



# Q3 2011 Investor Call

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# Discussion Outline

Q3 2011 Financial Performance

2011 and 2012 Guidance

New Business

Medicaid RAC Status

Closing

Q&A

# Consolidated Statements of Income

(\$ in 1000's)

	Three months ended September 30,		Percentage Change
	2011	2010	
Revenue	\$ 92,356	\$ 80,022	15%
Cost of services:			
Compensation	31,762	27,211	17%
Data processing	5,973	4,576	31%
Occupancy	3,794	3,490	9%
Direct project costs	9,893	9,818	1%
Other operating costs	4,637	4,565	2%
Amortization of acquisition related software and intangibles	1,660	1,665	0%
Total cost of services	57,719	51,325	12%
Selling, general & administrative expenses	10,560	10,419	1%
Total operating expenses	68,279	61,744	11%
Operating income	24,077	18,278	32%
Net interest and other income/(expense)	160	(23)	-796%
Income before income taxes	24,237	18,255	33%
Income taxes	9,822	7,209	36%
Net income	\$ 14,415	\$ 11,046	30%
Diluted income per share data:			
Net income per diluted share	\$ 0.17	\$ 0.13	31%
Weighted average common shares, diluted	86,869	85,450	2%

# Consolidated Statements of Income

(\$ in 1000's)

	Nine months ended September 30,		Percentage Change
	2011	2010	
Revenue	\$ 264,159	\$ 215,700	22%
Cost of services:			
Compensation	94,604	76,391	24%
Data processing	16,607	12,691	31%
Occupancy	11,328	9,640	18%
Direct project costs	30,546	25,596	19%
Other operating costs	13,448	11,738	15%
Amortization of acquisition related software and intangibles	5,048	4,566	11%
Total cost of services	171,581	140,622	22%
Selling, general & administrative expenses	31,932	28,899	11%
Total operating expenses	203,513	169,521	20%
Operating income	60,646	46,179	31%
Net income and other income/(expense)	699	(28)	-2596%
Income before income taxes	61,345	46,151	33%
Income taxes	24,691	18,414	34%
Net income	\$ 36,654	\$ 27,737	32%
Diluted income per share data:			
Net income per diluted share	\$ 0.42	\$ 0.33	27%
Weighted average common shares, diluted	87,233	85,040	3%

# Condensed Balance Sheets

(\$ in 1000's)

