the best combination of resources and skills of the respective Parties, and which would be in the best interests of the prospective client.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements set forth herein, and for such other consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

1. Exclusivity and Cooperative Cross-selling of Services.

1.1 PCG agrees to utilize HMS as its exclusive subcontractor with respect to the provision of services described in Exhibit A hereto (the "HMS Services"), the entirety of which Exhibit is hereby incorporated herein by reference. PCG shall not, during the term of this Agreement, develop, market (including by developing partnerships with other entities), offer, or sell services of the kind identified as HMS Services in any market, except as specifically provided or permitted by this Agreement. PCG further agrees to use its commercially reasonable efforts to identify cross-selling opportunities consistent with Section 6 hereof, including, but not limited to, introducing HMS employees, agents, or consultants ("HMS Representatives") to PCG clients existing as of the date hereof or at any time during the term of this Agreement (collectively, the "PCG Clients") in order to provide an opportunity for such HMS Representatives to market and sell the HMS Services to the PCG Clients. PCG will promptly notify HMS of all RFPs of which PCG becomes aware that call for, or provide an opportunity to include, any HMS Services

1.2 HMS agrees to utilize PCG as its exclusive subcontractor with respect to the provision of services described in Exhibit B hereto (the “PCG Services”), (“), the entirety of which Exhibit is hereby incorporated herein by reference. HMS shall not, during the term of this Agreement, develop, market (including by developing partnerships with other entities), offer, or sell services of the kind identified as the PCG Services, except as specifically provided or permitted by this Agreement. HMS further agrees to use its commercially reasonable efforts to identify cross-selling opportunities consistent with Section 5 hereof, including, but not limited to, introducing PCG employees, agents, or consultants (“PCG Representatives”) to HMS clients existing as of the date hereof or at any time during the term of this Agreement (collectively, the “HMS Clients”) in order to provide an opportunity for such PCG Representatives to market and sell the PCG Services to the HMS Clients. HMS will promptly notify PCG of all RFPs of which HMS becomes aware that call for, or provide an opportunity to include, any PCG Services.

1.3 In the event that the Party with a Client Contract (the “Originating Party”) subcontracts with the other Party (the “Secondary Party”) to deliver Services under such Client Contract, the Parties shall enter into a Subcontracting Agreement (as defined below) pursuant to which the Originating Party will serve as the Prime Contractor (as defined below) and the Secondary Party shall serve as the Subcontractor (as defined below). The Prime Contractor will provide client contract management functions, such as invoicing and reporting, as more fully articulated in the applicable Subcontracting Agreement. Notwithstanding the foregoing, to the extent the crossselling efforts of either of the Parties results in a Client of either Party issuing an RFP related to Services described in either Exhibit A or Exhibit B to this Agreement, Section 2 shall apply, and the Parties shall determine whether to bid jointly on such RFP.

1.4 Each Party represents and certifies that it is eligible to perform Services under government contracts and that it shall not take any action or fail to take appropriate action that would jeopardize such eligibility. If either Party becomes ineligible to bid on or perform a government contract, such Party shall promptly notify the other Party, in writing, of such ineligibility.

1.5 Each Party and any of its affiliates shall fully disclose to the other Party any known conflict or potential conflict to the business interest of the other Party resulting from this Agreement or under a particular Sub-Teaming Agreement (as defined below) or Subcontracting Agreement.

1.6 Notwithstanding any other provision of this Agreement, the provisions of the Supplementary RAC Contract Teaming and Confidentiality Agreement, attached hereto as Attachment I and incorporated by reference herein, shall govern the relationship between and the rights and obligations of the Parties with respect to Medicaid Recovery Audit Contractor (“Medicaid RAC”) contracts and services.

1.7 In the event that, during the term of this Agreement, either Party acquires, is acquired by, or merges with another corporate entity that is engaged in the business of

furnishing services of the type that is associated with the other Party in the documents attached hereto as Exhibit A or B, the Parties shall, within no less than 10 days prior to the effective date of such acquisition or merger, confer to determine whether and to what degree the terms of this Agreement should, or may need to, be modified in light of the acquisition or merger, and whether such merger or acquisition affects the desires or intentions of the Parties with respect to continued performance of their obligations under the Agreement. The Parties further agree that neither Party shall assert or claim a breach of this Agreement by reason of continuation after merger or acquisition of pre-existing business operations and/or service product offerings of an entity that has acquired, been acquired by, or merged with the other Party subsequent to execution of this Agreement; but that, at the option of the Party that has not been involved in such acquisition or merger, the Agreement may be terminated pursuant to Section 12.1 (d) herein.

2. Sub-Teaming.

2.1 The Parties will determine within a reasonable time period following identification of a joint bidding opportunity consistent with preparing and filing a timely Response (but in no event less than fifteen (15) calendar days from written communication by a Party of identification of such joint bidding opportunity) whether to bid jointly on any particular RFP. In the event that the Parties agree to bid jointly on any such RFPs, the Parties will enter into separate teaming agreements related thereto, which teaming agreements shall incorporate the terms and conditions set forth in this Section 2 and Sections 3, 4 and 7 hereof (each a "Sub Teaming Agreement"). Notwithstanding anything to the contrary herein, neither Party shall be obligated to bid jointly with the other in connection with any particular RFP (except as may be required under the Supplementary Teaming Agreement for RAC Services attached hereto as Attachment A, and incorporated by reference herein); and, except as otherwise set forth herein, each Party shall have the right to bid jointly or enter into separate teaming agreements with third-parties.

2.2 Each Sub-Teaming Agreement shall set forth the scope and range of Services to be covered by such Sub-Teaming Agreement, the dates and sites for performance of the Services and such other information the Parties deem necessary and appropriate. The Sub-Teaming Agreement shall also specify the specific milestones to be met by the Parties in responding to the RFP related to such Sub-Teaming Agreement, and the form and amount of consideration to be paid to the Subcontractor thereunder, if any.

2.3 With respect to each Sub-Teaming Agreement, the Parties shall specify one of the Parties to act as the prime contractor (the "Prime Contractor") and the other to act as the subcontractor (the "Subcontractor"). The Party designated as the Prime Contractor pursuant to a particular Sub-Teaming Agreement shall bear the primary responsibility for preparing and submitting any and all Responses. The Prime Contractor shall fully disclose in any Response the role to be played, and the Services to be provided, by the Party designated to act as the subcontractor pursuant to a particular Sub-Teaming Agreement. The Prime Contractor shall provide the Subcontractor with the opportunity to provide input with respect to the preparation and submission of any and all Responses, and the Subcontractor shall have the opportunity to review and revise any portions of such Responses that relate to such Subcontractor or the

Services to be provided by such Subcontractor. The Prime Contractor shall keep the Subcontractor advised of changes in the requirements and the status of the Response.

2.4 Communication with Potential Clients.

(a) The Prime Contractor shall be responsible for all communications with any potential client concerning the RFP, but shall consult with and keep the other Party reasonably well informed of such communications and negotiations. The Subcontractor shall not initiate contact with any potential client concerning the RFP without the prior written consent of the Prime Contractor; provided, however, any communications initiated by such potential client or other party directly with the Subcontractor shall not be deemed to be a breach of this Agreement so long as the Subcontractor notifies the Prime Contractor of such communication.

