HMS • Holdings • Corp.

2014 Annual Report

HMS • Holdings • Corp.

Dear Shareholders,

HMS experienced solid revenue growth last year in our state and commercial businesses. A 15% increase in commercial revenue during 2014 was a strong affirmation of our strategy over the last few years to concentrate on expanding our relationships with commercial payers and diversifying beyond government-based revenue. In effect, we are following the lives that were formerly in state and federal fee-for-service programs and are now being managed by commercial carriers who are taking on government risk.

In contrast, the prolonged Medicare RAC reprocurement process and audit moratorium on certain hospital claims caused full year revenue from our existing contract with CMS to decline 80% from 2013.

The big increase last year in Medicaid enrollment, driven by the Affordable Care Act, pushed state government business revenue up 9%. It also impacted our commercial managed Medicaid revenue, since about 75% of Medicaid enrollees now access their benefits through managed care plans.

Commercial sales momentum was reflected in robust membership growth last year, as we added 7.9 million new lives to our portfolio—pushing total commercial lives under contract above 80 million. We also sold additional products to existing commercial customers impacting 17.7 million lives during 2014—including clinical audits; credit balance reviews; and fraud, waste and abuse prevention services. Despite strong growth, we invested last year in an expanded sales force to further boost our commercial business in 2015 and beyond.

Our coordination of benefits product suite has historically been our core offering and it accounted for approximately $313 million or 70% of total revenue in 2014—up 14% year-over-year. An influx of 8.8 million new Medicaid enrollees in our customer eligibility files last year was the biggest contributor to that growth. In general, more covered Medicaid lives translates to more cost avoidance transactions and more claims to review, so the projected growth of Medicaid over the next few years is encouraging for our business.

In addition to HMS-specific actions designed to spur growth, we have the good fortune to be operating in an environment with a number of very positive macro tailwinds that should favor our business at least through the end of this decade. Those include:

- The demographics of Medicare, which is projected to expand over the next eight years by approximately 30% or 16 million members of the "baby boom" generation;
- Ongoing Medicaid expansion—with nearly 6% enrollment growth projected for 2015 and 13 million new enrollees or 20% incremental growth by 2023;
- A variety of new reimbursement methodologies and certain aspects of the Affordable Care Act are adding cost and complexity to the healthcare system and creating business opportunities for HMS; and
- Finally, evidence suggests that payment errors are rising—not falling—as overall medical costs continue on their upward trajectory.

As healthcare expenditures continue to consume a greater and greater portion of the GDP, we expect that all payers—both government and commercial—will be more urgently looking for innovative and effective solutions to reduce payment errors that were estimated to total $130 billion in 2014 alone. We see our Company mission as using our expertise to help the healthcare system "get it right," including when it comes to claims payment accuracy. The more dollars we help our customers save, the more money there can be available to provide quality healthcare and cover individuals who are uninsured or underinsured.

As we look out over the next 24 months, we are encouraged about our growth prospects based on several factors:

- The successful business model we have built over the last 30 years;
- Our competitive strengths, which include extensive customer data, specialized and in-depth clinical expertise, complex algorithms and robust technology to facilitate sophisticated analytics, and proprietary data mining and matching algorithms;
- A highly favorable environment for cost containment;
- The executive team built over the past few years to execute our growth strategy; and
- An installed customer base that is second to none.

With that as a backdrop, we look forward to the year ahead with a renewed commitment to long-term growth, enhancing shareholder value, and superior service to our customers.

William C. Lucia
Chief Executive Officer
May 22, 2015

Safe Harbor: This letter contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations and assumptions that are subject to change; they do not relate strictly to historical or current facts. 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. For the factors, risks and uncertainties that could cause or contribute to such differences, refer to our 2014 Form 10-K (see: http://investor.hms.com/financials.cfm).

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2014

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)

Delaware	**11-3656261**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5615 High Point Drive, Irving, TX	**75038**
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code)

(214) 453-3000

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

Title of each class	Name of each exchange on which registered
Common Stock $0.01 par value	NASDAQ Global Select Market

Securities registered pursuant to section 12(g) of the Act: **None**

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

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

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

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

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

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

Large Accelerated Filer ☒	Accelerated Filer ☐	Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2014, the last business day of the registrant's most recently completed second quarter was $1.8 billion based on the last reported sale price of the registrant's Common Stock on the NASDAQ Global Select Market on that date.

There were 88,356,591 shares of common stock outstanding as of February 25, 2015.

Documents Incorporated by Reference

Unless provided in an amendment to this Annual Report on Form 10-K, the information required by Part III is incorporated by reference to the Registrant's 2015 Proxy Statement, to the extent stated herein. Such proxy statement or amendment will be filed with the SEC within 120 days of the Registrant's fiscal year ended December 31, 2014.

HMS HOLDINGS CORP. AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K
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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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 and references to guidance. In particular, these include statements relating to future actions, business plans, objectives 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 this Annual Report on Form 10-K and in particular, the risks discussed under the heading "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K and those discussed in other documents we file with the Securities and Exchange Commission.

Any forward-looking statements made by us in this Annual Report on Form 10-K 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 Form10-Q and Form 8-K reports to the Securities and Exchange Commission.

PART I

Item 1. Business.

HMS Holdings Corp. is a holding company whose principal business is conducted through its operating subsidiaries. Unless the context otherwise indicates, references in this Annual Report to the terms "we," "our" and "us" refer to HMS Holdings Corp., and its subsidiaries and its affiliates.

General Overview

We operate in the U.S. healthcare insurance benefit cost containment marketplace. We provide coordination of benefits services to government and private healthcare payers and sponsors to ensure that the responsible party pays healthcare claims. Our payment integrity services ensure that healthcare claims billed are accurate and appropriate. Together, these various services help customers recover amounts from liable third parties; prevent future improper payments; reduce fraud, waste and abuse; and ensure regulatory compliance.

Demand for our services arises, in part, from healthcare funds spent in error, where another payer was actually responsible for the cost of the healthcare claim, or a mistake was made in applying complex claim processing rules. According to the Centers for Medicare & Medicaid Services ("CMS") National Health Expenditures ("NHE") 2013-2023 projections and error rates published on paymentaccuracy.gov, the government estimates that improper payments in the Medicaid and Medicare programs totaled $89 billion in 2014. Our services focus on containing costs by detecting and reducing the errors that result in improper payment, and our revenues are based, in part, on the amounts we recover for our customers.

Our customers are government health agencies, including CMS, the Veterans Health Administration ("VHA") and state Medicaid agencies; commercial health plans, including Medicaid managed care, Medicare Advantage and group and individual health lines of business; government and private employers; child support agencies; and other healthcare payers and sponsors.

We have grown both organically and through targeted acquisitions. Initially, we provided coordination of benefits services to state Medicaid agencies. When Medicaid began to delegate members to managed care organizations, we began providing similar coordination of benefits services to those plans. We launched our payment integrity services in 2007 and have since acquired several businesses to expand our service offerings. In 2009, we began providing cost containment services for Medicare with our acquisition of IntegriGuard, LLC ("IntegriGuard"), which is now doing business as our wholly owned subsidiary HMS Federal, providing fraud, waste and abuse analytical services to the Medicare program, the Veterans Health Administration ("VHA") and the Department of Defense. In 2009 and 2010, we began providing cost containment services to large self-funded employers through our acquisitions of Verify Solutions, Inc. and Chapman Kelly, Inc. In 2011, we expanded our cost benefit services among federal, state and commercial payers with our acquisition of HealthDataInsights, Inc. ("HDI"). HDI provides improper payment identification services for government and commercial health plans, and is the Medicare Recovery Audit Contractor ("RAC") in CMS Region D, covering 17 states and three U.S. territories. In December 2012, we extended our workers' compensation recovery services to commercial health plans through our asset purchase of MedRecovery Management, LLC ("MRM").

As of December 31, 2014, we served CMS, the VHA, 46 state Medicaid programs and the District of Columbia. We also provided services to approximately 220 commercial customers and supported their multiple lines of business, including Medicaid managed care, Medicare Advantage and group and individual health. We also served as a subcontractor for certain business outsourcing and technology firms.

Our 2014 revenue was $443.2 million, a decrease of $48.6 million, or 9.9%, from 2013 revenue of $491.8 million, primarily as a result of the substantial decline in Medicare RAC revenue, which was partially offset by the expansion of services to our existing customers and growth through serving commercial customers.

The Healthcare Environment

The largest government healthcare programs are Medicare, the healthcare program for aged and disabled citizens that is administered individually by CMS and Medicaid, the program that provides medical assistance to eligible low income individuals, which is also regulated by CMS, but administered by each state. For 2015, Medicare and Medicaid are projected to pay approximately 44% of the nation's healthcare expenditures and to have served over 124 million beneficiaries. Many of these beneficiaries are enrolled in managed care plans, which have the responsibility for both patient care and claim adjudication; increasingly, states are expanding their use of managed care for certain populations and geographic areas.

By law, the Medicaid program is intended to be the payer of last resort; that is, all other available third party resources must meet their legal obligation to pay claims before the Medicaid program pays for the care of an individual enrolled in Medicaid. Under Title XIX of the Social Security Act, states are required to take all reasonable measures to ascertain the legal liability of "third parties" for healthcare services provided to Medicaid recipients. Since 1985, we have provided state Medicaid agencies with services to identify third parties with primary liability for Medicaid claims, and since 2005, we have provided similar services to Medicaid managed care plans.

Signed into law in February 2006, the Deficit Reduction Act of 2005 (the "DRA") established a Medicaid Integrity Program to increase the government's capacity to prevent, detect and address fraud, waste and abuse in the Medicaid program. The DRA also added new entities, such as self-insured plans, Pharmacy Benefit Managers ("PBMs") and other "legally responsible" parties to the list of entities subject to the third party liability provisions of the Medicaid statute. These measures, at both the federal and state level, have strengthened our ability to identify and recover erroneous payments made by our customers.

The Patient Protection and Affordable Care Act (the "ACA") was signed into law on March 23, 2010, and amended on March 30, 2010. Upheld by the U.S. Supreme Court in June 2012, this legislation touches almost every sector of the healthcare system, and we believe it provides us with a range of growth opportunities across a number of services. We are focused on four critical areas related to this legislation:

- Medicaid Expansion
- Eligibility Verification
- Payment Integrity, and
- Employer-Sponsored Health Coverage

Medicaid Expansion: States that expand their Medicaid programs in accordance with the ACA will receive federal funding for the total cost of the expansion for a period of three years, and reduced funding thereafter. By the end of 2014, more than half of the states opted to expand their Medicaid programs as provided under the ACA. According to CMS projections for national health expenditures for 2013-2023 ("CMS NHE Projections"), the number of individuals enrolled in Medicaid and the Children's Health Insurance Program ("CHIP") is expected to increase from 76 million in 2015 to 86 million in 2023, with expenditures over the same period expected to increase from $556 billion to $942 billion. As a result, we anticipate a considerable increase in the need for our cost containment services by states and the managed care organizations they use. We believe that our strong history of successful contracting with Medicaid agencies and Medicaid managed care organizations will enable us to provide value-added services to help control the costs for this expanded population.

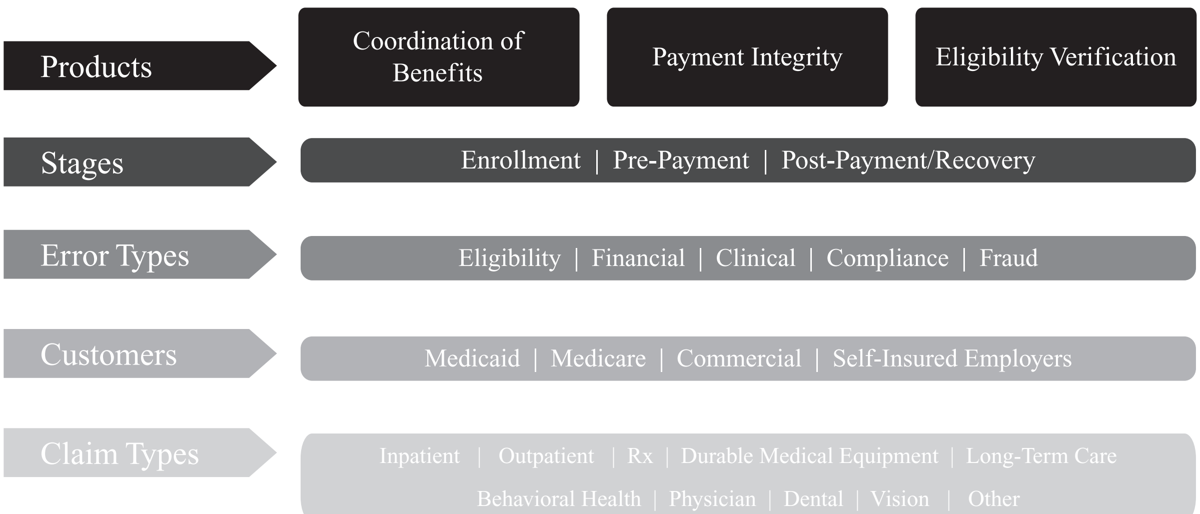
Eligibility Verification: The ACA calls for increased efficiency, automation and administrative simplification in addressing program eligibility determination, both as a component of the health insurance exchange marketplaces and as a pathway to the more effective management of existing entitlement programs. Driven both by insurance marketplace requirements and by the pressures to achieve program efficiency and simplification, CMS and states are increasingly moving to implement solutions involving automation of the verification of eligibility, bringing in increased external data and analytics relating to supporting eligibility decision-making.