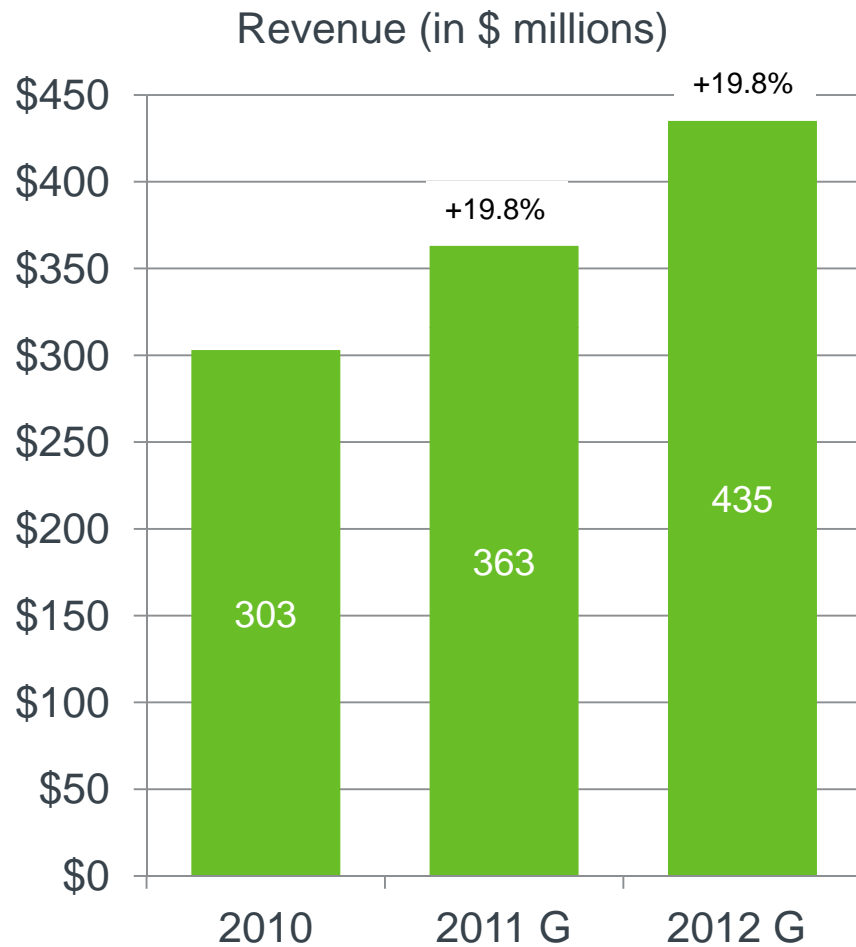
	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Current assets:		
Cash and cash equivalents	\$ 140,451	\$ 94,836
Accounts receivable, net of allowance of \$650 and \$799 at September 30, 2011 and December 31, 2010	83,483	75,123
Prepaid expenses and other current assets	12,563	10,089
Total current assets	<u>236,497</u>	<u>180,048</u>
Property and equipment, net	46,561	44,713
Other non-current assets	126,169	128,144
<b>Total assets</b>	<b><u>\$ 409,227</u></b>	<b><u>\$ 352,905</u></b>
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 28,421	\$ 32,502
Contingent payables	3,315	-
Total current liabilities	<u>31,736</u>	<u>32,502</u>
Long term liabilities:		
Contingent payables	-	2,573
Other liabilities	11,048	10,192
Total liabilities	<u>42,784</u>	<u>45,267</u>
<b>Total shareholders' equity</b>	<b><u>\$ 366,443</u></b>	<b><u>307,638</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 409,227</u></b>	<b><u>\$ 352,905</u></b>

# Condensed Statements of Cash Flow

(\$ in 1000's)

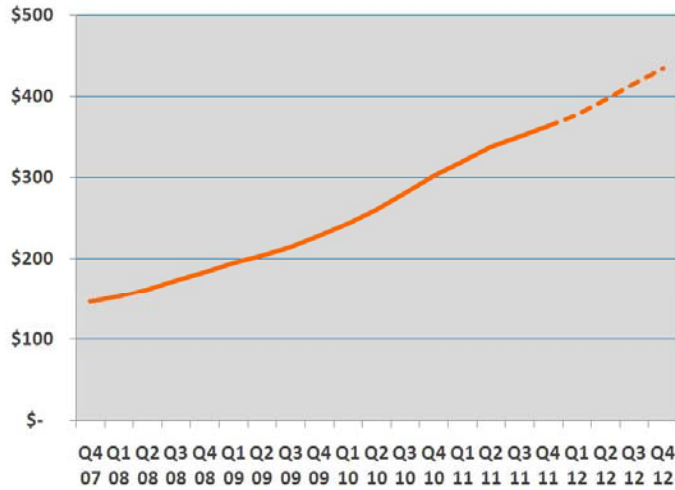
	Nine months ended September 30,	
	2011	2010
Net income	\$ 36,654	\$ 27,737
Net cash provided by operating activities	49,090	35,065
Net cash used in investing activities	(19,742)	(47,682)
Net cash provided by financing activities	16,267	13,789
Net increase in cash and cash equivalents	45,615	1,172
Cash and cash equivalents at beginning of period	94,836	64,863
Cash and cash equivalents at end of period	<u>\$ 140,451</u>	<u>\$ 66,035</u>