(b) In the event it becomes desirable for either Party to contact the potential client or any other party concerning the RFP prior to specification by the Parties of a Prime Contractor and Subcontractor with respect to thereto, the Parties shall designate a primary point of contact, and neither Party or its representatives shall contact such potential client or other party without the approval of the primary contact; provided, however, any communications initiated by such potential client or other party directly with PCG or HMS shall not be deemed to be a breach of this Agreement so long as such Party notifies the primary contact of such communication.

3. Preparation of Responses.

3.1 The Parties shall use commercially reasonable efforts to prepare and submit a Response in connection with each RFP for which the Parties have entered into a Sub-Teaming Agreement. The Parties agree to consult prior to submission of any Response concerning the portions of the Services to be performed by each Party. In connection with the drafting and preparation of Responses, each Party shall provide all material and data pertinent to the Services to be provided by such Party and shall furnish qualified employees, agents, or consultants ("Personnel") to assist therewith. The Prime Contractor shall be responsible for preparing Responses, integrating the information provided by the Parties in connection therewith, and submitting such Responses to potential clients. PCG and HMS shall assure availability of such Personnel including, but not limited to, management and technical personnel, to assist in any discussions and negotiations with potential clients concerning such Response. If after receipt of the pricing information from PCG or HMS an adjustment is deemed necessary by the other Party to achieve price objectives conducive to award of the Prime Contract, the Parties shall cooperate in good faith to revise such pricing.

3.2 The Parties recognize that a potential client may amend an RFP and that revision of a Response may be necessary as a result thereof. In such case, the Parties shall enter into good faith negotiations to revise the Response. The Parties acknowledge that material modification(s) or change(s) to an RFP may result in a Party's decision not to bid on the RFP under such circumstances. A Party may terminate its participation in a Response by providing five (5) calendar days' notice thereof to the other Party. Further, if the potential client, for any

reason, directs the Prime Contractor to place the work contemplated as the Subcontractor's responsibility with another provider, and such direction is authorized by applicable laws and regulations, the Prime Contractor shall comply with such direction, and shall have no further obligations to the Subcontractor under the particular Sub-Teaming Agreement, except as set forth in Section 7 (Proprietary Information), Section 8 (Indemnification), Section 9 (Insurance) and Section 10 (Non-solicitation of Employees).

4. Award of Prime Contract; Subcontracting.

4.1 Except as otherwise set forth herein or in any particular Sub-Teaming Agreement or Subcontracting Agreement, each Party will bear all costs, risks and liabilities incurred by it arising out of its obligations and efforts under this Agreement or such Sub-Teaming Agreement or Subcontracting Agreement. Neither Party shall have any right to any reimbursement, payment or compensation of any kind from the other. Nothing herein shall be construed as providing for the sharing of profits or losses arising out of the efforts of either or both of the Parties, except specifically set forth in the applicable Sub-Teaming Agreement or Subcontracting Agreement.

4.2 Unless otherwise specified in a particular Subcontracting Agreement, the consideration payable to the Parties in connection with any Subcontracting Agreement ("Teaming Fees") related to a contract that provides for payment on a (i) contingency basis, the Prime Contractor will receive 20% and the Subcontractor will receive 80% of the fees paid by the client in connection with the performance of Services thereunder and (ii) fixed price basis, the Prime Contractor will receive 10% and the Subcontractor will receive 90% of the fees paid by the client in connection with the performance of Services thereunder.

5. Additional Obligations of HMS

5.1 Assistance in marketing PCG enrollment services:

5.1.1 In the course of marketing cost containment services to entities in the employer market, including retiree health plans, HMS will make a concerted effort to encourage and develop interest on the part of such retiree health plans in Medicare, Supplemental Security Income (SSI) and Social Security Disability Income (SSDI) enrollment services offered by PCG. HMS will incorporate information about PCG enrollment services into HMS sales and marketing efforts, will introduce PCG to the target Client or Prospective Client once interest has been expressed or established, and will work with PCG to seek to include PCG enrollment services in any service contract with a retiree health plan that HMS may negotiate. HMS will work closely with PCG regarding PCG's fee and price offerings to potential clients.

5.1.2 HMS will establish a marketing plan to implement the foregoing provision of this Agreement by no later than September 30, 2011.

5.2 Use of HMS contract relationships to introduce PCG services:

5.2.1 HMS will designate five States (to be agreed upon between appropriate officials or representatives of the Parties) that currently have contracts with HMS (“the Opportunity States”), to which HMS agrees to introduce PCG and its service offerings as described in this subsection.

5.2.2 Introduction of PCG services to or in the Opportunity States shall consist of the following processes or steps:

(a) HMS and PCG will confer and develop an agreed-upon strategy for introducing PCG services to the target State agency, including by identifying key selling points, the critical State decision-maker[s] who need to be reached, and other tasks or goals that are integral to HMS’s fulfillment of its obligations to facilitate and implement the introduction process.

(b) HMS representatives will speak directly to the target Client to seek agreement that the existing HMS contract can be used as a vehicle, through appropriate amendment or otherwise, for procurement and delivery of services to include the designated PCG services.

(c) Upon determination that the contracting agency of the Opportunity State desires and approves inclusion of the designated PCG services in the HMS contract, and that the anticipated arrangement complies with applicable State procurement laws, HMS will include PCG as a subcontractor under the HMS contract with such State agency.

(d) HMS will create and maintain appropriate documentation of its efforts in compliance with this subsection, in the form of emails, memoranda, or other writings, in paper or electronic form.

6. Additional Responsibilities and Obligations of PCG

6.1 PCG agrees that, notwithstanding the obligations of HMS described in the foregoing section, PCG is ultimately responsible for finding a willing State purchaser of its services among the Opportunity States and persuading the relevant State agency to agree to procure those services, including by persuading the relevant decision-maker to procure the PCG services through the HMS contract.

6.2 Where HMS seeks to have its services introduced to and procured by an entity with which PCG has a contract, PCG shall have the same obligations with respect to facilitating that opportunity for HMS as are described above in section 5.2 as obligations of HMS to promote procurement and purchase of PCG services.

7. Proprietary Information.

7.1 Unless otherwise subject to a separate nondisclosure agreement which shall remain in effect during the term of this Agreement, in the course of performance under this

Agreement, the Parties may disclose to each other Proprietary Information. For purposes hereof, "Proprietary Information" of a Party is defined as all information, data, material and documentation of such Party, whether disclosed to or accessed by the other Party in connection with this Agreement, including, without limitation, (a) all information of such Party or its respective clients, suppliers, contractors and other third parties doing business with it, (b) the terms of this Agreement and (c) any information developed by reference to or use of such Party's Proprietary Information. All such Proprietary Information disclosed under this Agreement shall remain the property of, and be deemed proprietary to, the disclosing Party. Oral information shall not be subject to any nondisclosure obligation under this Agreement unless that oral information (or a reasonable description or summary of the contents of the oral information) is reduced to writing within five (5) business days after disclosure. Each Party agrees to keep all Proprietary Information of the other in strict confidence, and to use the same, but no less than a reasonable, degree of care to protect such information as it uses to protect its own Proprietary Information. Disclosure of Proprietary Information shall be restricted to those persons who are directly participating in the preparation of Responses and/or the provision of Services identified in the Sub-Teaming Agreement or Subcontracting Agreement, each of whom shall be under the nondisclosure requirements of this Section 7.1 (with each party responsible for the compliance of such persons), and such Proprietary Information shall be used solely and exclusively in support thereof.