Payment Integrity: The ACA contains a number of provisions for combating fraud, waste and abuse throughout the healthcare system, including in Medicaid and Medicare. These initiatives include: (i) requiring state Medicaid agencies to contract with state Medicaid RACs and deploy programs modeled on CMS' existing Medicare RAC Program, (ii) expanding CMS' Medicare RAC Program to include Medicare Part C and D, (iii) establishing a national healthcare fraud, waste and abuse data collection program and (iv) increasing scrutiny of providers and suppliers who want to participate in Medicare, Medicaid and other federally-funded programs. In addition, the ACA allows for significant increases in funding for these and other fraud, waste and abuse efforts. We continue to expand our current partnerships with CMS, states and health plans to provide innovative ideas for increasing our support of their new payment integrity initiatives.

Employer-Sponsored Health Coverage: The ACA largely preserves and builds upon the existing employer-sponsored health coverage model. Though not all employers will be required to provide healthcare coverage, large employers (i.e. those with 50 or more full time equivalents) will be penalized starting in 2015 if (a) they do not offer coverage (or if they offer coverage that does not meet certain requirements) and (b) one or more of their full time employees receives a federal tax credit or cost sharing subsidy through a health insurance exchange. Employers will also be prohibited from imposing waiting periods for enrollment of more than 90 days. We believe that these requirements, coupled with the Medicaid expansion and implementation of health insurance exchanges, will result in more overlapping coverage situations and an opportunity for our employer customers and Medicaid to collaborate. We expect that we will be able to offer a range of audit services to employers of all sizes, which will be valuable as these employers extend coverage to their employees.

Principal Products and Services

Our coordination of benefits offering to customers consists of services that draw principally upon proprietary information management and data mining techniques to assure that the right party pays a healthcare claim. Our payment integrity offering to customers also consists of a variety of services designed to assure that the billing itself is accurate and appropriate. As a result of our services, customers received billions of dollars in cash recoveries in 2014, and saved billions more through the prevention of erroneous payments.



Our services are applicable to the federal, state and commercial health plans and address errors across the payment continuum, from an individual's enrollment in a program before any medical service is rendered, to pre-payment review of a claim by a payer, through recovery audit where discovery of an improper payment is made. Our services also address the wide spectrum of payment errors, from eligibility and coordination of benefits errors, to the identification and investigation of potential fraud, and extend to most claim types.

In general, our range of services includes the following:

- *Coordination of benefits services.* We provide cost avoidance services, in which we provide validated insurance coverage information that is used by government-sponsored payers to coordinate benefits properly for incoming claims. With validated insurance information, Medicaid can avoid unnecessary costs by ensuring that it pays only after all other benefits available have been exhausted, thereby complying with federal regulations that require Medicaid to be the payer of last resort. Nevertheless, due to a variety of factors, some Medicaid claims are paid even when there is a known responsible third party. Our government-sponsored program customers rely on us to identify dollars paid in error and we also provide services to recover these amounts from the liable third party. For Medicaid agencies exclusively, we also provide estate recovery services to identify and recover Medicaid expenditures from the estates of deceased Medicaid members in accordance with state policies. Further, we provide services to assist customers in identifying other third-party insurance and recovering medical expenses where a member is involved in a casualty or tort incident.

- *Payment integrity services.* Our payment integrity services are designed to verify that medical services are utilized, billed and paid appropriately. Our services combine data analytics, clinical expertise and proprietary technology to identify improper payments on both a pre-payment and post-payment basis; identify and recover overpayments/underpayments; detect and prevent fraud, waste and abuse; and identify process improvements.
- *Eligibility verification services.* Our eligibility verification services are designed to ensure that individuals meet qualifying criteria for enrollment in a healthcare program. These services include asset and income verification, premium assistance, dependent eligibility audits and other verification solutions.

Customers

Our customers are government health agencies, including CMS, the VHA and state Medicaid agencies; commercial health plans, including Medicaid managed care, Medicare Advantage and group and individual health lines of business; government and private employers; child support agencies; and other healthcare payers and sponsors.

Our largest customer in 2014 accounted for 9.5%, 5.6% and 6.4% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. We provide services to this customer pursuant to a contract that was originally awarded in January 2008 and extends through April 2015. Our services were expanded in 2011 to designate us as the Medicaid RAC for this customer through September 2016. We are currently preparing for the reprocurement of this contract. Our failure to reprocure this contract would have a material adverse effect on our financial condition, results of operations and cash flows.

Our second largest customer in 2014 accounted for 5.3%, 4.6% and 5.2% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. We provide services to this customer pursuant to a contract that expires in January 2016. Our failure to reprocure this contract would have a material adverse effect on our financial condition, results of operations and cash flows.

Our third largest customer in 2014 accounted for 5.0%, 22.3% and 18.2% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. It has been our customer since 2006. Our largest contract with this customer is through HDI, under which HDI has served as the Medicare RAC for Region D since October 2008 and which, after multiple contract modifications, now provides for a term that expires December 31, 2015. Given that HDI's Medicare RAC contract with this customer is one of our largest contracts and represents a significant potential business opportunity for us, our business, financial condition, results of operations and cash flows would be adversely affected if HDI was not awarded a region, if HDI was awarded a region but on substantially different terms from HDI's current contract or if contract awards continue to be delayed. In addition, if HDI is awarded a new Medicare RAC contract, the terms of that contract may change or delay the timing of HDI's revenue recognition from timing under the current contract.

The list of our ten largest customers changes periodically. For the years ended December 31, 2014, 2013 and 2012, our ten largest customers represented 40.1%, 47.2% and 46.9% of our total revenue, respectively. Our agreements with these customers have expiration dates between 2015 and 2018.

We provide products and services under contracts (or sub-contracts) that contain various fee structures, including contingency fee and fixed fee arrangements. Many of our contracts have terms of three to five years, including optional renewal terms. In many instances, we provide our services pursuant to agreements that are subject to periodic reprocurements. Several of our contracts, including those with some of our largest customers, may be terminated for convenience. Because we provide our services pursuant to agreements that are open to competition from various businesses in the U.S. healthcare insurance benefit cost containment marketplace, we cannot provide assurance that our contracts, including those with our largest customers, will not be terminated for convenience or that any of these contracts will be renewed, and, if renewed, that the fee structures will be equal to those currently in effect.

Industry Trends/Opportunities

Containing healthcare expenditures presents challenges for the government due to the number and variety of programs at the state and federal level, the government appropriations process and the rise in the cost of care and number of beneficiaries. The ACA adds increased pressure to states to cover more individuals, making cost containment a high priority.

Government healthcare programs continue to grow. CMS has projected that Medicaid, CHIP and Medicare expenditures will increase to nearly $2.1 trillion by 2023.

According to CMS NHE Projections, Medicare programs in 2014 covered approximately 53 million people and spent approximately $616 billion. CMS projected that at the end of 2014 Medicaid/CHIP programs covered approximately 72 million people and spent approximately $521 billion. Altogether, it is projected that the government programs we serve covered approximately 125 million people and spent nearly $1.1 trillion in 2014. We believe that enrollment in these programs will continue to increase as a result of the ACA. CMS projects that in 2017, Medicare will cover approximately 58 million people and will spend approximately $714 billion, and, Medicaid/CHIP is expected to cover approximately 82 million people and will spend approximately $644 billion.

According to CMS NHE Projections for 2013-2023, Medicaid enrollment is projected to grow by 5.8% in 2015 and 6.7% in 2016. Total Medicaid spending is projected to increase at a rate of 6.7% in 2015 and at a rate of 8.6% in 2016. In addition, Medicare spending is projected to grow from 2.7% in 2015 to up to 7.8% in 2018. There are a number of factors that could impact these projections, including medical utilization by the new enrollees under the ACA and any legislative action taken to reduce spending.

In response to pressures to contain the growth of state and federal Medicaid spending and to concerns about access to healthcare for low-income individuals, the use of managed care arrangements in Medicaid continues to grow. As of year-end 2014, 38 states and the District of Columbia contracted with managed care organizations to provide care to some or all of their Medicaid beneficiaries. In addition, many states have expanded the use of managed care organizations to new regions or to serve beneficiaries with more complex conditions. Of the 27 states and the District of Columbia that opted to expand Medicaid eligibility levels by the end of 2014 pursuant to the ACA, all except for three did not use Medicaid managed care organizations. The majority of new lives that have entered the Medicaid program as a result of the ACA were enrolled in managed care organizations.

Regardless of the program, coordinating benefits among a growing number of healthcare payers and ensuring that claims are paid appropriately represents both an enormous challenge for our customers and an opportunity for us.

Competition

The U.S. healthcare insurance benefit cost containment marketplace is a dynamic industry with a range of businesses currently able to offer all or a subset of cost containment services, both directly or indirectly (through subcontracting), to some or all of the various healthcare payers. In addition, with improvements in technology and the growth in healthcare spending, new businesses are incentivized to enter into this marketplace. Some healthcare payers also have the ability to perform some or all of these cost containment services themselves and some, in fact, choose to exercise that option. Competition is therefore robust as customers have many alternatives available to them in their effort to contain healthcare costs.

Within our core coordination of benefits services, we compete primarily with large business outsourcing and technology firms, claims processors (including PBMs), clearinghouses, healthcare consulting firms, smaller regional vendors and other third party liability service providers; these companies include Optum, Inc., Public Consulting Group, Inc., Emdeon Inc., EDS (affiliated with Hewlett Packard Company) and ACS (affiliated with Xerox Corporation). In addition, as noted, we frequently work with customers who may elect to perform some or all of their recovery and cost avoidance functions in-house. Against these competitors, we try to compete favorably on the basis of a variety of factors, including our ability to perform a wide variety of coordination of benefits-related functions; maximize recoveries and cost avoidance; apply our in-depth government healthcare program experience, staff expertise, extensive insurance eligibility database, proprietary systems and processes; leverage our existing relationships; and sustain operations under contingency fee structures.

The competitive environment for payment integrity services includes some of the same companies that provide coordination of benefits services, as well as other Medicare RACs (CGI Federal, Inc., Connolly and Performant Financial Corp.); other claim audit vendors (including Cognosante, Myers & Stauffer LC and PRGX Global, Inc.); fraud, waste and abuse claim edit and predictive analysis companies (such as Emdeon, Inc., Verisk Health, Inc. and LexisNexis Risk Solutions); and numerous regional utilization management companies.

Business Strategy

Over the course of 2015, we expect to grow our business through a number of strategic objectives or initiatives that may include:

- *Add new customers.* We will continue to market to government healthcare payers; commercial health plans, including Medicaid managed care, Medicare Advantage and group and individual health lines of business; and private employers.
- *Expand scope.* We will seek to expand our role with existing customers by extending our reach to include new audit strategies, services and claim types and by providing earlier access to claim data.
- *Add new services.* We will continue to look for opportunities to add services closely related to cost containment through internal development and/or acquisition.
- *Drive organic growth.* We will seek to tap demand for our services created by the steadily increasing expenditures of government-funded healthcare, in particular in the managed care environment.
- *Improve the quality and effectiveness of our services.* We will continue implementing new technology and process improvements, which we expect will enable us to increase recovery yields and promote customer satisfaction.
- *Opportunistic growth via acquisition.* We may continue selectively seeking strategic assets to acquire in our target industries in order to further enhance our product offerings. Strategic acquisitions are a part of our growth strategy. We focus on acquisitions that have long-term growth potential, target high-growth areas and fill a strategic need in our business portfolio as we seek to provide comprehensive solutions to our customers.