# 2011 and 2012 Guidance

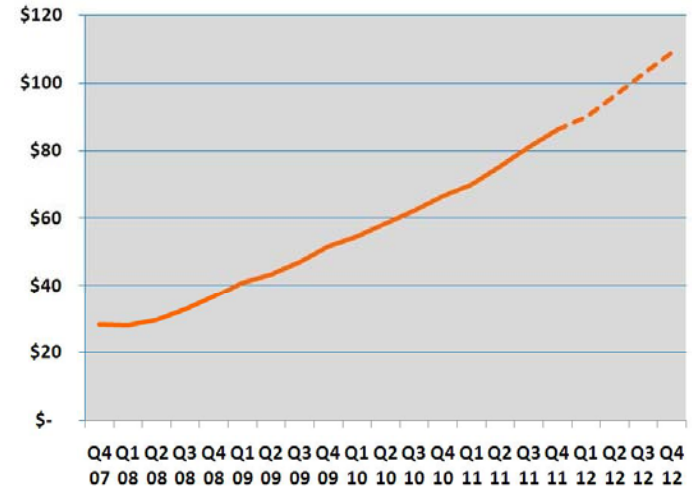


# Key Indicators

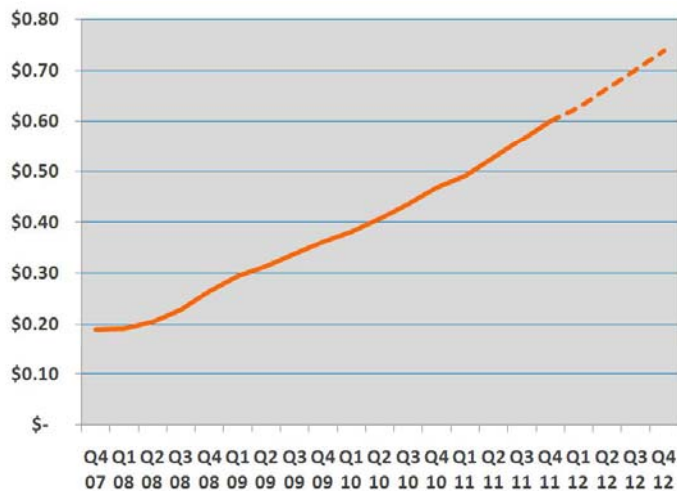
## Revenue (in \$ millions)



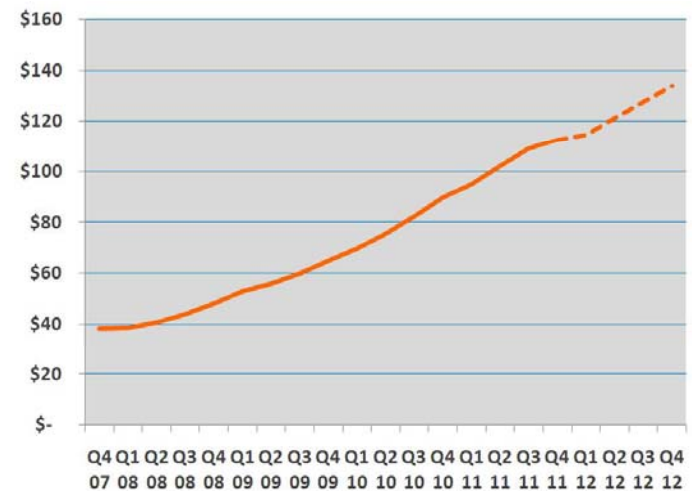
## Operating Profit (in \$ millions)