7.2 The obligation of a receiving Party to protect and or refrain from use of Proprietary Information of the other Party shall not apply to any of the following: (a) information that has been or is made available to the public by the disclosing Party or by a third Party not under a similar obligation of confidentiality; (b) information which becomes lawfully known or available to the receiving Party from a source other than the disclosing Party; (c) information which is known to the receiving Party independently of the disclosing Party; (d) information that was independently developed by the receiving Party; nor shall a receiving Party's obligation to protect the other Party's Proprietary Information from disclosure apply where that information is required to be disclosed by legal mandate, legal process, a legal action, or other legal requirement under government regulations or an investigatory subpoena, provided, however, that the receiving Party shall give the disclosing Party notice of the legal request and take reasonable and lawful action to avoid or minimize the degree of such disclosure.

7.3 The receiving Party shall return or destroy the disclosing Party's Proprietary Information, including all copies thereof, as directed by the disclosing Party. The disclosing Party may request written certification of destruction.

7.4 Each Party acknowledges that the other Party may suffer irreparable injury as a result of any misuse, disclosure or duplication of its Proprietary Information by the other Party in violation of this clause. Accordingly, the injured Party shall be entitled in such event to seek injunctive relief in addition to any other applicable remedies, including the recovery of damages.

7.5 Neither Party shall use Proprietary Information received from the other Party pursuant to this Agreement, or in the course of activities to which this Agreement or its Attachment I pertains, for any purpose other than those specifically described or contemplated by this Agreement and/or its Attachment I; nor shall any Party use the Proprietary Information of the other Party for any product development or other commercial purpose that is not mutually beneficial to both Parties and known to and expressly approved by the disclosing Party.

7.6 Nothing in this Agreement shall be deemed to grant or confer any right, title, or interest in a Party's Proprietary Information or other intellectual property to the other Party. The rights to intellectual property under this Agreement or any Sub-Teaming Agreement or Subcontracting Agreement shall be determined according to United States Law, and the ownership of such intellectual property shall follow the inventor status of the originator of said property. Each Party shall cooperate with the other to enable it to perfect its patent rights.

7.7 The foregoing rights, obligations and restrictions as to Proprietary Information shall survive the expiration or termination of this Agreement for a period of five (5) years.

8. Indemnification.

8.1 HMS hereby agrees to indemnify, defend and hold PCG and its affiliates and their respective employees, shareholders, officers, directors, agents and consultants, and the successors, heirs, and assigns of each of them harmless from and against any loss, damages, action, suit, claim, demand, liability, expense, or damage (each a "Loss") that may be brought, instituted or arise against or be incurred by such persons in connection with any claims, suits, actions, demands or judgments arising out of any act or omission, or failure by HMS in performing or failing to perform any of its obligations under this Agreement, a particular Subcontracting Agreement or Sub-Teaming Agreement or under any terms or conditions of a Prime Contract applicable to HMS.

8.2 PCG hereby agrees to indemnify, defend and hold HMS and its affiliates and their respective employees, shareholders, officers, directors, agents and consultants, and the successors, heirs, and assigns of each of them harmless from and against any Loss that may be brought, instituted or arise against or be incurred by such persons in connection with any claims, suits, actions, demands or judgments arising out of any act or omission, or failure by PCG in performing or failing to perform any of its obligations under this Agreement, a particular Subcontracting Agreement or Sub-Teaming Agreement or under any terms or conditions of a Prime Contract applicable to PCG.

8.3 The foregoing rights, obligations and restrictions shall survive the expiration or termination of this Agreement for a period of five (5) years.

9. Insurance. During the term of this Agreement and for a period of two (2) years after its expiration or termination for any reason, each of the Parties shall secure and maintain an insurance policy or insurance policies with appropriate limits in place, necessary to meet the requirements of such Party under any new contract, RFP or other procurement opportunity.

10. Nonsolicitation of Employees. The Parties agree not to knowingly solicit, recruit, hire or otherwise employ or retain the employees of the other Party during the Term of this Agreement and for a period of five (5) years following the termination or expiration of this Agreement without the prior written consent of the other Party. Notwithstanding anything above to the contrary, this Section 10 shall not restrict the right of each Party to solicit or recruit generally in the media, and shall not prohibit each Party from hiring, without prior written consent, another Party's employee who answers any advertisement or who otherwise voluntarily applies for hire without having been personally solicited or recruited by the hiring Party.

11. Term. This Agreement shall begin as of the Effective Date and shall continue in full force and effect for a period through September 30, 2012, unless extended by mutual agreement of the Parties or earlier terminated in accordance with Section 10 below.

12. Termination.

12.1 Either Party may terminate this Agreement by providing sixty (60) calendar days prior written notice to the other Party if:

(a) the other Party materially breaches this Agreement, which material breach remains uncured for such sixty (60) day period;

(b) the other Party experiences substantial financial difficulties including, but not limited to, its inability to pay salaries and benefits to its employees, which, in the sole opinion of the terminating Party, makes another Party's ability to perform a Prime Contract, Subcontracting Agreement or Subcontracting Agreement highly unlikely under the terms of this Agreement; or

(c) the other Party becomes insolvent, makes a general assignment for the benefit of creditors, suffers or permits the appointment of a receiver for its business or assets, becomes subject to any proceeding under any bankruptcy or insolvency law, or has liquidated its business (voluntarily or otherwise).

(d) the other Party acquires, is acquired by, or merges with another corporate entity whose business operations or service product offerings prior to such acquisition or merger include services identified as exclusive to the terminating Party on Exhibit A or B hereto, the non-terminating Party represents that those operations or service offerings will continue post-acquisition or post-merger (or is unwilling or unable to give assurances that such operations or service offerings will be discontinued), and the Parties have been unable to reach agreement regarding an appropriate modification of the Agreement pursuant to Section 1.7 herein.

12.2 Either Party may terminate its participation in a particular Sub-Teaming Agreement by delivering prior written notice to the other Party:

(a) as provided in the particular Sub-Teaming Agreement;

(b) as contemplated by Section 3.2 hereof; or

(c) if the Parties, after negotiating in good faith, are unable to reach agreement on the terms and conditions of a Subcontracting Agreement pursuant to such Sub-Teaming Agreement within sixty (60) days from award of the contract to the Prime Contractor, unless a further extension is mutually agreed to by the Parties.

13. Limitation of Liability. Neither party shall be liable to the other for any indirect, incidental, special, punitive or consequential damages arising out of the performance or failure to perform in accordance with the terms hereof, including, without limitation, lost profits, lost revenues, loss of the use of equipment or facilities, or for substitute equipment or facilities, regardless of whether the claim or claims therefore found in contract or tort (including negligence), strict liability or otherwise and regardless of whether the party to be charged has been notified of the possibility or should have foreseen the possibility of such damages.