Employees

As of December 31, 2014, we had 2,296 employees, of which 2,228 were full time. Of our total employees, 230 support selling, general and administrative activities.

Financial Information About Industry Segments

Since the beginning of the first quarter of 2007, we have been 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. Accordingly, we do not prepare discrete financial information with respect to separate product lines or by location and do not have separately reportable segments as defined by the guidance provided by the Financial Accounting Standards Board (the "FASB").

Available Information

We maintain a website (www.hms.com) that contains various information about our company and our services. Through our website, we make available, free of charge, access to all reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and our Proxy Statements, as well as amendments to these reports or statements, as filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. You may also read and copy this information, for a copying fee, at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. The content on any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

We also make the following documents available on our website under the Investor Relations/ Corporate Governance tabs: the Audit Committee Charter, the Compensation Committee Charter, the Nominating & Governance Committee Charter, the Compliance Committee Charter, our Code of Conduct and our Corporate Governance Guidelines. You may also obtain a copy of any of the foregoing documents, free of charge, if you submit a written request to Attention: Investor Relations, 5615 High Point Drive, Irving, TX 75038.

Corporate Information

We are incorporated in the State of Delaware. We were originally incorporated on October 2, 2002 in the State of New York. On March 3, 2003, we adopted a holding company structure and assumed the business of our predecessor, Health Management Systems, Inc. In connection with the adoption of this structure, Health Management Systems, Inc., which began doing business in 1974, became our wholly owned subsidiary.

Item 1A. Risk Factors.

We provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business that, individually or in the aggregate, may cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. You should consider these factors, but understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties involved with investing in our stock. These risk factors should be read in connection with other information set forth in this Annual Report, including our Consolidated Financial Statements and the related Notes.

Risks Relating to Our Business

Changes in the United States healthcare environment, or in laws relating to healthcare programs and policies, and steps we take in anticipation of such changes, particularly as they relate to the ACA and the Medicare and Medicaid programs, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The healthcare industry in the United States is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of federal, state and private healthcare organizations and agencies. In general, the ACA seeks to decrease over time the number of uninsured legal U.S. residents. Because of the ACA's strong emphasis on program integrity and cost containment, as well as provisions expanding the Medicaid-eligible population, we regard this legislation, on the whole, as creating potential new opportunities for the expansion of our business and service offerings. Until the ACA has been fully implemented, however, it will be difficult to predict its full impact and influence on future changes to Medicare policy, due not only to its complexity, but also to the wide range of other factors contributing to uncertainty of the healthcare landscape. These factors include the unpredictability of responses by states, providers, businesses and other entities to the various choices available to them under the law; the possibility that implementation of certain provisions of the legislation could still be blocked by court challenges, repealed by Congressional efforts or as a result of Supreme Court decisions or otherwise modified at the state level; and the increase in lobbying efforts from established provider organizations for further adverse changes to the Medicare RAC Program.

In addition, under the ACA, as states seek to contain costs with an expanding Medicaid population, we expect to continue to see an increase in the migration of Medicaid lives from fee-for-service to managed care plans. While we provide services to both types of Medicaid plans, we have historically had more success in providing services to states utilizing fee-for-service plans. The transition of Medicaid lives from fee-for-service to managed care requires that we commit more resources to attaining larger amounts of business from managed care plans.

We have made and will continue to make investments in personnel, infrastructure and product development, as well as in the overall expansion of the services that we offer in order to support existing and new customers as they implement the requirements of the ACA. However, future changes to the ACA and to the Medicare and Medicaid programs may also lower reimbursement rates, establish new payment models, increase or decrease government involvement in healthcare, decrease the Medicare RAC Program and/or otherwise change the operating environment for our customers. Our business, financial condition, results of operations and cash flows could be adversely affected if efforts to waive, modify or otherwise change the ACA, in whole or in part, are successful, if we are unable to adapt our products and services to meet changing requirements or expand service delivery into new areas, or the demand for our services is reduced as a result of healthcare organizations' reactions to changed circumstances and financial pressures.

Healthcare organizations may react to such changed circumstances and financial pressures, including those surrounding the implementation of the ACA, by taking actions such as curtailing or deferring their retention of service providers like us, which could reduce the demand for our services and, in turn, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Healthcare spending fluctuations, simplification of the healthcare payment process or other aspects of the healthcare financing system, budgetary pressures and/or programmatic changes diminishing the scope of program benefits, or limiting payment integrity initiatives, could reduce the need for and the price of our services, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our projections and expectations are premised upon consistent growth rates in spending in the Medicare and Medicaid programs, the current healthcare financing system and the need for our services within that existing framework. It is expected that enrollment in government healthcare programs will continue to grow, particularly under the ACA. There are a number of factors that could impact our projections, including medical utilization by the new enrollees under the ACA and any legislative action taken to reduce spending. Compounding this are budgetary pressures that may drive changes at the state level, including shifting lives from traditional fee-for-service plans into Medicaid managed care plans to achieve cost savings.

Our experience in offering services that improve the ability of our customers to recover revenue that would otherwise be lost, often as a result of procedural inefficiencies and complexities, have contributed to the success of our service offerings. Although the complexities of the healthcare benefit and payment system continue to grow (due to factors such as the expansion of pay-for-performance programs), the need for our services, the price customers are willing to pay for them and/or the scope and profitability of our contracts could be negatively affected by: lower than projected growth in the Medicare and Medicaid programs; a simplification of the healthcare benefit and payment system through legislative or regulatory changes at the federal or state level (for example, legislative changes impacting the scope of mandatory audits, limiting or reducing the amount of reviewable claims and/or the look-back period for review in areas where we conduct audits); unanticipated reductions in the scope of program benefits (such as, for example, state decisions to eliminate coverage of optional Medicaid services or shifting lives into managed care plans); and/or limits placed on ongoing program integrity initiatives (for example, in February 2014, CMS announced a "pause" in operations of the Medicare RAC Program). Modifications in provider billing behavior and habits, often in response to the success of our services, could also reduce the profitability of our contracts and reduce the need for our services. Any of these factors could cause our financial projections to differ from our actual results, and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operating results are subject to significant fluctuations due to factors including variability in the timing of when we recognize contingency fee revenue and the challenges associated with forecasting revenue for new products and services. As a result, you will not be able to rely on our operating results in any particular period as an indication of our future performance.

Our operating results may fail to match our past or projected performance. We have experienced significant variations in our revenue between reporting periods due to the timing of periodic revenue recovery projects, the timing and delays in third party payers' claim adjudication and ultimate payment to our customers where our fees are contingent upon such collections and delays in receiving payment for our services. Our revenue and operating results have also been impacted from period to period as a result of a number of factors, including:

- fluctuations in sales activity given our sales cycle of approximately six to eighteen months;
- the commencement, completion or termination of contracts during any particular quarter;
- expenses related to certain contracts which may be incurred in periods prior to revenue being recognized;
- the timing of government contract awards;
- the time required to resolve bid protests;
- contract renewal discussions, which result in delayed payments for previously provided services;
- technological and operational issues affecting our customers, including delays in payment receipt for previously recognized revenue due to delays in certain customers processing our findings through their systems;
- adjustments to age/quality of receivables and accruals as a result of delays involving contract limitations and changes or subcontractor performance deficiencies or internal managerial decision not to pursue identified claim revenue from customers; and

• regulatory changes or general economic conditions as they affect healthcare providers and payers.

In addition, as we introduce new products and services, we may not be able to accurately estimate the costs and timing for implementing and completing contracts, making it difficult to reliably forecast revenue under those contracts. We cannot predict the extent to which future revenue variations could occur due to these or other factors. Consequently, our results of operations are subject to significant fluctuation and our results of operations for any particular quarter or fiscal year may not be indicative of results of operations for future periods.

Our ability to execute on business plans will be adversely affected if we fail to properly manage our growth.

In recent years, our size and the scope of our business operations have expanded rapidly, and we expect that we will continue to grow and expand into new areas within the government and commercial healthcare space; however, such growth and expansion carries costs and risks that, if not properly managed, could adversely affect our business. To effectively manage our business plans, we must continue to improve our operations, while remaining competitive. We must also be flexible and responsive to our customers' needs and to changes in the political, economic and regulatory environment in which we operate. The greater size and complexity of our expanding business puts additional strain on our administrative, operational and financial resources and makes the determination of optimal resource allocation more difficult. A failure to anticipate or properly address the demands that our growth and diversification may have on our resources and existing infrastructure may result in unanticipated costs and inefficiencies and could negatively impact our ability to execute on our business plans and growth goals, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business could be adversely affected if we fail to maintain a high level of customer retention, lose a major customer or fail to reprocure a contract, or if customers elect to reduce the scope of our contracts or terminate them before their scheduled expiration dates.

We generate a significant portion of our revenue from a limited number of large customers at the federal and state level. For the years ended December 31, 2014, 2013 and 2012, our three largest customers accounted for 19.8%, 32.5% and 29.8%, respectively, of our revenue from continuing operations.

One of our largest customers in 2014 was CMS, primarily related to our Medicare RAC contract through our wholly owned subsidiary HDI, which after a series of contract modifications, now expires on December 31, 2015. In February 2013, CMS began the reprocurement process for the Medicare RAC Program contracts. After a protest was filed on the initial Request for Quote ("RFQ"), CMS took corrective action and, between December 2013 and January 2014, issued five new RFQs for the Medicare RAC Program contracts. HDI and one of HDI's prospective competitors protested certain terms of the new RFQs, and these protests were denied by the Government Accountability Office ("GAO") in April 2014. On April 28, 2014, HDI's prospective competitor filed a lawsuit at the U.S. Court of Federal Claims challenging the terms of the solicitations for CMS Regions 1, 2, and 4 and seeking an injunction against CMS. On August 21, 2014, the U.S. Court of Federal Claims entered judgment in favor of the GAO and HDI's prospective competitor appealed to the U.S. Court of Appeals for the Federal Circuit on August 26, 2014. On September 2, 2014, the U.S. Court of Federal Claims granted a stay that prohibited CMS from awarding contracts for Regions 1, 2, and 4 pending the outcome of the appeal.

Under the existing Medicare RAC contracts, on February 18, 2014, CMS announced its decision to pause the operations of the current Medicare RACs establishing June 1, 2014 as the last day that RAC contractors could transmit improper payment files for processing. On August 4, 2014, CMS announced that due to the continued delay in awarding new Recovery Auditor contracts, it was initiating contract modifications to allow the Medicare RACs to restart certain reviews through December 31, 2014. CMS stated that most reviews will be done on an automated basis, but a limited number will be complex reviews of topics selected by CMS. On January 12, 2015, we entered into a new modification that extended our auditing services to CMS through December 31, 2015 and requires us to assist CMS with the appeals process through April 30, 2017.

Given that HDI's Medicare RAC contract with CMS is one of our largest contracts and represents a significant potential business opportunity for us, if HDI is not awarded a region, or is awarded a region but on substantially different terms from HDI's current contract, or if the contract awards continue to be delayed, or if CMS imposes or implements other changes to the Medicare RAC Program that materially reduce our revenue or profitability associated with such program, then our business, financial condition, results of operations and cash flows would be materially adversely affected.

In August 2013, CMS issued CMS Rule 1599-F *Hospital Inpatient Admission Order and Certification and Two Midnight Benchmark for Inpatient Hospital Admissions for the Fiscal Year 2014 Inpatient Prospective Payment System* ("IPPS")/*Long-Term Care Hospital* ("LTCH"). Under this final rule, CMS redefined the requirements for an inpatient stay with a new formal time-based standard. The new rule, termed the "Two Midnight Rule," states that surgical procedures, diagnostic tests and other treatments (in addition to services designated as inpatient-only), are generally appropriate for inpatient hospital admission and payment under Medicare Part A when a physician (i) expects the beneficiary to require a stay that crosses at least two midnights, and (ii) admits the beneficiary to the hospital based upon that expectation. As part of the implementation of the new rule, effective October 2013, CMS suspended the review by Medicare RACs of inpatient hospital claims paid between October 1, 2013 and September 30, 2014 for a determination of whether the inpatient hospital admission and patient status was appropriate. In connection with this audit suspension, CMS announced that it had initiated a provider education and compliance review program and stated that it would re-evaluate the retrospective review strategy after it evaluated the results of the compliance review. On April 1, 2014, the "Protecting Access to Medicare Act of 2014," was signed into law. A provision of this act further delayed the Two Midnight Rule's enforcement and RAC review of Two Midnight Rule claims until March 31, 2015.