## Earnings per Share

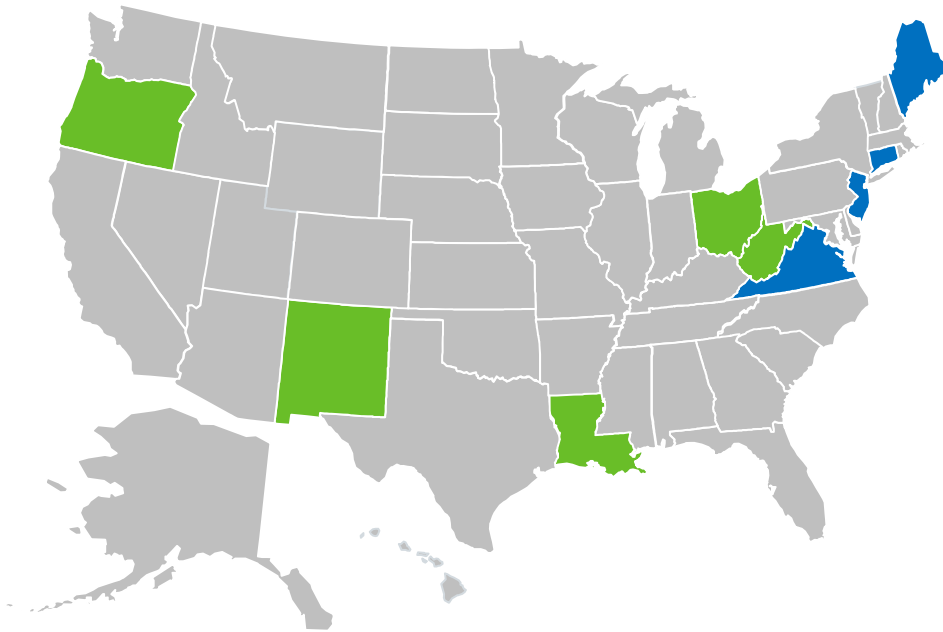


## EBITDA (in \$ millions)





# Q3 Sales: State Government



## Awarded/Signed

- Colorado RAC
- Louisiana TPL
- New Mexico TPL and RAC
- Ohio TPL
- Oregon RAC
- West Virginia TPL

## Extensions/Expansions

- Connecticut RAC
- Maine Credit Balance
- Ohio Utilization Management
- New Jersey Utilization Review
- Virginia Behavioral Health

# Q3 Sales: Commercial

## New

Cook Children's Health Plan  
Prestige Health Choice, LLC  
38 Employer contracts

## Extension/Expansion

Coventry Health Care, Inc.: CHCKentucky Plan  
El Paso First Health Plans



196K Medicaid lives sold in Q3  
21.5 million lives under contract  
19.5 million (91%) lives generating revenue