14. Assignment. This Agreement shall be binding upon, and inure to the benefit of, and be enforceable by, the respective successors and assigns of the Parties; provided, however, that no Party shall assign or otherwise transfer this Agreement or any rights, duties or obligations under this Agreement without the prior written consent of the other Party. The obligations of each Party shall not terminate upon any assignment attempted without such prior written consent.

Notwithstanding the foregoing, each Party may assign its rights and obligations under this Agreement to a parent, affiliate or subsidiary.

15. Independent Party Status. Neither this Agreement nor any particular Sub-Teaming Agreement or Subcontracting Agreement shall constitute, create, give effect to or otherwise imply a joint venture, partnership, relationship of agency or formal business organization of any kind, other than a contractor team arrangement, and the rights and obligations of the Parties shall be only those expressly set forth herein. The Parties shall be deemed to be independent contractors, and the employees of one Party shall not be deemed to be the employees of the other Party. Each Party shall be solely responsible for payment of all compensation owed to its employees and other personnel, including payment of any taxes related to employment and workers compensation insurance. Neither Party shall have authority to bind the other except to the extent authorized herein or in a particular Sub-Teaming Agreement or Subcontracting Agreement.

16. Notices. All notices which are required or may be given pursuant to the terms of this Agreement shall be in writing and shall be sufficient in all respects if given in writing and (a) delivered personally, (b) mailed by certified or registered mail, return receipt requested and postage prepaid, (c) sent via a nationally recognized overnight courier, or (d) sent via facsimile confirmed in writing to the recipient, in each case as follows:

If to PCG, to:

Public Consulting Group, Inc.
148 State Street, 10th floor
Boston, Massachusetts 02109
Attention: William S. Mosakowski
Telecopy No.: (617) 426-4632

If to HMS, to:

Health Management Systems, Inc.
401 Park Avenue South
New York, New York 10016
Attention: William Lucia
Telecopy No.: (212) 857-5004

or such other address or addresses as the Parties shall have designated by notice in writing.

17. Publicity. Each Party may issue a news release, public announcement, advertisement or any other form of publicity concerning its efforts or performance under this Agreement, unless specifically precluded by the terms of any new client contract or Prime Contract or otherwise, and provided that such publicity shall give full credit and recognition to the role and contribution of both Parties.

18. Waiver. This Agreement shall not be amended or modified, nor shall any waiver or any right hereunder be effective, unless set forth in a document executed by duly authorized representatives of each Party. The waiver of any breach of any term, covenant, or condition, herein contained, shall not be deemed to be a waiver of such term, covenant or condition, or any subsequent breach of the same.

19. Severability. If any part, term or provision of this Agreement shall be held void, illegal, unenforceable, or in conflict with any law of any federal, state, or local government having jurisdiction over this Agreement, the validity of the remaining portions or provisions shall not be affected thereby.

20. Compliance with all Laws. In the course of performance hereunder, the Parties shall agree to comply with all applicable local, state, and federal laws and regulations.

21. Governing Law. This agreement shall be governed in all respects by the laws of the Commonwealth of Massachusetts, without giving effect to conflict of law principles

22. Force Majeure. If and to the extent that a Party's performance of any of its obligations pursuant to this Agreement is prevented, hindered or delayed by fire, flood, earthquake, elements of nature or acts of God, acts of war, terrorism, riots, strikes, unavailability or shortages of labor, civil disorders, rebellions or revolutions, or any other similar cause beyond the reasonable control of such Party (each, a "Force Majeure Event"), then the non-performing, hindered or

delayed Party shall be excused for such non-performance, hindrance or delay, as applicable, of those obligations affected by the Force Majeure Event for as long as such Force Majeure Event continues and such Party continues to use its best efforts to recommence performance whenever and to whatever extent possible without delay, including through the use of alternate sources, workaround plans or other means. The Party whose performance is prevented, hindered or delayed by a Force Majeure Event shall promptly notify the other Party of the occurrence of the Force Majeure Event and describe in reasonable detail the nature of the Force Majeure Event.

23. Entire Agreement; Modifications. This Agreement, including each Attachment or Exhibit hereto and thereto constitute the entire understanding and agreement between the Parties and shall supersede any prior agreements, written or oral, not incorporated herein relating to the same subject matter. The terms and conditions of this Agreement shall not be amended except by written agreement signed by both Parties.

IN WITNESS WHEREOF, this Master Teaming Agreement has been duly executed and delivered by the duly authorized officers of the Parties hereto as of the Effective Date.

HEALTH MANAGEMENT SYSTEMS, INC.

Date: July 26, 2011

By: /s/ William C. Lucia

Name: William C. Lucia
Title: Chief Executive Officer

PUBLIC CONSULTING GROUP, INC.

Date: July 25, 2011

By: /s/ Stephen Skinner

Name: Stephen Skinner
Title: Director of Public Consulting Group

EXHIBIT A

HMS SERVICES

HMS shall have the exclusive right, as between itself and PCG, to (a) market the services listed below in the following markets in the United States: State Medicaid agencies, managed care plans, Medicaid financed State pharmacy assistance programs, the U.S. Department of Veterans Affairs, TriCare, CHIP, the Assistance Program administered under Title IV-D of the Social Security Act, MSE programs, commercial insurance plans, and Medicare Advantage plans; and (b) market dependent eligibility verification audit services to markets that include state employee benefit programs:

1. Coordination of benefits- including the identification of health insurance coverage or third party liability related to specific individuals for cost avoidance and/or recovery purposes, and recovery from providers and liable health insurance payers via billing, recoupment and/or settlement.
2. Credit balance audits (defined to include any audit of overpayments related to Coordination of benefits, duplicates, provider posting errors, or allowances) of health care providers, without limitation as to types of providers.
3. Accident-related trauma/workers' compensation/estates recovery
4. Medical support enforcement.
5. HIPP
6. Medicare Buy-in
7. Dependent Eligibility Audits.

The Parties agree that HMS's market exclusivity for COB services to managed care organizations (MCOs) does not preclude PCG from contracting with MCOs to plan, develop, design, implement and/or execute projects related to Health Information Exchange and/or Health Information Technology Development and Implementation, and further does not preclude PCG from contracting with MCOs to help plan for, develop, implement and/or execute projects related to Federal health care reform initiatives under way or to be promulgated.