These reviews have historically been a significant finding for the Recovery Audit Program; as a result, the Two Midnight Rule and the suspension of these reviews by the Medicare RACs could have a material negative impact on our future revenue if HDI is awarded a new Medicare RAC Contract, depending upon, among other factors, how the Two Midnight Rule is applied by providers and the review strategies ultimately approved by CMS.

In addition, on August 29, 2014, CMS announced it would settle with hospitals willing to withdraw inpatient status claims currently pending in the appeals process by offering to pay hospitals 68% for all eligible claims that they have billed to Medicare. Although we accrue an estimated liability for appeals based on the amount of fees that are subject to appeals, closures or other adjustments, which we estimate are probable of being returned to providers following a successful appeal, and we similarly accrue an allowance against accounts receivables related to fees yet to be collected, the impact of CMS' settlement offer to hospitals remains uncertain and our financial condition and results of operations could be adversely affected if we are required to return certain fees we have already been paid under HDI's existing Medicare RAC contract or we are unable to collect fees for audits we have already performed. There could be a material negative impact on our revenue if under the current Medicare RAC contract, HDI is unable to obtain full payments for properly provided services or is required to repay a portion of prior fees associated with the hospital settlement program or if future fees payable to HDI by CMS are reduced.

Our success also depends on relationships we develop with our customers that enable us to understand our customers' needs and deliver solutions and services that are tailored to meet those needs. If a customer is dissatisfied with the quality of our work, or if our products, technical infrastructure or services do not comply with the provisions of our contractual agreements or applicable regulatory requirements, we could incur additional costs that may impair the profitability of a contract and damage our ability to obtain additional work from that customer, or other current or prospective customers. For example, some of our contracts contain liquidated damages provisions and financial penalties related to performance failures, which if triggered, could adversely affect our reputation, business, financial condition, results of operations and cash flows. If liquidated damages or other financial penalties are assessed against us, we may be required to disclose these damages or penalties in connection with future bids for services with other customers, which may reduce our chances of winning such procurements. Although we have liability insurance, the policy coverage and limits may not be adequate to provide protection against all potential liabilities. Under the terms of one of our contracts, we have an outstanding irrevocable letter of credit for $4.6 million, which we established against our existing revolving credit facility. If a claim is made against this letter of credit or any similar instrument that we obtain in the future, we would be required to reimburse the issuer of the letter of credit for the amount of the claim.

From time to time, government customers may face financial pressures or pressure from stakeholders that may cause them to redefine or reduce the scope of our contracts (by, for example, significantly reducing the volume of data that we are permitted to audit) or terminate contracts for our services that may be regarded as non-essential. We also occasionally face challenges in obtaining timely or full payments for our properly provided services from customers and parties who we provide services to, despite our right to prompt and full payment under the terms of our contracts. Since several of our contracts, including those with many of our largest customers, may be terminated upon short notice for convenience, dissatisfied customers might seek to exit existing contracts prior to their scheduled expiration date and could direct future business to our competitors.

If we lose a major customer; if we fail to maintain a high level of customer retention; if we fail to reprocure a contract; if our customers reduce the scope of our contracts or limit future contracting opportunities; or if we are exposed to significant costs, liabilities or negative publicity, our ability to compete for new contracts with current or prospective customers could be damaged and our business, financial condition, reputation, results of operations and cash flows could be materially adversely affected.

We face significant competition for our services and we expect competition to increase.

Competition among U.S. healthcare insurance benefit cost containment service providers is increasing and we expect to encounter additional competition as new competitors enter this area as it continues to grow with advances in technology. Our current competitors include the other Medicare RACs; other claim audit vendors; fraud, waste and abuse claim edit and predictive analysis companies; primary claims processors; numerous regional utilization management companies; as well as healthcare consulting firms and other third-party liability service providers. In addition, some customers can compete by electing to perform some or all of their recovery and cost avoidance functions in-house.

We must remain competitive with our existing business and service capabilities and develop new products and services, which will require not only that we make substantial financial and resource investments, but that we quickly respond to new or emerging technologies and to changes in customer requirements and the healthcare industry. There is also increasing sophistication in certain services and our competitors are constantly developing products and services that may become more efficient or appealing to our customers. We cannot provide assurance that our new or modified product and service innovations will be responsive to customer preferences or industry changes, or that the product development initiatives that we prioritize will yield the gains that we anticipate, if any.

Many of the cost containment services we provide are being targeted by formidable competitors with national reputations, and their success in attracting business or winning contract bids could significantly and/or adversely affect our business. In addition, for some of the services that we provide or hope to provide, current and prospective customers could develop in-house capacities and could therefore decide not to engage us. Some of our competitors have also merged or formed business alliances with other competitors, which may affect our ability to work with potential customers. In certain cases, our competitors and potential competitors have significantly greater resources and market recognition than we have, and may be in a position to bundle services that compete with our product and services offerings, or may be able to devote greater resources to the sale of their services and to developing and implementing new and improved systems and solutions for the customers that we serve. In some areas of our business, we could face potential competition from our current or former subcontractors or teaming partners, who may use their position to establish their own relationships with our customers and seek to become prime contractors on similar work in the future. Although we attempt to protect ourselves against such conduct through the terms of our subcontracts and teaming agreements, a subcontractor or teaming partner may determine that the benefits of violating its contract with us outweigh the costs and risks.

We cannot provide assurance that we will be able to compete successfully against existing or new competitors. In addition, we may be forced to lower our pricing or the demand for our services may decrease as a result of increased competition. Further, a failure to be responsive to our existing and potential customers' needs could hinder our ability to maintain or expand our customer base, hire and retain new employees, pursue new business opportunities, complete future acquisitions and operate our business effectively. Any inability to compete effectively could materially adversely affect our business, financial condition, results of operations and cash flows.

We must comply with laws and regulations regarding individual privacy and information security, including taking steps to ensure that our workforce, vendors, subcontractors and other business associates who obtain access to sensitive information about individuals maintain its confidentiality. Our failure, or a failure by our business associates, to comply with those laws and regulations, whether or not inadvertent, could subject us to legal actions, fines and penalties and negatively impact our reputation and operations.

As a service provider, we often receive, process, transmit and store protected health information ("PHI") of individuals, as well as other financial, confidential and proprietary information belonging to our customers, our subsidiaries and third parties (*e.g.*, private insurance companies, financial institutions) from which we obtain information. The use and disclosure of that information is regulated through federal and state laws and rules, which are changed frequently by legislation, regulatory issuances and/or administrative interpretation. Various state laws address the use and disclosure of individually identifiable financial and health data. Some are derived from the privacy and security provisions such as in the federal Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), and the regulations implementing these laws. HIPAA also imposes standards and requirements on our business associates (as this term is defined in the HIPAA regulations), including our subcontractors and many of our vendors.

In January 2013, the U.S. Department of Health and Human Services issued Final Omnibus Privacy, Security, Breach Notification, and Enforcement Rules that modified and supplemented many of the standards and regulations under HIPAA and HITECH. These new rules significantly increased the risk of liability to us and our business associates and subcontractors and made more incidents of inadvertent disclosure reportable and subject to penalties. Even though we take measures to comply with all applicable regulations and to ensure our business associates and subcontractors comply with these laws, regulations and rules, we have less than complete control over our business associates' and subcontractors' actions and practices. In addition, we could also be exposed to data breach risk if there is unauthorized access to one of our or our subcontractors' secure facilities or from lost or stolen laptops, other portable media from current or former employee theft of data containing PHI, from misdirected mailings containing PHI, or other forms of administrative or operational error. If we or our subcontractors fail to comply with applicable laws; if unauthorized parties gain physical access to one of our facilities and steals or misuses confidential information; if we erroneously use or disclose data in a way that is inconsistent with our granted rights; or if such information is misdirected, lost or stolen during transmission or transport, we may suffer damage to our reputation, potential loss of existing customers and difficulty attracting new customers. We could also be exposed to, among other things, unfavorable publicity, governmental inquiry and oversight, allegations by our customers that we have not performed our contractual obligations, costs to provide notifications to affected individuals, or litigation by affected parties and possible financial obligations for damages or indemnification obligations related to the theft or misuse of such information, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Further, as regulatory focus on privacy issues continues to increase and laws and regulations concerning the protection of personal information expand and become more complex, these potential risks to our business could intensify. Changes in laws or regulations associated with the enhanced protection of certain types of sensitive data, such as healthcare data or other personally identifiable information, along with increased customer demands for enhanced data security infrastructure, could greatly increase our cost of providing our services. See Risk Factor—"Our systems and networks may be subject to cyber security breaches and other disruptions that could compromise our information and harm our business" for additional information.

Our business depends on effective information processing systems that are compliant with current HIPAA transaction and code set standards and the integrity of the data in, and operations of, our information systems, as well as those of other entities that provide us with data or receive data from us.

Our ability to conduct our operations and accurately report our financial results depends on the integrity of the data in our information systems and the integrity of the processes performed by those systems. These information systems and applications require continual maintenance, upgrading and enhancement to meet our operational needs, satisfy customer requests and handle our expansion and growth. Despite our testing and quality control measures, we cannot be certain that errors or system deficiencies will not be found and that remediation can be done in a timeframe that is acceptable to our customers or that customer relationships will not be impaired by the occurrence of errors or the need for remediation. In addition, implementation of upgrades and enhancements may cost more, take longer or require more testing than originally expected. Given the large amount of data we collect and manage, it is possible that hardware failures or errors or technical deficiencies in our systems could result in data loss or corruption or cause the information that we collect, utilize or disseminate to be incomplete or contain inaccuracies that our customers regard as significant.

Through several of the services we provide, situations arise in which the accuracy of our data analysis or the content and quality of our work product is central to the disposition of claims, controversies or litigation between our customers and third parties. When such situations arise, we may be required to allocate significant resources to fulfilling our contractual obligations to provide our customers with full and complete access to records, analysis and back-up documentation of our work. Assuring our capacity to fulfill these obligations, as well as actually fulfilling such obligations, can impose significant burdens on our infrastructure for data storage, maintenance and processing, requiring us to prioritize maintenance of and access to these resources, or incur additional costs to supplement them in order to satisfy our obligations. Should the frequency or scope of situations in which customers invoke these obligations increase to a substantial degree, the resulting strain on our personnel, data storage and computing resources could negatively impact other business operations.

Moreover, because many of the services we furnish to customers involve submitting high volumes of monetary claims to third parties (such as health insurance carriers) and processing payments from them, the efficiency and effectiveness of our own operations are to some degree dependent on the claims processing systems of these third parties and their compliance with any new transaction and code set standards. By October 1, 2015, health plans, commercial payers and healthcare providers are required to transition to the new ICD-10 coding system, which greatly expands the number and detail of diagnosis codes used for inpatient, outpatient and physician claims. The transition to the new transaction and code set standard is expensive, time-consuming and may initially result in disruptions or delays as we and other stakeholders make necessary system adjustments to be fully compliant and capable of exchanging data. In addition, we may experience delays in processing claims and therefore earning our fees if the third parties with whom we work are not in full compliance with these new standards in the required timeframe. Claims processing systems failures, incapacities or deficiencies internal to these third-parties could significantly delay or obstruct our ability to recover money for our customers, and thereby interfere with our performance under our contracts and our ability to generate revenue from those contracts in the timeframe we anticipate, which in turn could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may be precluded from bidding on and/or performing certain work due to other work we currently perform.

Various laws, regulations and administrative policies prohibit companies from performing work for government agencies in capacities that might be viewed to create an actual or perceived conflict of interest. In particular, CMS has stringent conflict of interest rules, which can limit our bidding for specific work for CMS, or for other contracts that might conflict, or be perceived by CMS to conflict, with contractual work for CMS. State governments and managed care organizations also have conflict of interest restrictions that could limit our ability to bid for certain work. Conflict of interest rules and standards change frequently, and are subject to varying interpretations and varying degrees and consistency of enforcement at the federal, state and municipal levels, and we cannot provide assurance that we will be successful in navigating these restrictions.

The expansion and diversification of our business operations increases the potential that customers or potential customers will perceive conflicts of interest between our various subsidiaries, products, services, activities and customer relationships. Such conflicts, whether real or perceived, could result in loss of contracts or require us to divest ourselves of certain existing business in order to qualify for new contract awards. We may be required to adjust our current management and personnel structure, as well as our corporate organization and entity structure, in order to appropriately mitigate conflicts and otherwise accommodate the needs as a company that is expanding in size and complexity. Our failure to devote sufficient care, attention and resources to managing these adjustments may result in technical or administrative errors that could expose us to potential liability or adverse regulatory action. If we are prevented from expanding our business due to real or perceived conflicts of interest, our business and results of operations could be adversely affected.

