



Q3 2009 Investor Call

October 30, 2009

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Safe Harbor Statement

Certain statements in this presentation constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of HMSY, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to (i) the information being of a preliminary nature and therefore subject to further adjustment; (ii) the uncertainties of litigation; (iii) HMSY’s dependence on significant customers; (iv) changing conditions in the healthcare industry which could simplify the reimbursement process and adversely affect HMSY’s business; (v) government regulatory and political pressures which could reduce the rate of growth of healthcare expenditures and/or discourage the assertion of claims for reimbursement against and delay the ultimate receipt of payment from third party payors; (vi) competitive actions by other companies, including the development by competitors of new or superior services or products or the entry into the market of new competitors; (vii) all the risks inherent in the development, introduction, and implementation of new products and services; and (viii) other risk factors described from time to time in HMSY’s filings with the Securities and Exchange Commission, including HMSY’s Annual Report on Form 10-K for the year ended December 31, 2008. HMSY assumes no responsibility to update the forward-looking statements contained in this release as a result of new information, future events or otherwise. When/if used in this presentation, the words “focus,” “believe,” “confident,” “anticipate,” “expected,” “strong,” “potential,” and similar expressions are intended to identify forward-looking statements, and the above described risks inherent therein.

Discussion Outline

- Q3 2009 Financial Performance
- Guidance
- Product and Market Growth
- Healthcare Environment
- Q&A

Consolidated Statements of Income

(\$ in 1000's)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 59,164	\$ 48,965	\$ 162,920	\$ 132,091
Cost of services:				
Compensation	19,191	15,862	54,537	43,960
Data processing	3,476	2,793	10,113	8,022
Occupancy	2,540	2,519	7,769	7,286
Direct project costs	7,446	7,310	21,170	19,749
Other operating costs	3,617	2,711	9,829	7,970
Amortization of acquisition related software and intangibles	1,211	1,205	3,643	3,530
Total cost of services	37,481	32,400	107,061	90,517
Selling, general & administrative expenses	7,322	5,794	20,196	16,272
Total operating expenses	44,803	38,194	127,257	106,789
	14,361	10,771	35,663	25,302
Net Interest Expense	(208)	(180)	(621)	(617)
Income before income taxes	14,153	10,591	35,042	24,685
Income taxes	5,774	4,448	14,319	10,368
Net income	\$ 8,379	\$ 6,143	\$ 20,723	\$ 14,317
Net income per diluted share	\$ 0.30	\$ 0.23	\$ 0.80	\$ 0.57
Weighted average common shares, diluted	27,697	26,794	27,476	26,778

Condensed Balance Sheets

(\$ in 1000's)

	September 30, 2009	December 31, 2008
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 69,532	\$ 49,216
Accounts receivable, net of allowance of \$627 and \$664 at September 30, 2009 and December 31, 2008	57,794	45,155
Prepaid expenses and other current assets	7,384	5,541
Total current assets	<u>134,710</u>	<u>99,912</u>
Property and equipment, net	17,910	17,757
Other non current assets	104,917	104,844
Total assets	<u>\$ 257,537</u>	<u>\$ 222,513</u>
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 23,473	\$ 22,859
Current portion of long-term debt	6,300	6,300
Total current liabilities	<u>29,773</u>	<u>29,159</u>
Long-term debt	6,300	11,025
Other liabilities	4,371	3,967
Total liabilities	<u>40,444</u>	<u>44,151</u>
Total shareholders' equity	<u>217,093</u>	<u>178,362</u>
Total liabilities and shareholders' equity	<u>\$ 257,537</u>	<u>\$ 222,513</u>

Condensed Statements of Cash Flow

(\$ in 1000's)

	Nine months ended	
	2009	2008
Net income	<u>\$20,723</u>	<u>\$ 14,317</u>
Net cash provided by operating activities	<u>24,689</u>	<u>12,336</u>
Net cash used in investing activities	<u>(12,954)</u>	<u>(9,673)</u>
Net cash provided by financing activities	<u>8,581</u>	<u>7,660</u>
Net increase in cash and cash equivalents	20,316	10,323
Cash and cash equivalents at beginning of period	<u>49,216</u>	<u>21,275</u>
Cash and cash equivalents at end of period	<u><u>\$69,532</u></u>	<u><u>\$ 31,598</u></u>