EXHIBIT B

PCG SERVICES

PCG shall have the exclusive right, as between itself and HMS, to market and offer the following services to all markets:

1. Pre/post payment provider audits for long term care provider types and services including:
 - Nursing facilities, except that HMS's cost of care and credit balance initiatives are excluded from PCG's nursing facility audit responsibilities, as provided in Exhibit C
 - Intermediate care facilities for the mentally retarded (ICFMRs)
 - Non-acute or inpatient chronic and rehab hospitals
 - Inpatient psychiatric hospital
 - Outpatient psychiatric hospital/treatment facility
 - Community mental health centers
 - Community health centers
 - Psychologist services
 - Home based mental health services
 - Substance abuse services
 - Home health services
 - Personal care support services
 - Partial hospitalization
 - Adult day health services
 - Adult foster care services
 - Day habilitation services
 - Psychiatric day treatment services
 - Respite services
 - Chronic and LTC services
 - Private duty nursing services

The above-described audit services designated as exclusive to PCG do not include credit balance audit services (as defined above) or specialty pharmacy service audits relating to claims billed via NCPDP, and are limited to the audits of the following types:

- Cost Reports/Financial Statements
 - Free/Charity Care Payment Compliance Audits
 - Payer/Provider Performance Audits
 - Cost Allocation Plans
 - Specialty Pharmacy Performance Review relating to claims billed via UB or 1500
-

2. Eligibility/Member Services including
 - i. SSI/SSDI/Medicare enrollment
 - ii. Low Income Subsidy (LIS) Determination
 3. Public provider billing services (ASO)
 4. Public Provider Cost report preparation and audit support, on behalf of the provider
-

EXHIBIT C

Exceptions to Market Exclusivity

The following services may be marketed, offered, and furnished by HMS and PCG respectively, without being deemed a violation of the market exclusivity provisions of the Amended Master Teaming and Non-compete Agreement:

By HMS

1. Specific existing projects otherwise in a category designated as exclusive to PCG:
 - a. Services under the VA Behavioral Health Project
 - b. Services under the DC Medicare enrollment project (with DECO)
 - c. Connecticut Home Health (opportunity in development with client)
 - d. New Jersey Behavioral Health & Home Health related predictive modeling project with Digital Harbor
 - e. HMS may also continue to offer any audit services to an existing client that are required to be provided to that client under a contract existing as of July 1, 2011.

 2. Services which may involve PCG-exclusive provider settings, but are intended by the Parties to be in an “open market” category, with respect to which either Party may develop, market, offer, and/or sell its services:
 - a. Fixed Fee Utilization Review Services for Current Clients, being performed and/or marketed by HMS as of the date of execution of the Agreement. (Scope of such work may include, when applicable, PCG Exclusive Provider types such as Inpatient and Outpatient Psychiatric facilities and treatment providers.)

 - b. Services of a kind performed for and marketed to federal agencies by a subsidiary of HMS’s parent company, including but not limited to fraud, waste and abuse detection and program integrity services, which involve or may involve auditing of Long Term Care facilities. The Parties agree that these services may be marketed, offered, and furnished by HMS’s parent company or its subsidiary without violating this agreement.

 3. The Parties further agree that ancillary services provided in PCG designated provider settings (e.g., PBM audits for behavioral health) shall not be regarded as included in the PCG Services, but represent open market opportunities that may be accessed by HMS consistent with this Agreement.
-

By PCG:

1. Specific existing projects otherwise in a category designated as exclusive to HMS:
 - a. Services under Dependent Eligibility Audit Projects (DEVA) existing at the time of execution of the Agreement.
 - b. Services under any DEVA project resulting from procurements that are either active or had been offered and/or bid but not awarded as of July 1, 2011 (to include services under contracts with the City of Charlotte and Clark County, NV)
 - c. Services to the State of Wisconsin in connection with a DEVA project in that State (if this opportunity emerges), whether pursuant to an existing contract or through a new procurement subsequent to execution of this Agreement.
 - d. [New procurement through a PCG Partner — not able to be named at document execution due to confidentiality provisions with the referenced Partner; to be named/identified later]

In addition, the Parties, recognizing that both HMS and PCG have exclusive service rights within the Long Term Care space, HMS and PCG agree to the following provisions with regard to the Long Term Care Space:

- I. Each Company markets its exclusive audit types.
 - II. Audit types that fall outside the exclusive audit types defined herein can be offered by either Company, i.e., are considered 'open market' (Example: PBM audits).
 - III. If either Company, in marketing independently its exclusive or open market services, identifies the need for a partner to market a particular solution, the other Company is to be considered as a potential partner and has the right of first refusal for a partnership arrangement. In being offered first refusal rights, each Company will exercise reason in the response; i.e., if the service is not a genuine capability of the Company, the Company will pass.
 - IV. Audits relating to Client policy/reimbursement changes or MMIS adjudication errors are exceptions to HMS market exclusivity.
-

ATTACHMENT I

**SUPPLEMENTARY MEDICAID RAC CONTRACT TEAMING AND
CONFIDENTIALITY AGREEMENT**
Between Public Consulting Group, Inc. and Health Management Systems, Inc.

This Supplementary RAC Contract Teaming and Confidentiality Agreement (“the RAC Agreement”) is entered into between Public Consulting Group, Inc. (“PCG”) and Health Management Systems, Inc. (“HMS”), as of July 25, 2011.

WHEREAS, PCG and HMS have previously entered into a Master Teaming Agreement dated September 13, 2006, and have amended that Agreement and extended its amended terms up to and including September 30, 2012; and

WHEREAS, multiple States (“the Prospective Clients”) have or will issue a request for proposals (“RFP”) for certain Medicaid Recovery Audit Contractor (RAC) services, as required by 42 USC § 1396a(a)(42)(B); and

WHEREAS, State Medicaid agencies were required to amend their State Plans under Title XIX of the Social Security Act [42 USC 1396 *et seq.*] with respect to their procurement of Medicaid RAC services by December 31, 2010 and subsequently to contract with a RAC vendor; and both PCG and HMS have existing contracting vehicles, and anticipate future contract vehicles that could be used to satisfy this requirement;

WHEREAS, PCG and HMS have assessed their complementary capacities and interests and have concluded that in many instances a mutual effort in preparation of a response to an RFP will best satisfy the needs of a Prospective Client; and

WHEREAS, PCG and HMS may exchange proprietary or confidential information in preparing the response to an RFP issued by a Prospective Client;

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth herein and other good and valuable consideration, PCG and HMS hereby agree as follows:

1. PURPOSE

The purpose of this Agreement is to establish a mutually beneficial, working relationship between PCG and HMS in order to facilitate and enhance the development, submission, and support of current and future RAC service proposals in response to RFPs or sole source arrangements, under which HMS may be proposed as the prime contractor and PCG may be proposed as the subcontractor, or PCG may be proposed as the prime contractor and HMS may be proposed as a subcontractor (“the Proposals”).

2. DUTIES OF THE PARTIES

(a) The Parties will make their best efforts to work in partnership to bid for and win contracts for the provision of Medicaid RAC services to Prospective Clients.

Prior to preparation and submission of any RFP for Medicaid RAC services, the Parties will confer to discuss and determine which of the Parties will bid as the Prime Contractor for such services, and which will participate in the prospective contract work in the capacity of a Subcontractor, or, where appropriate and agreed to by the Parties, will not be involved in the work for the Prospective Client. Each party will keep the other party informed concerning all significant aspects of proposal preparation, submission, and negotiations relating to any RFP on work in which the Parties have agreed that both should be involved.