System interruptions or failures could expose us to liability and harm our business.

Our data and operation centers are essential to our business and our operations depend on our ability to maintain and protect our information systems. We attempt to mitigate the potential adverse effects of a disruption, relocation or change in operating environment; however, we cannot provide assurance that the situations we plan for and the amount of insurance coverage that we maintain will be adequate in any particular case. In addition, despite system redundancy and security measures, our systems and operations are vulnerable to damage or interruption from, among other sources:

- power loss, transmission cable cuts and telecommunications failures;
- damage or interruption caused by fire, earthquake and other natural disasters;
- attacks by hackers or nefarious actors;
- computer viruses and other malware, or software defects; and
- physical break-ins, sabotage, intentional acts of vandalism, terrorist attacks and other events beyond our control.

If we encounter a business interruption; if we fail to effectively maintain our information systems; if it takes longer than we anticipate to complete required upgrades, enhancements or integrations; or if our business continuity plans and business interruption insurance do not effectively compensate on a timely basis, we could suffer operational disruptions, disputes with customers, civil or criminal penalties, regulatory problems, increases in administrative expenses, loss of our ability to produce timely and accurate financial and other reports or other adverse consequences, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we do not successfully integrate the businesses that we acquire, we may not realize the anticipated benefits of acquisitions and our results of operations could be adversely affected.

Historically, to achieve our strategic goals, we have made a significant number of acquisitions that have expanded the products and services we offer, provided a presence in complementary business lines, or expanded our geographic presence and/or customer base. Business acquisitions and combinations involve a number of risk factors that could affect our operations, including:

- diversion of management's attention and other resources;
- our ability to maintain relationships with the customers of the acquired business and further develop the acquired business;
- our ability to cross-sell our services and the services of the acquired businesses to our respective customers;
- compliance with regulatory requirements and avoiding potential conflicts of interest in markets that we serve;
- our ability to integrate and coordinate organizations that are geographically diverse and may have different business cultures;
- transition of operations, users and customers to our existing platforms or the integration of data, systems and technology platforms with ours;
- our ability to retain or replace key personnel;
- entry into unfamiliar markets;
- assumption of unanticipated legal or financial liabilities and/or negative publicity related to prior acts by the acquired entity;
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or third parties;
- becoming significantly leveraged as a result of incurring debt to finance an acquisition;
- unanticipated operating, accounting or management difficulties in connection with the acquired entities; and/or
- impairment of acquired intangible assets, including goodwill, and dilution to our earnings per share.

We intend to continue our acquisition strategy to expand and diversify our business. We cannot, however, provide assurance that we will be able to identify any potential acquisition candidates or consummate any additional acquisitions or that any future acquisitions will be successfully integrated or will be advantageous to us. Entities we acquire may not achieve the revenue and earnings we anticipate or their liabilities may exceed our expectations. We could face integration issues pertaining to the internal controls and operational functions of the acquired companies and we also could fail to realize cost efficiencies or synergies that we anticipated when selecting our acquisition candidates. Customer dissatisfaction or performance problems with a particular acquired entity could materially and adversely affect our reputation as a whole. We may be unable to profitably manage entities that we have acquired or that we may acquire, or we may fail to integrate them successfully without incurring substantial expenses, delays or other problems. If we fail to successfully integrate the businesses that we acquire, we may not realize any of the benefits that we anticipate in connection with the acquisitions and that could have a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

We are subject to extensive government regulation and our government contracts are subject to audit and investigation rights. Any violation of the laws and regulations applicable to us or a negative audit or investigation finding could have a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

Much of our business is regulated by the federal government and the states in which we operate. The laws and regulations governing our operations are generally intended to benefit and protect individual citizens, including government program beneficiaries, health plan members and providers, rather than stockholders. The government agencies administering these laws and regulations have broad latitude to enforce them. These laws and regulations, along with the terms of our government contracts, regulate how we do business, what services we offer and how we interact with our customers, providers, other healthcare payers and the public. We are subject, on an ongoing basis, to various governmental reviews, audits and investigations to verify our compliance with our contracts and applicable laws and regulations.

In addition, because we receive payments from federal and state governmental agencies, we are subject to various laws, including the Federal False Claims Act and similar state statutes, which permit government law enforcement agencies to institute suits against us for violations and, in some cases, to seek double or treble damages, penalties and assessments. In addition, private citizens, acting as whistleblowers, can sue on behalf of the government under the "*qui tam*" provisions of the Federal False Claims Act and similar statutory provisions in many states.

The expansion of our operations into new products and services may further expose us to requirements and potential liabilities under additional statutes and legislative schemes that have previously not been relevant to our business, such as banking and credit reporting statutes, that may both increase demands on our resources for compliance activities and subject us to potential penalties for noncompliance with statutory and regulatory standards. Increased involvement in analytic or audit work that can have an impact on the eligibility of individuals for medical coverage or specific benefits could increase the likelihood and incidence of our being subjected to scrutiny or legal actions by parties other than our customers, based on alleged mistakes or deficiencies in our work, with significant resulting costs and strain on our resources.

If the government discovers improper or illegal activities in the course of audits or investigations, we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions and debarment from doing business with the government. The risks to which we are subject, particularly under the Federal False Claims Act and similar state fraud statutes, have increased in recent years due to legislative changes that have (among other amendments) expanded the definition of a false claim to include, potentially, any unreimbursed overpayment received from, or other monetary debt owed to, a government agency. This subjects us to potential liability for a false claim, for example, where we may be overcharged for services by a subcontractor and may pass that charge on to a government customer, or where we may have a good faith disagreement with a government agency's view of whether an overpayment has occurred. If we are found to be in violation of any applicable law or regulation, or if we receive an adverse review, audit or investigation, any resulting negative publicity, penalties or sanctions could have an adverse effect on our reputation in the industry, impair our ability to compete for new contracts and have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may be a party to litigation, regulatory, or other dispute resolution proceedings. Adverse judgments or settlements in any of these proceedings could harm our business, financial condition and operating results.

We are subject and may be a party to lawsuits and other claims that arise from time to time in the ordinary course of our business. These may include lawsuits and claims related to, for example, contracts, subcontracts, teaming agreements, protection of confidential information or trade secrets, employment of our workforce or compliance with any of a wide array of state and federal statutes, rules and regulations that pertain to different aspects of our business. We may also be required to initiate expensive litigation or other proceedings to protect our business interests. In addition, because of the payments we receive from government customers, we may be subject to unexpected inquiries, investigations, legal actions or enforcement proceedings pursuant to the False Claims Act, healthcare fraud, waste and abuse laws or similar legislation. Any investigations, settlements or adverse judgments stemming from such legal disputes or other claims may result in significant monetary damages or injunctive relief against us, as well as reputational injury that could adversely affect us. There is a risk that we will not be successful in such litigation. In addition, litigation and other legal claims are subject to inherent uncertainties and management's view of currently pending legal matters may change in the future. Those uncertainties include, but are not limited to, costs of litigation, unpredictable judicial or jury decisions and the differing laws and judicial proclivities regarding damage awards among the states in which we operate. Unexpected outcomes in such legal proceedings, or changes in management's evaluation or predictions of the likely outcomes of such proceedings (possibly resulting in changes in established reserves), could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our outstanding indebtedness could adversely affect our financial condition and our ability to operate our business, and we may not be able to generate sufficient cash flows to meet our debt service obligations.

In December 2011, we entered into a five-year, revolving and term secured credit agreement with certain financial institutions and Citibank, N.A. as Administrative Agent in connection with our acquisition of HDI. In May 2013, we amended and restated the credit agreement and entered into a $500 million five-year revolving credit agreement ("Credit Agreement"). Under specified circumstances, the revolving credit facility under the Credit Agreement can be increased or one or more incremental term loan facilities can be added. Our obligations and any amounts due under the Credit Agreement are guaranteed by our material subsidiaries and secured by a security interest in all, or substantially all, of our and our subsidiaries' physical assets. As of December 31, 2014, the outstanding principal balance due on the revolving credit facility was $197.8 million.

Our outstanding indebtedness and any additional indebtedness we incur may have important consequences for us, including, without limitation, that: we may be required to use a substantial portion of our cash flow to pay the principal of and interest on our indebtedness; our indebtedness and leverage may increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressures; our ability to obtain additional financing for working capital, capital expenditures, acquisitions and for general corporate and other purposes may be limited; and our flexibility in planning for, or reacting to, changes in our business and our industry may be limited.

In addition, our ability to make payments of principal and interest on our outstanding revolving credit facility depends upon our future performance and our ability to generate cash flows. Under the terms of the Credit Agreement, we are required to comply with specified financial and operating covenants, which may limit our ability to operate our business as we otherwise might operate it. For example, our obligations may be accelerated upon the occurrence of an event of default, which includes customary events of default including, without limitation, payment defaults, failure to perform affirmative covenants, failure to refrain from actions or omissions prohibited by negative covenants, the inaccuracy of representations or warranties, cross-defaults, bankruptcy and insolvency related defaults, defaults relating to judgments, defaults due to certain ERISA related events and a change of control default. If not cured, an event of default would result in any amounts outstanding, including any accrued interest and unpaid fees, becoming immediately due and payable, which would require us to, among other things: seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, and/or reduce or delay planned capital or operating expenditures. Such measures might not be sufficient to enable us to service our debt, and any such financing or refinancing might not be available on economically favorable terms or at all. If we are not able to generate sufficient cash flows to meet our debt service obligations or are forced to take additional measures to be able to service our indebtedness, our business and results of operations could be materially and adversely affected.

We obtain a significant portion of our business through competitive bidding in response to government requests for proposals and future contracts may not be awarded through this process on the same level and we may not re-procure certain contracts.

In order to market our services to customers, we are often required to respond to government-issued requests for proposals ("RFPs") to compete for a contract. This requires that we accurately estimate our cost structure for servicing a proposed contract, the time required to establish operations and the likely terms of any proposals submitted by our competitors. We must also assemble and submit a large volume of information within a RFP's rigid timetable, and our ability to provide timely and complete responses to RFPs will greatly impact our business. Should any part of our business suffer a negative event, for example, a customer dispute or a government inquiry, we may be required to disclose the occurrence of that event in a RFP, which could impact our ability to win the contract at issue. We cannot provide assurance that we will continue to obtain contracts in response to government RFPs, that we will be successful in re-winning contracts after they expire, or that our proposals will result in profitable contracts. In addition, if we are unable to win particular contracts, we may be precluded from entering certain customer markets for a number of years. If we are unable to consistently win new contract awards over any extended period, our business and prospects will be adversely affected.

If we fail to accurately estimate the factors upon which we base our contract pricing, we may generate less profit than expected or incur losses on those contracts.

Our pricing is dependent on our internal forecasts and predictions about our projects and the marketplace, which might be based on limited data and could turn out to be inaccurate. A majority of our contracts are contingency fee based. For contingency fee based offerings, we receive our fee based on recoveries received by our customers. Our ability to earn a profit on a contingency fee offering requires that we accurately estimate costs involved and outcomes likely to be achieved and assess the probability of completing multiple tasks and transactions within the contracted time period. Some of our contracts with the federal government are cost-plus or time-and-material based. Revenue on cost-plus contracts is recognized based on costs incurred plus an estimate of the negotiated fee earned. To earn a profit on these contracts, we must accurately estimate costs involved and assess the probability of achieving certain milestones within the contracted time period. If we do not accurately estimate the costs and timing for completing projects, or if we encounter increased or unexpected costs, delays, failures, liabilities or risks, including those outside of our control, our contracts could prove unprofitable for us or yield lower profit margins than anticipated. Although we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price and cost-plus contracts where applicable, as required under United States generally accepted accounting principles ("U.S. GAAP"), we cannot provide assurance that our contract loss provisions will be adequate to cover all actual future losses.

The U.S. government's determination to award a contract may be challenged by an interested party. As a result, even if we win a bid, the contract may be delayed or may never be implemented if such a challenge is successful.