2009/2010 Guidance

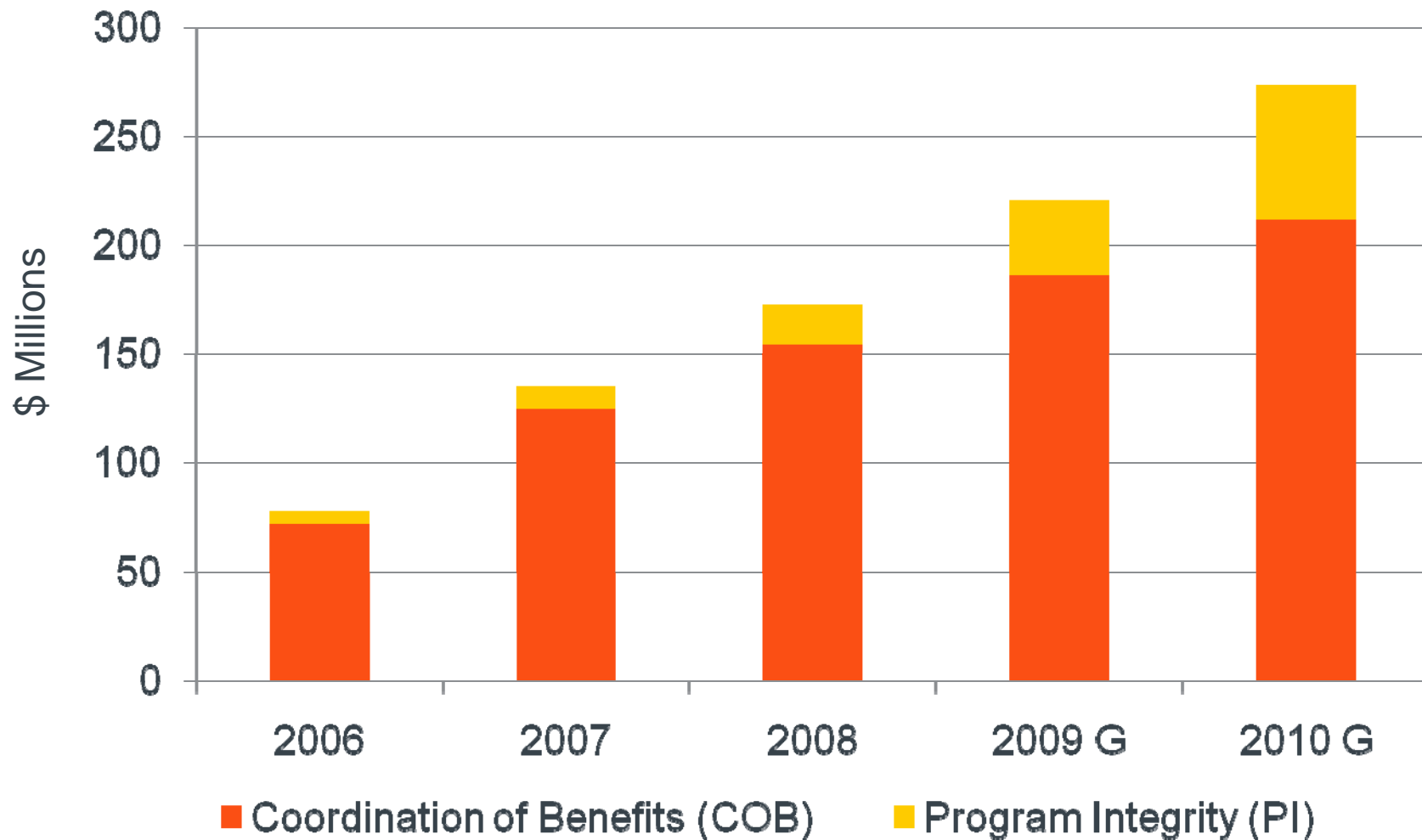
Revenue (in \$ millions)