- (b)** The Prime Contractor will exercise commercially reasonable efforts to prepare the Proposal and submit it to the Prospective Client. The Prime Contractor will be responsible for the coordination and administration of the Proposal effort and for the physical production and submission of the Proposal and for all other duties in connection with the Proposal.
- (c)** The Subcontractor will exercise commercially reasonable efforts to provide such assistance in the preparation and support of the Proposal as may be reasonably requested by the Prime Contractor, including, but not limited to, providing price information, resumes, company background, personnel experience relevant to the RFP, and assistance in oral presentations.
- (d)** If an exchange or disclosure of proprietary or confidential information is required in connection with the either or both of the Parties' fulfillment of their obligations under this Agreement, each Party agrees to comply with the confidentiality provisions contained in Section 6 of this Agreement.
- (e)** Each party will bear its own costs in performance of its duties under this Agreement.
- (f)** Where one of the Parties is awarded a contract based upon its submission of a Medicaid RAC RFP to a Prospective Client, the Prime Contractor will, unless prevented by factors beyond its control, actively involve the other Party in the scope of work, by subcontracting with the other company for such services as may be required by the Client and are within the scope of service types assigned to the other Party in the document attached to this RAC Agreement as Exhibit I, and incorporated by reference herein.
- (g)** The fee arrangements that will apply where one Party is the Prime Contractor and the other Party is a Subcontractor shall be established on a contract by contract basis, upon consultation between the parties and based upon factors to include contract price, scope of work, and other relevant considerations.
- (h)** The Parties agree that they will only offer and furnish such services under Medicaid RAC Contracts, and shall furnish such services with respect to the provider types, as are identified in the document attached as Exhibit I hereto as the

responsibility and exclusive Medicaid RAC service focus of each of the respective Parties.

(i) To the extent that an ancillary service is furnished in a specific provider setting identified in Exhibit I as one within the responsibility and/or focus of one of the Parties, the Parties agree that any audit of the ancillary service will fall within the scope of the responsibilities and service focus areas of the Party associated with that provider setting according to Exhibit I.

(j) PCG and HMS agree, generally, to the scope of work described in Exhibit II, incorporated by reference herein. Actual scope of work for each project will be determined by the RFP or contracting vehicle requirements.

(k) PCG and HMS will mutually agree upon pricing of each project. Pricing will be based upon the provisions outlined in Exhibit III, incorporated by reference herein.

(l) PCG and HMS will promptly disclose to each other any potential conflicts that a RAC opportunity may present with existing clients and services and will mutually review appropriate strategies to mitigate or eliminate such conflicts.

(m) In the event that, during the term of this Agreement, either Party acquires, is acquired by, or merges with another corporate entity that is engaged in the business of furnishing audit services with respect to provider settings identified as associated with the other Party in the document attached hereto as Exhibit I, the Parties shall, within no less than 10 days prior to the effective date of such acquisition or merger, confer to determine whether and to what degree the terms of this Agreement should, or may need to, be modified in light of the acquisition or merger, and whether such merger or acquisition affects the desires or intentions of the Parties with respect to continued performance of their obligations under the Agreement. The Parties further agree that neither Party shall assert or claim a breach of this Agreement by reason of continuation after merger or acquisition of pre-existing business operations and/or service product offerings of an entity that has acquired, been acquired by, or merged with the other Party subsequent to execution of this Agreement; but that, at the request of the Party that has not been involved in such acquisition or merger, the other Party shall give consent to termination of the Agreement pursuant to Section 5(c) herein.

3. SUBCONTRACT

(a) During the Proposal process, including any negotiations with the Prospective Client, the Prime Contractor will exercise commercially reasonable efforts to secure the Subcontractor as a subcontractor, consistent with the Proposal. Both parties acknowledge that the Prime Contractor cannot make any guarantee or give any assurance that a subcontract will be entered into between the parties. If a contract is awarded to the Prime Contractor, and if the Subcontractor can meet all

necessary requirements for a subcontract, including but not limited to, obtaining any necessary approval by the Prospective Client, then the Prime Contractor will enter into a subcontract with the Subcontractor. The terms and conditions of the subcontract will be negotiated in good faith by the parties.

(b) The parties agree to include, in any resulting subcontract, provisions substantially the same as those contained in the following sections of this Agreement: Sections 6, 7, 8, 9, 10, and 12.

(c) This Supplementary RAC Contract Teaming Agreement between PCG and HMS will be in effect starting July 22, 2011, and will terminate September 30, 2012, unless extended by written agreement by both parties.

(d) For each Medicaid RAC procurement opportunity that arises during the course of this agreement (via RFP or through other vehicles) PCG and HMS agree to bid and contract together for the RAC contract, unless the Parties mutually agree, upon consultation with each other, to proceed otherwise. The parties will provide to each other a first right of refusal regarding their respective bid intentions. If either party determines that it does not wish to work on a particular Medicaid RAC auditing project, that party will notify the other in writing of this decision. Upon receipt of this notification, the other party is free to perform the RAC auditing work themselves or partner with other entities.

(e) If a Medicaid RAC procurement has a significant system component that neither PCG nor HMS meet the requirements for, PCG and HMS will agree on a system partner and pursue the procurement jointly with that partner, or individually with that partner if either PCG or HMS decides not to pursue the procurement opportunity.

4. OTHER TEAMING AGREEMENTS

The parties desire to define and establish their respective rights and responsibilities consistent with Federal and State laws governing restraint of trade and competition. Except as agreed upon in writing by the Parties, neither PCG nor HMS will submit a competing proposal in response to a Medicaid RAC RFP nor enter into any teaming agreement or any other understanding or arrangement of the same or similar nature in response to such an RFP with any other party, except with the written consent of the other Party.

5. TERMINATION

Unless extended by written agreement of the parties, this Agreement terminates automatically upon the occurrence of any of the following events, whichever occurs first:

(a) September 30, 2012;

- (b) Official notification by the Clients that RAC auditing contracts are terminated;
- (c) Written mutual consent of the parties.

The termination of this Agreement will not discharge the obligations of the parties with respect to the protection of proprietary or confidential information set forth in Section 6.

6. CONFIDENTIALITY

For purposes of fulfilling its obligations under this Agreement, one party (“Disclosing Party”) may convey to the other party (“Receiving Party”) information that is considered proprietary and confidential to the Disclosing Party.

- (a) “Proprietary or Confidential Information” is defined as information — including but not limited to trade secrets, strategies, financial information, sales information, pricing information, operational techniques, software, and intellectual property — that (i) has not previously been published or otherwise disclosed by the Disclosing Party to the general public, (ii) has not previously been available to the Receiving Party or others without confidentiality restrictions, (iii) is not normally furnished to others without compensation, and which the Disclosing Party wishes to protect against unrestricted disclosure or competitive use, or (iv) is designated confidential by either Party in writing, and to which the other party would not ordinarily have access. Proprietary or Confidential Information does not include information that, without a breach of this Agreement, is developed independently by the Receiving Party, or that is lawfully known by the Receiving Party and received from a source that was entitled to have the information and was not bound to the Disclosing Party by any confidentiality requirement.
- (b) The Receiving Party shall hold Proprietary or Confidential Information in strict confidence, in perpetuity, and shall use and disclose such information to its employees only for purposes of the Proposal, absent written approval of the Disclosing Party.
- (c) The Receiving Party shall not divulge any such Proprietary or Confidential Information to any employee who is not working on the Proposal, without the prior written consent of the Disclosing Party.
- (d) The Receiving Party shall use at least the same standard of care for protecting Proprietary or Confidential Information that it uses to prevent disclosure of its own proprietary or confidential information, but in no case less than reasonable care.
- (e) Nothing in this Agreement prohibits the Receiving Party from disclosing Proprietary or Confidential Information pursuant to mandatory legal process or other lawful order of a court or government agency, but only to the extent of such

legal mandate or order, and only if the Receiving Party gives immediate notice of such order to the Disclosing Party in order that the Disclosing Party may seek a protective order or take other action to protect the information that was ordered to be disclosed.