The laws and regulations governing procurements of goods and services by the U.S. government provide procedures by which other bidders and other interested parties may challenge the award of a government contract. Challenges or protests to government awards may be filed even if there are no valid legal grounds on which to base the protest. If any such protests are filed, the government agency may decide to withhold a contract award or suspend performance under the contract while the protest is being considered by the GAO or the applicable federal court, or may choose to take corrective action on its own, in each case, potentially delaying the start of the contract. If we are the original awardee of a protested contract, we could be forced to expend considerable funds to defend a potential award, while also incurring expenses to maintain our ability to timely start implementation in case the protest is resolved in our favor. It can take many months to resolve these protests, and even if it is resolved in our favor, the resulting delay in the start-up and funding of our work under the contracts may cause our actual results to differ materially and adversely from those anticipated. In the event of irregularities we perceive or learn of in the award or bidding process, we also may be forced to file protests in response to RFP awards to competitors, at significant cost to us. In addition, a contract award may be terminated or the government agency may opt to solicit new bids and award a new contract if a protest is successful or the government agency chooses not to uphold its original award. We cannot provide assurance that we will prevail if a contract we are awarded is protested or that if we protest an award we will be successful. Extended implementation delays or successful challenges of our contract awards could have a material adverse effect on our financial condition or results of operations.

We depend on many different entities to supply information and an inability to successfully manage our relationships with a number of these suppliers may harm the quality and availability of our services.

We obtain data used in our services from many sources, including commercial insurance plans, financial institutions, managed care organizations, government entities and non-government entities. From time to time, challenges arise in managing and maintaining our relationships with entities that are not our customers and that furnish information to us pursuant to a combination of voluntary cooperation and legal obligation under laws and regulations that are often subject to differing interpretation. Our data suppliers may determine that some uses of data for our customers are not permitted by our agreements, and seek to limit or end our access and use of certain data for particular purposes or customers. They may also make errors in compiling, transmitting or accurately characterizing data, or may have technological limitations that interfere with our receipt or use of the data we are relying upon them to provide. If a number of information sources or suppliers become unable or unwilling to provide us with certain data under terms of use that are acceptable to us and our customers, or if the applicable regulatory and law enforcement regime for use and protection of this data changes in a way that imposes unacceptable or unreasonable conditions or risks on us or disincentivizes our suppliers to continue to provide us with data, we cannot provide assurance that we will be able to obtain new agreements with alternative data suppliers on terms favorable to us, or at all. If we lose our data sources or access to certain data; are unable to identify and reach the requisite agreements with suitable alternative suppliers and integrate these data sources into our service offerings; or there is a lack of integrity of data that our suppliers provide, we could experience service disruptions, increased costs, reduced quality of our services and/or performance penalties under our customer contracts, which could have an adverse effect on our business, financial condition, results of operations or cash flows.

We may rely on subcontractors and partners to provide customers with a single-source solution or we may serve as a subcontractor to a third party prime contractor.

From time to time, we may engage subcontractors, teaming partners or other third parties to provide our customers with a single-source solution for a broader range of service needs. Similarly, we are and may in the future be engaged as a subcontractor to a third party prime contractor. Subcontracting arrangements pose unique risks to us because we do not have control over the customer relationship, and our ability to generate revenue under the subcontract is dependent on the prime contractor, its performance and relationship with the customer and its relationship with us. While we believe that we perform appropriate due diligence on our prime contractors, subcontractors and teaming partners and that we take adequate measures to ensure that they comply with the appropriate laws and regulations, we cannot guarantee that those parties will comply with the terms set forth in their agreements with us (or in the case of a prime contractor, their agreement with the customer), or that they will be reasonable in construing their contractual rights and obligations, always act appropriately in dealing with us or customers, provide adequate service, or remain in compliance with the relevant laws, rules or regulations. We may have disputes with our prime contractors, subcontractors, teaming partners or other third parties arising from the quality and timeliness of work being performed, customer concerns, contractual interpretations or other matters. Performance deficiencies or misconduct by our prime contractors or subcontractors or perceived performance deficiencies by us could result in a contract termination and/or could adversely affect our customer relationships and reputation. We may be exposed to liability if we lose or terminate a subcontractor or teaming partner due to a dispute, and subsequently have difficulty engaging an appropriate replacement or otherwise performing their functions in-house, such that we fail to fulfill our contractual obligations to our customer. In the event a prime contract, under which we serve as a subcontractor, is terminated, whether for non-performance by the prime contractor or otherwise, then our subcontract will similarly terminate and we could face contractual liability and the resulting contract loss could adversely affect our business, financial condition, results of operations and cash flows.

We use software vendors, utility providers and network providers in our business and could be materially adversely affected if they cannot deliver or perform as expected or if our relationships with them are terminated or otherwise change.

Our ability to service our customers and deliver and implement solutions requires that we work with certain third party providers, including software vendors, utility and network providers and depends on such third parties meeting our expectations in both timeliness and quality. Our business could be materially and adversely affected and we might incur significant additional liabilities if the services provided by these third party providers do not meet our expectations, or if they terminate or refuse to renew their relationships with us, or if they were to offer their products to us in the future on less advantageous terms. In addition, while there are backup systems in many of our operating facilities, an extended outage of utility or network services supplied by these vendors or providers may have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we are unable to protect our intellectual property rights the value of our products and services may be diminished and our business may be adversely affected.

Our success as a company depends in part upon our ability to protect our core technology and intellectual property. Our expanding operations and efforts to develop new products and services also make protection of our intellectual property more critical. The steps we have taken to deter misappropriation of intellectual property may be insufficient to protect our proprietary information. From time to time, competitors have attempted to use state open records and/or federal Freedom of Information Act laws to obtain our proposal responses. We cannot be certain that our efforts to protect these confidential and proprietary elements will always be successful, due to the many factors that go into the various state and federal decisions to release information (even in spite of our objections and responses). In addition, misappropriation of our intellectual property by third parties, or any disclosure or dissemination of our business intelligence, queries, algorithms and other similar information by any means, could undermine any competitive advantage we currently derive or may derive. On the other hand, third parties may claim that we are infringing upon or misappropriating their intellectual property. Our exposure to risks related to the use of intellectual property may also increase as a result of acquisitions since third parties may make infringement and similar or related claims after we have acquired technology. Any of these situations could result in our expending significant time and incurring expense to defend ourselves or to enforce our intellectual property rights and could result in our being prevented from furnishing certain products and services. Although we have taken measures to protect our proprietary rights, we cannot provide assurance that others will not compete with our business by offering products or concepts that are substantially similar to ours. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties or our employees, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our products and services, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

Our systems and networks may be subject to cyber security breaches and other disruptions that could compromise our information and harm our business.

In the ordinary course of our business, we rely heavily upon our technology systems and networks to input, maintain and communicate the confidential and proprietary data we receive on behalf of our customers. The secure processing and maintenance of this information is critical to our operations and business strategy. Our security measures could be compromised and, as a result, our data, customers' data, information technology or infrastructure could be accessed improperly, made unavailable, improperly modified, corrupted by computer hackers, computer viruses or other malicious software programs that could attack our services or breached due to employee error or malfeasance, all of which could create system disruptions and cause shutdowns or denials of service. This is also true for third-party products or services that we use. In addition, subcontractors, teaming partners or other third party vendors that receive or utilize confidential information on our behalf may become subject to a security breach, which may result in unauthorized access to such third-party's information systems and/or our customers' protected information. The occurrence of any of these events could cause our services to be perceived as vulnerable, cause our customers to lose confidence in our services, negatively affect our ability to attract new customers, cause existing customers to terminate or not renew our services and damage our reputation, all of which could reduce our revenue, increase our expenses and expose us to legal claims and regulatory actions. Similarly, if our internal networks are compromised, we could be adversely affected by the loss of proprietary, trade secret or confidential technical and financial data. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. We could be forced to expend significant resources in response to a cyber-security breach, including repairing system damage, increasing cyber security protection costs by deploying additional personnel and protection technologies, paying regulatory fines and litigating and resolving legal claims and regulatory actions, all of which could increase our expenses, divert the attention of our management and key personnel away from our business operations and adversely affect our results of operations.

The federal government or a state may limit or prohibit the outsourcing of certain programs or functions, or may refuse to grant consents and/or waivers necessary to permit private entities, such as us, to perform certain elements of government programs or functions, or there may be other state or federal limitations on our outsourcing of work or our vendor use that obstruct cost-effective performance of our contracts.

The federal government or a state could limit or prohibit private contractors like us from operating or performing elements of certain government functions or programs. State or local governments could be required to operate such programs with government employees as a condition of receiving federal funding. Moreover, under current law, in order to privatize certain functions of government programs, the federal government must grant a consent and/or waiver to the petitioning state or local agency. If the federal government does not grant a necessary consent or waiver, the state or local agency will be unable to outsource that function to a private entity. Such a situation could eliminate a contracting opportunity or reduce the value of an existing contract.

Similarly, other state or federal limitations on outsourcing certain types of work to vendors that supplement our own workforce could make it more difficult for us to fulfill our contracts in a cost-effective manner. Certain segments of our operations use or involve vendor or subcontractor personnel located outside of the United States, who may (under carefully controlled circumstances) access certain PHI in the course of assisting us with various elements of the services we provide to our customers. There is, however, increasing pressure from an expanding number of sources to prohibit the use of off-shore labor, particularly on government contracts. The federal government and a number of states have considered laws and/or issued rules and orders that would limit, restrict or wholly prohibit the use of off-shore labor in performance of government contracts, or impose sanctions for the use of such resources. Some of our customers have already chosen to contractually limit or restrict our ability to use off-shore resources. Intensified restrictions of this type or associated penalties could raise our costs of doing business, expose us to unexpected fines or penalties, increase the prices we must charge to customers to realize a profit and eliminate or significantly reduce the value of existing contracts or potential contract opportunities, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.

We are a United States-based company subject to various federal, state and local tax laws and regulations in multiple U.S. jurisdictions that govern numerous aspects of our business.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned and taxed, by changes in, or our interpretation of, tax rules and regulations in the jurisdictions in which we do business, by increases in expenses not deductible for tax purposes including impairments of goodwill, by changes in U.S. GAAP or by changes in the valuation of our deferred tax assets and liabilities.

In addition, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result. There can be no assurance that the final determination of any of these examinations will not have an adverse effect on our financial condition, results of operations and cash flows.

We may not be able to realize the entire book value of goodwill and other intangible assets from acquisitions.

As of December 31, 2014, we have $361.5 million of goodwill and $74.6 million of net intangible assets. We assess goodwill and other intangible assets at least annually for impairment in the second quarter of each year, or more frequently if certain events or circumstances warrant. In the event that the book value of goodwill is impaired, any such impairment would be charged to earnings in the period of impairment. We cannot provide assurance that future impairment of goodwill will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our success may depend on the continued service and availability of key personnel and we may be unable to attract and retain sufficient qualified personnel to properly operate our business.

Our success and future growth is dependent upon the ability of our executive officers and our senior managers to generate business and execute on our business plans successfully. We have experienced executive turnover in the past year and have hired and promoted a number of new executive officers. We may face challenges in effectively managing our operations as they learn about our company and business and develop working relationships with our other executive officers and their staff. Our ability to execute on our business plans will be impacted if our management team cannot work together effectively, or if other members of our senior management team resign.

In addition, our success requires that we attract, develop, motivate and retain experienced and innovative executive officers, senior managers who have successfully managed or designed government services programs or who have relevant experience in other sectors of the data management or healthcare industry and information technology professionals who have designed or implemented complex information technology projects. Innovative, experienced and technologically proficient individuals are in great demand and are likely to remain a limited resource. We cannot provide assurance that we will be able to continue to attract and retain the most capable and desirable executive officers and senior managers. We may incur increased expenses in connection with the hiring, promotion or replacement of any of these key individuals. The loss of the services of one or more of our key employees or the loss of significant numbers of senior managers or information technology professionals could adversely affect our business, financial condition, results of operations and cash flows.

Our ability to execute on contracts is dependent on our ability to attract and retain qualified employees.

Our delivery of services is labor-intensive. When we are awarded a contract, we must quickly hire project leaders, case management staff and other personnel with the specific qualifications required by our contracts. The additional staff also creates a concurrent demand for increased administrative personnel. Our ability to maintain our productivity and profitability is limited by our ability to recruit, employ, train and retain the skilled personnel necessary to fulfill our contractual requirements. The success of recruitment and retention strategy depends on a number of factors, including the competitive demands for employees having the skills we need and the level of compensation required to hire and retain such employees. We cannot provide assurance that we will be able to recruit the appropriate personnel in the timeframe required to fulfill our contractual obligations, we will be successful in maintaining the personnel necessary to efficiently operate and support our business, or if our recruitment and retention strategies are successful, our labor costs will not increase significantly. Our inability to hire sufficient personnel on a timely basis and without significantly increasing our labor costs could adversely affect our business, financial condition, results of operations and cash flows.