# MEDICAID RAC UPDATE

# Complexity of Medicaid RAC

Formats and types of data vary from state to state

Medicaid RACs responsible for recovery of improper payments

Reimbursement methodologies vary from state to state

Appeals process and timeframes vary across states

Provider education on improper payments required

All provider types subject to audit

No mass adjustment system at states

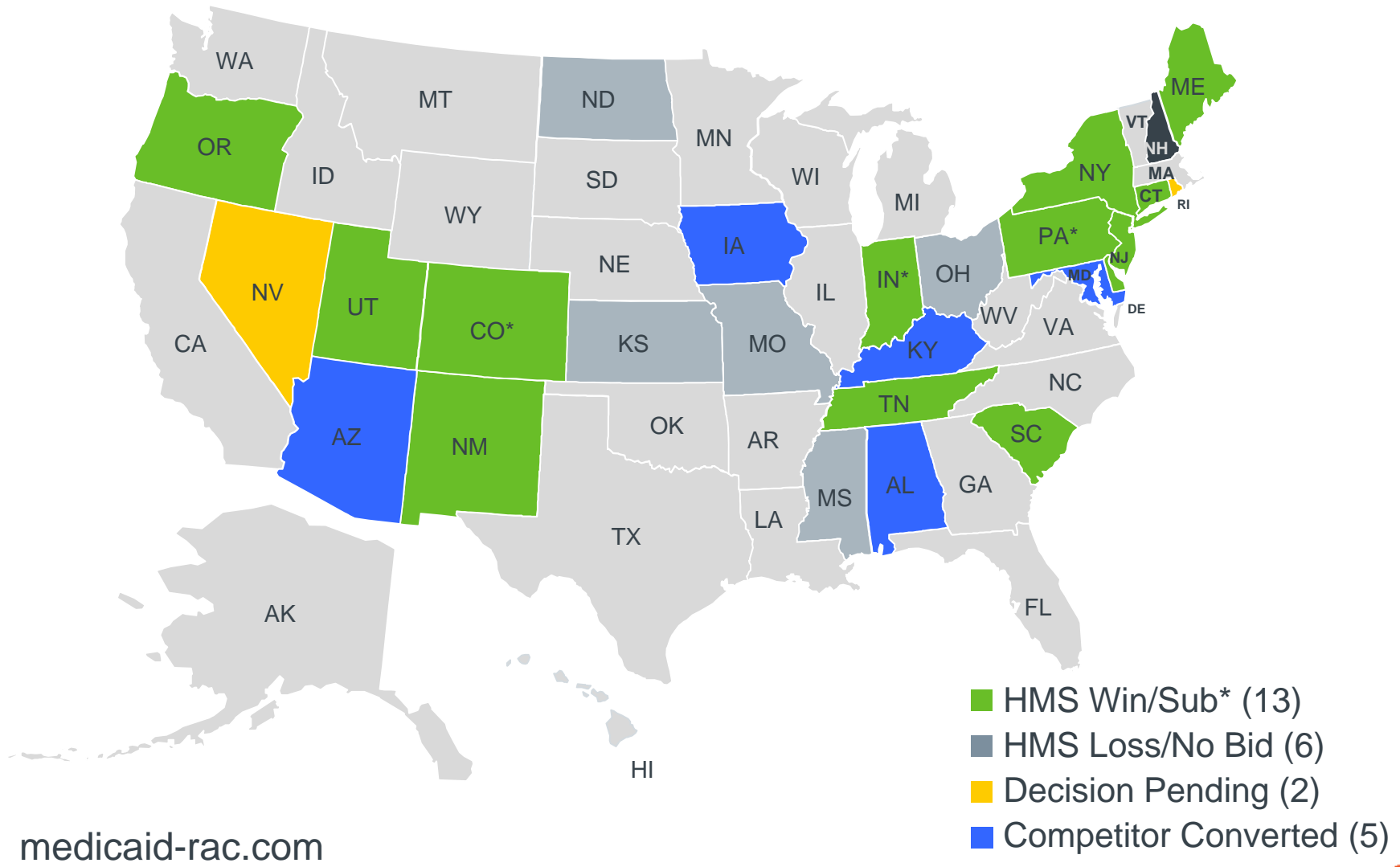
Coordination with other auditors (MFCU, OIG, Medicaid staff, etc.)

Local clinicians, field auditors and coders often required

# HMS and Final Medicaid RAC Rule

Final Medicaid RAC Rule Provision	HMS Capability
States should take steps to identify/prevent conflicts of interest	✓
States may adopt some Medicare RAC elements	✓
RAC must notify providers of overpayments in 60 days	✓
Status must allow appeal rights to providers	✓
Contingency fees permissible for overpayments from cost-based providers	✓
States must make referrals of suspected fraud to State/law enforcement	✓
Limits on number/frequency of medical records to be reviewed	✓
RAC must hire at least one physician Medical Director	✓
RAC must hire certified coders	✓
RAC must work with state to develop education/outreach program	✓
RAC must provide minimum customer service measures	✓
RAC must coordinate with audits performed by other entities	✓
States must incentivize detection of underpayments/notify providers	✓

# Medicaid RAC Status



medicaid-rac.com

## Closing

- National focus on improper payments
- Favorable Medicaid RAC Final Rule
- Medicaid grows regardless of political environment
- Continued opportunities from reform

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