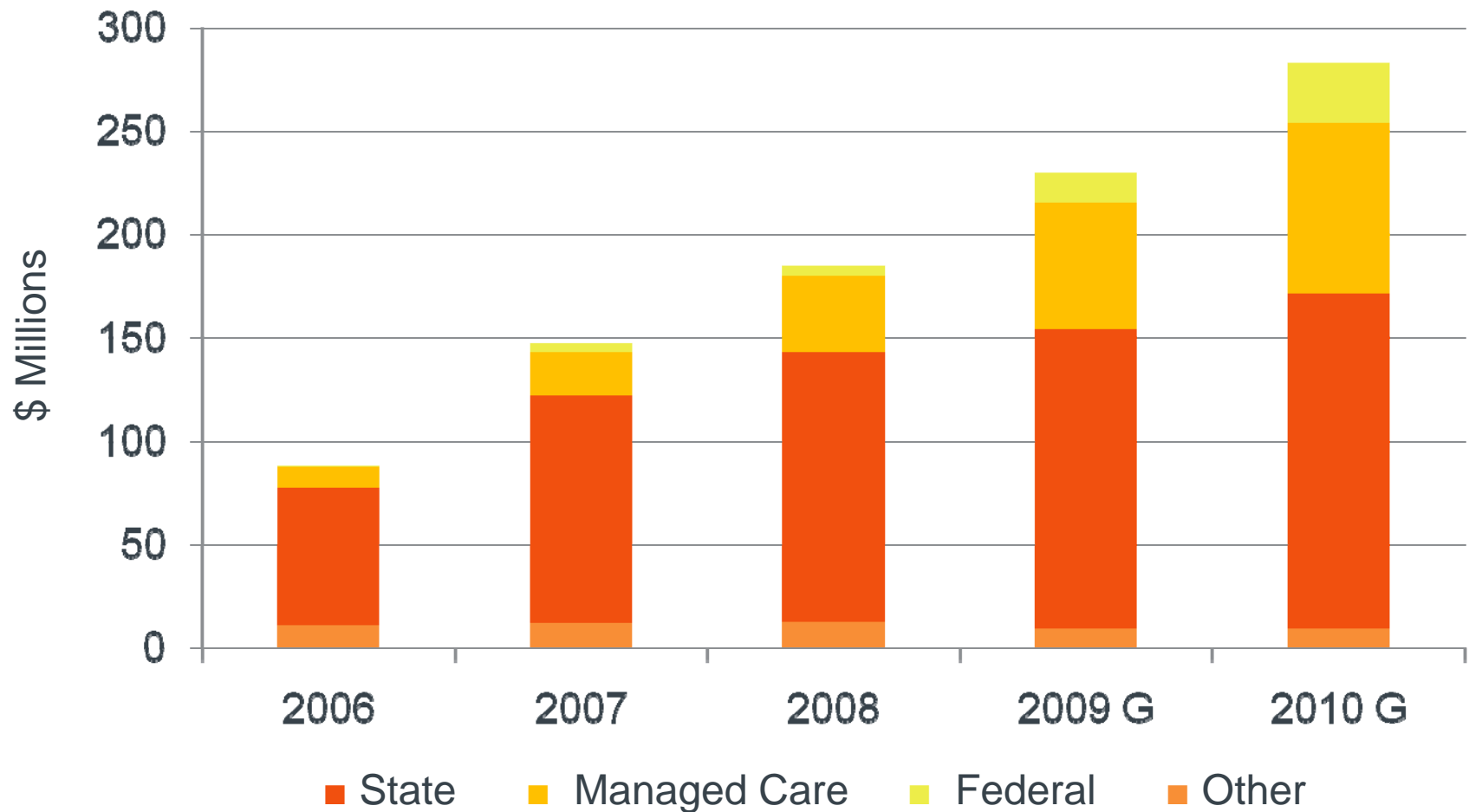
GAAP EPS



Revenue Diversity From Growth in Program Integrity



Revenue Diversity From Growth in New Markets



Healthcare Environment

- Monitoring Senate and House reform debate
 - Public plan option
 - State exchanges
 - Medicaid expansion
 - Individual and employer mandates
 - Implementation period
- Reform expected to add 10+ million new Medicaid/CHIP beneficiaries
- Expansion will be costly
- State fiscal situation will remain difficult for years
- Rising unemployment expands Medicaid