Our health insurance coverage and self-insurance reserves may not cover future claims.

We maintain various insurance policies for employee health, workers' compensation, general liability and property damage. We are self-insured for our health plans, and have purchased a fully-insured stop loss policy to help offset our liability for both individual and aggregate claim costs. We are also responsible for losses up to a certain limit for workers' compensation, general liability and property damage insurance.

For policies under which we are responsible for losses, we record a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions, and is closely monitored and adjusted when warranted by changing circumstances. Our significant growth rate could affect the accuracy of estimates based on historical experience. Should a greater amount of claims occur compared to what was estimated or medical costs increase beyond what was expected, our accrued liabilities might not be sufficient and we may be required to record additional expense. Unanticipated changes may also produce materially different amounts of expense than reported under these programs, which could adversely affect our financial condition, results of operations and cash flows.

Risks Related to Our Common Stock

The market price of our common stock may be volatile.

The market price of our common stock has fluctuated widely and may continue to do so. During the 52-week period ended February 20, 2015, the closing price of our common stock on the NASDAQ Global Select market ranged from a high of $23.23 per share, to a low of $15.74 per share. We expect our stock price to be subject to fluctuations as a result of a variety of factors, including factors beyond our control. Some of these factors are:

- actual or anticipated variations in our results of operations;

- the gain or loss of significant contracts or the changes in the contingency fee rates or other significant terms of our business arrangements with our significant customers;
- delays in our development and introduction of new services;
- changes in government policies or regulations;
- delays by government agencies of the awarding of contracts, including the impact of any protests or lawsuits filed in connection with the award of any such contracts;
- developments in our relationships with current or future customers and suppliers;
- operating and stock price performance of other companies that investors deem comparable to our company;
- news reports relating to trends, concerns and other issues in the healthcare industry;
- perceptions in the marketplace regarding us and/or our competitors;
- acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- political developments affecting healthcare at the federal, state or local level;
- our failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- the hiring or departure of key personnel;
- the introduction of new services by us or our competitors;
- changes in estimates of our performance or recommendations by securities analysts;
- future sales of shares of common stock in the public market;
- any other changes in the amount of our outstanding shares, including as a result of share repurchases;
- securities class action or other litigation; and
- market conditions in the industry and the economy as a whole.

In addition, the stock market often experiences significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company's stock drops significantly, stockholders may institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources or otherwise harm our business.

Certain provisions of our certificate of incorporation could discourage unsolicited takeover attempts, which could depress the market price of our common stock.

Our certificate of incorporation authorizes the issuance of up to 5,000,000 shares of "blank check" preferred stock with such designations, rights and preferences as may be determined by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights, that could adversely affect the voting power or other rights of holders of our common stock. In the event of issuance, preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying, or preventing a change in control. Although we have no present intention to issue any shares of preferred stock, we cannot provide assurance that we will not do so in the future. In addition, our bylaws provide for a classified Board of Directors, which could also have the effect of discouraging a change of control.

Because we do not intend to pay dividends, you will benefit from an investment in our common stock only if it appreciates in value.

We have paid no cash dividends on any of our capital stock to date and currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. The success of your investment in our common stock will likely depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value or even maintain the price at which you purchased your shares.

Failure to maintain adequate internal controls may affect our ability to timely or accurately report our financial results.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. If we identify and are unable to remediate material weaknesses or significant deficiencies in our internal control, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. If our financial statements are not accurate, investors may not have a complete understanding of our operations. Likewise, if our financial statements are not filed on a timely basis as required by the SEC and NASDAQ, we could face severe consequences from those authorities. Either case may result in a material adverse effect on our business. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

In June 2010, we purchased the 223,000 square foot office building in Irving, Texas that serves as our corporate headquarters and as the primary center for our operational activities. In addition, in February 2014, we entered into a lease agreement for 63,922 square feet of office space in Las Vegas, Nevada. As of December 31, 2014, we leased approximately 272,000 square feet of office space in 30 other locations throughout the United States, the leases for which have expiration dates later in 2015 and through 2024. See Note 14—"Commitments and Contingencies" in our Notes to the Consolidated Financial Statements in Item 8. Consolidated Financial Statements and Supplementary Data for additional information about our lease commitments. In general, we believe our facilities are suitable to meet our current and reasonably anticipated future needs.

Item 3. Legal Proceedings.

From time to time, we may be subject to investigations, legal proceedings and other disputes arising in the ordinary course of our business, including but not limited to regulatory audits, billing and contractual disputes and employment-related matters.

Our contractual relationships, including those with federal and state government entities, subject our operations, billing and business practices to scrutiny and audit, including by multiple agencies and levels of government, as well as to frequent transitions and changes in the personnel responsible for oversight of our contractual performance. From time to time, we may have contractual disputes with our customers arising from differing interpretations of contractual provisions that define our rights, obligations, scope of work or terms of payment, and with associated claims of liability for inaccurate or improper billing for reimbursement of contract fees, or for sanctions or damages for alleged performance deficiencies. Resolution of such disputes may involve litigation or may require that we accept some amount of loss or liability in order to avoid customer abrasion, negative marketplace perceptions and other disadvantageous results that could affect our business, financial condition, results of operations and cash flows.

Kern Health Systems: In August 2011, in the Superior Court of the State of California, County of Los Angeles, Kern Health Systems ("KHS" or "Plaintiff") sought to recover in excess of $7.0 million exclusive of interest, attorney fees and costs, against Allied Management Group Special Investigation Unit, Inc. ("AMG"), Dennis Demetre, and Lori Lewis (collectively, "Defendants"), jointly and severally, on causes of action for breach of contract, professional negligence, intentional misrepresentation, negligent misrepresentation and unfair business practices under the California Business and Professions Code. On June 9, 2014, the jury issued its verdict in favor of all Defendants, and against KHS, on all causes of action except negligent misrepresentation. On that cause of action, the jury issued a verdict against all Defendants, jointly and severally, in the sum of $1.38 million. The negligent misrepresentation verdict was based on representations to KHS allegedly made by AMG and former owner Dennis Demetre in the spring of 2008, prior to our acquisition of AMG. We believe that the jury erroneously awarded damages based on an error inasmuch as the jury unanimously found that Defendants (through Demetre) made the negligent misrepresentation to KHS while having reasonable grounds for believing the representation to be true. Based on the jury's verdict, we believe we are properly characterized as the prevailing party on the breach of contract claim. AMG has filed an appeal of the verdict and is seeking to recover its attorney fees and costs in the sum of approximately $2.3 million. We have not recorded an obligation on this matter at this time, as we have appealed this decision and believe it is probable that we will prevail on the appeal of this matter, although there are risks and uncertainties related to any litigation, including appeals, and neither we nor our counsel can assure litigation results. Pending the appeal process, we were required to obtain a surety bond in the amount of 150% of the final judgment amount, or approximately $2.2 million, which was collateralized by a cash deposit and is reflected in Other current assets on our audited Consolidated Balance Sheet at December 31, 2014.

Dennis Demetre and Lori Lewis: In July 2012, two of AMG's former owners, Dennis Demetre and Lori Lewis filed an action in the Supreme Court of the State of New York, claiming an undetermined amount of damages alleging that various actions unlawfully deprived Demetre and Lewis of the acquisition earn-out portion of the purchase price of AMG under the applicable Stock Purchase Agreement (the "SPA") and that we had breached certain contractual provisions under the SPA. Demetre and Lewis filed a second amended complaint with two causes of action for breach of contract. We filed a counter claim for breach of contract arising out of Demetre's and Lewis's failure to indemnify us for costs, including attorney fees arising out of our defense of the KHS action described above and for fraud arising out of Demetre's and Lewis's misrepresentations concerning capabilities of their software platform. We believe we have a meritorious defense and will continue to defend this matter vigorously, although there are risks and uncertainties related to any litigation.

Restrictive Covenants and Trade Secret Actions in Texas and New York: We are the plaintiff in lawsuits filed in August 2014, entitled HMS Holdings Corp., et al. v. Public Consulting Group, Inc., James Gambino, and Jason Ramos, in the District Court of Dallas County, Texas, Cause No. DC-14-09047 (the "Texas Action"), and HMS Holdings Corp., et al. v. Matthew Arendt, Sean Curtin, and Danielle Lange, in New York State Supreme Court, Albany County, Index No. A00754/2014 (the "New York Action"). These suits allege that, in violation of their respective contractual, statutory and common law obligations to us, defendant Public Consulting Group, Inc. and defendant former HMS employees Gambino, Ramos, Arendt, Curtin, and Lange, unlawfully misappropriated our confidential, proprietary and trade secret information, as well as our employee and customer relationships. The lawsuits seek damages and injunctive relief and assert causes of action including breach of contract, breach of fiduciary duty and misappropriation of trade secrets. At the Texas Court's direction, an agreed temporary restraining order was entered, under which, inter alia, the defendants are prohibited from using our confidential information, and must return any of our information. Both the Texas and New York matters are currently in the discovery phase.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

Our common stock is included in the NASDAQ Global Select Market, under the symbol HMSY. The table below summarizes the market closing high and low sales prices per share for our common stock for the periods indicated, as reported on the NASDAQ Global Select Market.

	High	Low
Year ended December 31, 2014		
Quarter ended December 31, 2014	$23.23	$18.39
Quarter ended September 30, 2014	$23.00	$18.41
Quarter ended June 30, 2014	$20.41	$15.74
Quarter ended March 31, 2014	$26.05	$18.89
Year ended December 31, 2013		
Quarter ended December 31, 2013	$23.60	$17.39
Quarter ended September 30, 2013	$26.77	$21.43
Quarter ended June 30, 2013	$28.13	$21.89
Quarter ended March 31, 2013	$31.93	$25.53

Holders

As of the close of business on February 12, 2014, there were 343 holders of record of our common stock.

Dividends

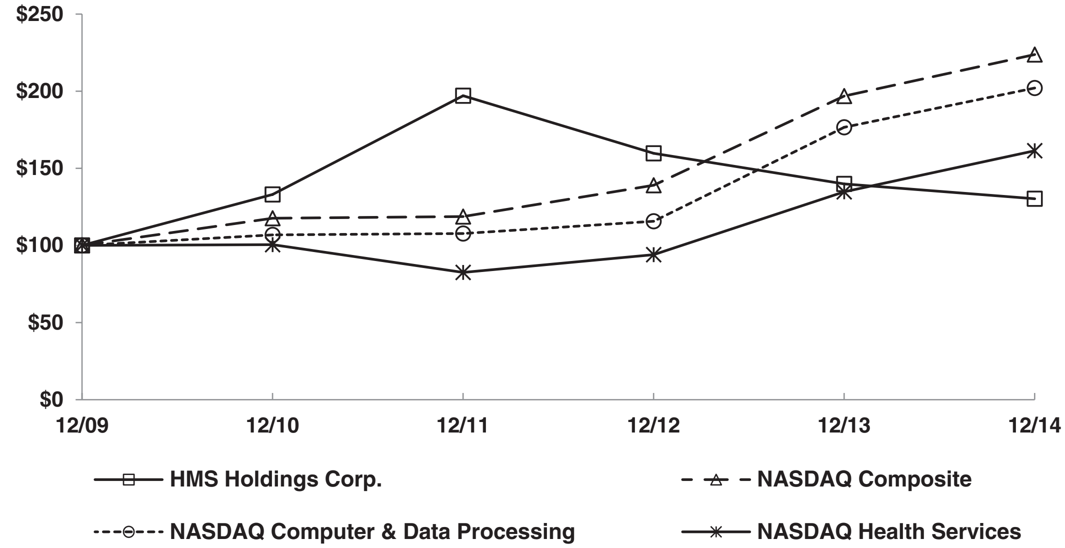
We have not paid any cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Our current intention is to retain earnings to support the future growth of our business.

In addition, our Credit Agreement restricts our ability to make certain payments or distributions with respect to our capital stock, including cash dividends to our stockholders. These restrictions are described in more detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, under "Liquidity and Capital Resources" and in Note 8—"Credit Agreement", in our Notes to the Consolidated Financial Statements under Item 8. Consolidated Financial Statements and Supplementary Data.