(f) Rights and obligations under this Agreement shall take precedence over specific legends or statements that may be associated with Proprietary or Confidential Information when received.

(g) Upon termination of this Agreement, each party shall cease use of Proprietary or Confidential Information received from the other party, and shall destroy all physical copies of such information in its possession or control. At the request of the Disclosing Party, the Receiving Party promptly shall furnish the Disclosing Party with written certification of such destruction. Alternatively, at the request of the Disclosing Party, the Receiving Party shall return all such physical copies to the Disclosing Party.

7. INTELLECTUAL PROPERTY

Regardless of any use of intellectual property in the development of the Proposal or otherwise, ownership of all copyrights and other intellectual property remain with the originating party. Neither this Agreement nor the exchange of Proprietary or Confidential Information shall be construed as granting any right or license under any copyrights, inventions, or patents now or hereafter owned or controlled by either party. In the event that joint development work is necessary for the work contemplated by this Agreement or the Proposal, then the parties shall discuss at an appropriate time the ownership and license rights, if any, in any property that is developed jointly by the parties in the course of performing such work.

8. ASSIGNMENT

Neither party may assign its rights, interests, duties, or obligations under this Agreement without the prior written consent of the other party. Any assignment made without such written consent will be void.

9. INDEMNIFICATION

Each party agrees to indemnify and hold the other party harmless from any and all claims, actions, damages and liabilities, including reasonable attorney's fees, arising from the indemnifying party's acts in connection with the preparation of a response to an RFP.

10. NON-COMPETE OBLIGATIONS

The parties agree not to bid against each other in response to any Request for Proposals relating to a RAC auditing contract, except as may be consented to in writing by the other Party. In order to assure compliance with this provision, the parties shall:

(a) confer within [10] days of the issuance of any Request for Proposals relating to any such contract for which the scope of work includes audit services of the types described in Exhibit I hereto, to determine which of the Parties shall respond to the Request as a prospective prime contractor; and

(b) make the determination referred to in subsection (a) based upon agreed criteria which shall include (i) which of the parties has the larger amount of existing business with the potential client issuing the Request, (ii) which of the Parties would be most likely to perform the larger amount of work under the proposed contract, in light of the content of the Request and the respective roles and core competencies of the Parties as described in Exhibit I, and (iii) where appropriate and agreed to by both parties as an appropriate consideration, the expressed preference of one or both of the parties.

11. OTHER OBLIGATIONS OF THE PARTIES

11.1 The Parties shall, by no later than September 1, 2011, develop and agree upon a plan for promoting and facilitating the incorporation of PCG services, as described in Exhibit I, into the scope of work under Medicaid RAC contracts that have already been won by HMS prior to the date of execution of this Agreement, including both HMS contracts that already include in their scope claim types identified with PCG in Exhibit I, and contracts that do not include such claim types within their scope, but as to which a sales effort might succeed in bringing about an expansion of such scope. Provided, however, that such plan, and the requirements of this subsection shall not apply to existing contracts where HMS is a subcontractor to another prime contractor or vendor; but that in such circumstance HMS shall, if requested by PCG and deemed appropriate by HMS in light of the amount, nature and scope of the work involved and the service capacities of PCG, speak with a representative of the entity with which HMS has a subcontract about whether it may be possible or desirable to include PCG in the project.

11.2 The Parties shall mutually agree upon the selection of two contracts (one in which PCG is the Prime Contractor and one in which HMS is the Prime Contractor) to be involved in a pilot project to test an alternative fee-sharing model. Under such model, each Party company will receive a share of the revenue stream, consisting of one quarter of one percent (.25%) of the contractual contingency fee, emanating from the other Party company's recoveries. The Parties shall, at an interval or intervals to be mutually agreed upon by the parties, assess the results and success of this pilot/model in an effort to determine whether it is effective to confer on each of the Parties a vested interest in the amount of the other's revenue, and to determine if this model is sufficiently effective and beneficial to both Parties to warrant extension beyond the two pilot contracts.

11.3 PCG and HMS may provide proprietary auditing case management tools for the Medicaid RAC Auditing projects. If it is determined that it is most effective and efficient to utilize only one auditing case management tool for each project, both parties will mutually agree to use one auditing case management tool. Each party will provide full

access to the auditing case management tool chosen for each project. Each party retains all rights to their proprietary tools .

12. Nothing in this Agreement shall be construed to prohibit or restrict action by either party in connection with marketing, offering, proposing, furnishing, or delivering services other than audit services under a Medicaid RAC contract. This Agreement expressly does not apply to contracts, proposals, or services pertaining to the Medicare program, Recovery Audit Contractor services under that program, or any other federal program other than that administered under Title XIX of the Social Security Act, 42 USC 1396, et seq.

13. GOVERNING LAW

This Agreement is governed by the laws of the Commonwealth of Massachusetts.

14. AGREEMENT

- (a) This Agreement is the entire and integrated agreement between the parties with respect to the subject matter of this Agreement, and supersedes all prior agreements, understandings, and arrangements, whether written or oral, between the parties with regard to the subject matter of this Agreement.
- (b) This Agreement may be amended only by a written instrument signed by authorized representatives of both parties.
- (c) In the event that any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable, the validity of the remaining provisions shall not be affected.

The parties have executed this Agreement by the signatures of their respective authorized representatives.

PUBLIC CONSULTING GROUP, INC.

/s/ Stephen Skinner

Name: Stephen Skinner

Title: Director of Public Consulting Group

Date: July 25, 2011

HEALTH MANAGEMENT SYSTEMS, INC.

/s/ William C. Lucia

Name: William C. Lucia

Title: Chief Executive Officer

Date: July 26, 2011

Exhibit I

PCG and HMS agree to divide Medicaid RAC auditing responsibilities by program and provider type, as follows:

PCG will be responsible for auditing all Behavioral Health and Long-Term Care services, as outlined below. **Behavioral Health** services refers to those mental health and substance abuse services delivered in facilities that are in the community. **Long-term care** services, covering services for both elderly and non-elderly persons in institutional settings and in homes or other community-based settings. These include, but are not limited to:

- Nursing facilities (HMS's cost of care and credit balance initiatives are excluded from PCG's nursing facility audit responsibilities)
- Intermediate care facilities for the mentally retarded (ICFMRs)
- Non-acute or inpatient chronic and rehab hospitals
- Inpatient psychiatric hospital
- Outpatient psychiatric hospital/treatment facility
- Community mental health centers
- Community health centers
- Psychologist services
- Home based mental health services
- Substance abuse services
- Home health services
- Personal care support services
- Partial hospitalization
- Adult day health services
- Adult foster care services
- Day habilitation services
- Psychiatric day treatment services
- Respite services
- Chronic and LTC services
- Private duty nursing services

Additionally, ancillary services delivered in LTC settings as defined above will be within the audit responsibility of PCG.

HMS will be responsible for auditing all Acute Care Services, as outlined below. Acute services include, but are not limited to:

- Inpatient hospital
- Outpatient hospital
- Physician
- Laboratory
- Imaging and radiation centers
- Clinic
- Prescription drugs
- Family planning
- Dental
- Vision
- Hearing
- Other practitioner care
- Payments to Medicare
- Therapies
- Renal dialysis clinics
- Ambulatory surgery centers
- Orthotics and prosthetics
- DME and oxygen
- Transportation

Additionally, ancillary services delivered in Acute Care settings as defined above will be within the audit responsibility of HMS.

Additionally, HMS will have full and exclusive responsibility for any scope of work related to Third Party Liability, Coordination of Benefits, real-time or batch-processed Cost Avoidance, Credit Balance Audits, Subrogation, Estate Recovery, Medicare Buy-in, and Premium Assistance.

PCG and HMS agree to engage in further discussions concerning the division of labor for auditing Medicaid Managed Care Organizations or other Managed Care Entities that states may request RAC auditors to review. The parties also agree to negotiate and reasonably resolve appropriate auditing responsibilities for specific projects involving claims associated with Psychiatric units within acute inpatient and outpatient facilities. Where such opportunities arise, the parties will attempt to allocate those responsibilities to PCG, subject to any potential conflicts, client requirements, and an unnecessary cost burden to the overall project.

Exhibit II

For each party's respective program/provider types as described in Exhibit I, PCG and HMS agree to perform the duties described below. Specific scopes of work will be determined based on RFP or state-specific requests.

The Medicaid RAC Program's mission is to reduce Medicaid improper payments through the efficient detection and collection of overpayments, the identification of underpayments and the implementation of actions that will prevent future improper payments. The purpose of the Parties will be to support States in completing this mission. The identification of underpayments and overpayments and the recoupment of overpayments will occur for claims paid under the Medicaid program for services.

The contracts with states will include the identification and recovery of overpayments, as well as the identification of underpayments. Additional tasks will include support during the appeals process. Additional tasks may be included by each state.

Both PCG and HMS agree to fulfill the following tasks, State Medicaid RAC contracts will likely include the following tasks, which will likely be included in State Medicaid RAC Contracts, for their respective auditing provider focus areas:

1. Identify Medicaid claims that contain underpayments
2. Identify and Recoup Medicaid claims that have been identified as an overpayment
3. For any RAC-identified overpayment that is appealed by the provider, provide support to the State Medicaid agency throughout the administrative appeals process
4. For any RAC identified vulnerability, support the State in developing an Improper Payment Prevention Plan to help prevent similar overpayments from occurring in the future.
5. Performing the necessary provider outreach to notify provider communities of the RAC's purpose and direction.

Additional requirements likely to be included in State Medicaid RAC RFPs include, but are not limited to, the following:

Planning

1. Kick-Off Meeting
2. Project Plan
3. Provider Outreach Plan
4. Organizational Chart
5. RAC Team
 - a. RAC Medical Director
6. Client Communication and Progress Reports
7. RAC data warehouse

Overpayment Identification

1. Plan for preventing identification and audit overlap

2. Identification of Overpayments — The RAC shall only identify a claims overpayment where there is supportable evidence of the overpayment. There are two primary ways of identification:
 - a. Through “automated review” of claims data without human review of medical or other records; and
 - b. Through “complex review” which entails human review of a medical record or other documentation.
3. Automated vs. Complex Reviews — define
4. Obtaining and Storing of Medical Records
5. Communication and Correspondence with Provider-database
6. Claims Review Process
 - a. Coverage determinations
 - b. Coding determinations
 - c. Other determinations
7. Internal Auditing Protocols
8. Rationale for Determination
9. Validation Process
10. Communication with Providers about cases
11. Final Determination of Overpayment Amount
 - a. Full Denials
 - b. Partial Denials
 - c. Extrapolation
12. Potential Fraud

Recoupment of Overpayments — The recovery techniques utilized by PCG and HMS shall be legally supportable. The recovery techniques shall follow the guidelines of all applicable State and CMS regulations and manuals and standards.

1. Written notification process
2. Recoupments through current or future payments
3. Recoupments through pay-backs
4. Compromise or Settlements
5. Customer Service — PCG and HMS shall provide a toll free customer service telephone number in all correspondence sent to Medicaid providers.

Supporting Overpayments during the Appeals Process — Providers can request an appeal through the appropriate State Medicaid appeals process. These processes will be state specific and may vary from client to client.

Identification of Underpayments

Data warehousing

Exhibit III

PCG and HMS agree that all RAC Auditing Projects will be paid on a contingency fee based on the actual recovery of overpayments, except where prohibited by State law.

As described in the Medicaid RAC Proposed Rule, payments to Medicaid RACs are typically expected to be made only from amounts “recovered” on a contingent basis for collecting overpayments and in amounts specified by the State for identifying underpayments. While CMS will not dictate contingency fee rates, it will establish a maximum contingency rate for which Federal Financial participation (FFP) will be available.

Certification

I, William C. Lucia, certify that:

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

Date: August 8, 2011

/s/ William C. Lucia

William C. Lucia
Chief Executive Officer
(Principal Executive Officer)

Certification

I, Walter D. Hosp, certify that:

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

Date: August 8, 2011

/ s/ Walter D. Hosp

Walter D. Hosp
Chief Financial Officer
(Principal Financial Officer)

Certification Pursuant To 18 U.S.C. Section 1350 as Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of HMS Holdings Corp. (the “*Company*”) on Form 10-Q for the period ended June 30, 2011 as filed with the Securities and Exchange Commission (the “*Report*”), I, William C. Lucia, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ William C. Lucia

William C. Lucia
Chief Executive Officer
(Principal Executive Officer)

August 8, 2011

A signed original of this written statement required by Section 906 has been provided to HMS Holdings Corp. and will be retained by HMS Holdings Corp. and furnished to the Securities and Exchange Commission or its staff upon request. This written statement accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission, and will not be incorporated by reference into any filing of HMS Holdings Corp. under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language contained in such filing.

Certification Pursuant To 18 U.S.C. Section 1350 as Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of HMS Holdings Corp. (the “*Company*”) on Form 10-Q for the period ended June 30, 2011 as filed with the Securities and Exchange Commission (the “*Report*”), I, Walter D. Hosp, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Walter D. Hosp

Walter D. Hosp
Chief Financial Officer
(Principal Financial Officer)

August 8, 2011

A signed original of this written statement required by Section 906 has been provided to HMS Holdings Corp. and will be retained by HMS Holdings Corp. and furnished to the Securities and Exchange Commission or its staff upon request. This written statement accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission, and will not be incorporated by reference into any filing of HMS Holdings Corp. under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language contained in such filing.