Comparative Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total stockholder returns of the NASDAQ Composite Index, the NASDAQ Computer and Data Processing Index and the NASDAQ Health Services Index assuming an investment of $100 on December 31, 2009 and the reinvestment of dividends through fiscal year ended December 31, 2014.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among HMS Holdings Corp., the NASDAQ Composite Index,
the NASDAQ Computer & Data Processing Index, and the NASDAQ Health Services Index



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* $100 invested on 12/31/09 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
HMS Holdings Corp	$100.00	$133.03	$197.04	$159.70	$139.86	$130.25
NASDAQ Composite	$100.00	$117.61	$118.70	$139.00	$196.83	$223.74
NASDAQ Computer & Data Processing . .	$100.00	$106.82	$107.70	$115.65	$176.58	$202.04
NASDAQ Health Services	$100.00	$100.48	$ 82.48	$ 93.99	$134.74	$161.37

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate by reference this Annual Report on Form 10-K or future filings made by us under those statutes, the Stock Performance Graph is not deemed filed with the Securities and Exchange Commission, is not deemed soliciting material and shall not be deemed incorporated by reference into any of those prior filings or into any future filings we make under those statutes, except to the extent that we specifically incorporate such information by reference into a previous or future filing, or specifically request that such information be treated as soliciting material, in each case under those statutes.

Item 6. Selected Financial Data.

The following table sets forth selected consolidated financial data at and for each of the five fiscal years in the period ended December 31, 2014. It should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this Annual Report and the Consolidated Financial Statements and Supplementary Data thereto, included in Item 8 of this Annual Report.

	Year ended December 31,				
	2014	2013	2012	2011	2010
Statement of Operations Data					
(in thousands, except per share data)					
Revenue	$443,225	$491,762	$473,696	$363,826	$302,867
Total operating expenses	409,021	414,584	374,184	282,955	236,123
Operating income	34,204	77,178	99,512	80,871	66,744
Interest expense	(7,931)	(12,460)	(16,561)	(605)	(94)
Interest income	57	71	12	65	94
Other income, net	—	801	382	632	(69)
Income before income taxes	26,330	65,590	83,345	80,963	66,675
Income taxes	12,383	25,593	32,829	33,178	26,583
Net income and comprehensive income	$ 13,947	$ 39,997	$ 50,516	$ 47,785	$ 40,092
Net Income Per Common Share					
Basic income per common share:					
Net income per common share—basic	$ 0.16	$ 0.46	$ 0.59	$ 0.56	$ 0.49
Diluted income per common share:					
Net income per common share—diluted	$ 0.16	$ 0.45	$ 0.57	$ 0.55	$ 0.47
Weighted average shares:					
Basic	87,673	87,598	86,204	84,588	81,762
Diluted	88,164	88,344	88,365	87,444	85,375

	Year ended December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data					
(in thousands)					
Cash and cash equivalents	$133,116	$ 93,366	$135,227	$ 97,003	$ 94,836
Working capital	$226,271	$199,069	$205,537	$169,862	$147,546
Total assets	$880,988	$878,602	$926,052	$869,331	$352,905
Revolving credit facility	$197,796	$232,796	$ —	$ —	$ —
Term loan, less current portion	$ —	$ —	$297,500	$332,500	$ —
Total stockholders' equity	$533,090	$502,439	$462,874	$391,237	$307,638

Item 7. 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 business overview discussion. We then present the critical accounting policies that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results followed by a discussion of our results of operations. We provide an analysis of our liquidity and capital resources, including discussions of our sources of capital, cash flows and financial commitments, and present the effects of recent accounting pronouncements.

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

Business Overview

We are managed and operate 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. We operate in the U.S. healthcare insurance benefit cost containment marketplace. We provide coordination of benefits services to government and private healthcare payers and sponsors to ensure that the responsible party pays healthcare claims. Our payment integrity services ensure that healthcare claims billed are accurate and appropriate. Together, these various services help customers recover amounts from liable third parties; prevent future improper payments; reduce fraud, waste and abuse; and ensure regulatory compliance.

As of December 31, 2014, we served CMS, the VHA, 46 state Medicaid programs and the District of Columbia. We also provided services to approximately 220 commercial customers and supported their multiple lines of business, including Medicaid managed care, Medicare Advantage and group and individual health. We also served as a subcontractor for certain business outsourcing and technology firms.

2014 Highlights and Year in Review

Total revenue was $443.2 million for the year ended December 31, 2014, a decrease of $48.6 million compared to total revenue of $491.8 million for the year ended December 31, 2013. This decrease was primarily a result of the substantial decline in revenue from HDI's Medicare RAC contract, which was partially offset by the expansion of services to our existing customers and growth through serving commercial customers. In addition, our state government customers continue their use of our services for coordination of benefits and other cost containment functions and we have been able to increase our revenue through these initiatives. Revenue excluding our Medicare RAC business for the year ended December 31, 2014 was $421.2 million, an increase of $37.4 million, or 9.8%, compared to prior year revenue excluding Medicare RAC of $383.8 million.

Our business was impacted by a number of key factors in 2014, including legislative changes, the growth in Medicaid and Medicare enrollment and spending, successes in our commercial sales program, the reduction in Medicare RAC revenue and the changes in our customer concentration.

Healthcare Environment

In March 2010, the ACA was signed into law and in June 2012, the U.S. Supreme Court upheld the constitutionality of the ACA, ruling that the federal government could not condition continued receipt of a state's existing Medicaid funding on its agreement to implement the Medicaid expansion. As of December 2014, 27 states and the District of Columbia have committed to expanding their Medicaid programs and/or have begun to implement Medicaid expansion. Based on CMS NHE Projections for 2013-2023, in 2014, Medicare programs covered approximately 53 million people and Medicaid/CHIP programs covered approximately 72 million people.

As enrollment in these government healthcare programs continues to grow under the ACA, there is increased pressure on states to contain the growth of state and federal Medicaid spending and to provide more access to healthcare for low-income individuals. According to the CMS NHE Projections for 2013-2023, Medicare programs spent approximately $616 billion in 2014, an increase of $25 billion compared to the amount spent in 2013, which CMS estimated was approximately $591 billion. In 2014, Medicaid/CHIP programs spent approximately $521 billion, an increase of $58 billion compared to the amount spent in 2013, which CMS estimated was approximately $463 billion. In response to the budgetary pressure facing the states and the rising cost of care and the number of beneficiaries, the use of managed care arrangements in Medicaid continues to grow. In addition, states are expanding the use of managed care organizations to new regions within the state or are using managed care arrangements to serve beneficiaries with more complex conditions. As such, a majority of new lives entering the Medicaid program under the ACA were enrolled in managed care organizations during 2014.

Another result of the ACA is the increasing complexity in determining eligibility, as well as the shifting of members from Medicaid government premium subsidies through the exchange and potentially back to Medicaid due to changes in income.

Customer Concentration

For the year ended December 31, 2014, our commercial sales were $170.9 million, an increase of $21.8 million, or 14.6%, from $149.1 million in 2013. This increase was driven by the number of new members we added to our commercial customer base and our sales of additional products to existing commercial customers. In addition, for the year ended December 31, 2014, our government sales were $225.8 million, an increase of $18.4 million, or 8.9%, from $ 207.4 million in 2013. Our non-Medicare RAC federal and other sales for the year ended December 31, 2014 were $24.5 million, a decrease of $2.7 million, or 9.9%, from $27.2 million in 2013.

One of our largest customers in 2014 was CMS. Our largest contract with CMS is HDI's Medicare RAC Contract, which after multiple contract modifications, now provides for a term that expires on December 31, 2015. For the year ended December 31, 2014, revenue recognized under this agreement was $22.0 million, a decrease of $86.0 million from the prior year revenue of $108.0 million. This decrease is due to the delay of new contract awards under the Medicare RAC Program and the suspension of inpatient hospital claim reviews under the Two Midnight Rule. See the Risk Factor—"Our business could be adversely affected if we fail to maintain a high level of customer retention, lose a major customer or fail to reprocure a contract, or if customers elect to reduce the scope of our contracts or terminate them before their scheduled expiration dates" for additional information.

Outlook

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 customers control healthcare costs. Our largest growth during 2014 was with commercial customers and we expect the commercial healthcare space to present the greatest opportunity for growth in the year ahead, particularly with the ongoing expansion of Medicaid and Medicare managed care (Medicare Advantage). We plan to continue our business growth by leveraging our expertise to add new customers at the state, federal and employer levels and by expanding our current contracts to provide new services to existing customers. Our goal is to develop and build on existing partnerships with our state, federal and commercial customers and our other partners to provide services that address their business needs. We also expect to improve our margins by increasing yield from our current products by increasing our operating efficiency.

Critical Accounting Policies

Revenue Recognition: We provide products and services under contracts that contain various fee structures, including contingency fee and fixed fee arrangements. We recognize revenue when a contract exists, products or services have been provided to the customer, the fee is fixed and determinable, and collectability is reasonably assured. In addition, we have contracts with the federal government which are generally cost-plus or time and material based. Revenue on cost-plus contracts is recognized based on costs incurred plus an estimate of the negotiated fee earned. Revenue on time and materials contracts is recognized based on hours worked and expenses incurred.

Under our Medicare RAC contract with CMS, our Medicaid RAC contracts with various states, and similar contracts for commercial customers, we recognize revenue when claims are sent to the customer for offset against future claims payments. Providers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of the customer. We accrue an estimated liability for appeals based on the amount of fees that are subject to appeals, closures or other adjustments and which we estimate are probable of being returned to providers following a successful appeal. This estimated liability for appeals is an offset to revenue in our Consolidated Statements of Comprehensive Income. Our estimates are based on our historical experience with appeals. The estimated liability for appeals of $36.8 million at December 31, 2014, and $41.9 million as of December 31, 2013, represents our estimate of the potential amount of repayments related to appeals of claims, closures and other adjustments for which fees were previously collected. This is reflected as a separate line item in the current liabilities section of our balance sheet titled "Estimated liability for appeals." To the extent the amount to be returned to providers following a successful appeal, closure or other adjustment exceeds the amount accrued, revenue in the applicable period would be reduced by the amount of the excess.

As of December 31, 2014, we have accrued an estimated liability for appeals and estimated allowance for appeals based on our historical experience with this activity under our customers' contracts. At this time, we do not believe that we face a risk of significant loss in excess of the amounts accrued. Accordingly, we believe that an estimate of any possible loss in excess of the amounts accrued is immaterial. Any future changes to any of our customer contracts, including further modifications to the transition plan for incumbent Medicare recovery audit contractors, may require us to apply different assumptions that could affect our estimated liability for future periods. We similarly accrue an allowance against accounts receivable related to fees yet to be collected, based on the same estimates used to establish the estimated liability for appeals of fees received. Our inability to correctly estimate the estimated liabilities and allowance against accounts receivable could adversely affect our revenue in future periods.

When contracts have multiple deliverables, we evaluate these deliverables at the inception of each contract and as each item is delivered. As part of this evaluation, we (i) consider whether a delivered item has value to a customer on a standalone basis; (ii) use the vendor specific objective evidence ("VSOE") of selling price or third party estimate ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use best estimated selling price for that deliverable; and (iii) allocate revenue to each non-contingent element based upon the relative selling price of each element. Revenue allocated to each element is then recognized when the above four basic revenue recognition criteria are met for each element. Arrangements, including implementation and transaction related revenue, are accounted for as a single unit of accounting. Since implementation services do not carry a standalone value, the revenue relating to these services is recognized over the term of the customer contract to which it relates.

In addition, some of our contracts may include customer acceptance provisions. Formal customer sign-off is not always necessary to recognize revenue, provided we objectively demonstrate that the criteria specified in the acceptance provision are satisfied. Due to the range of products and services that we provide and the differing fee structures associated with each type of contract, we may recognize revenue in irregular increments.

Expense Classifications: Our cost of services in our Consolidated Statements of Comprehensive Income is presented in the seven categories set forth below. Each category of cost excludes costs relating to selling, general and administrative functions, which are presented separately as a component of total operating expenses. A description of the primary costs included in each cost of service category is provided below:

- *Compensation:* Salary, fringe benefits and bonus.
- *Data processing:* Hardware, software and data communication costs.
- *Occupancy:* Rent, utilities, depreciation, office equipment, repair and maintenance costs.
- *Direct project costs:* Variable costs incurred from third party providers that are directly associated with specific revenue generating projects and employee travel expense.
- *Other operating costs:* Professional fees, temporary staffing, travel and entertainment, insurance and local and property tax costs.
- *Amortization of intangible assets:* Amortization cost of acquisition related software and intangible assets.
- *Selling, general and administrative:* Costs related to general management, marketing and administration activities including stock-based compensation expense.

Accounting for Income Taxes: Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary and permanent differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits for net operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is provided against deferred tax assets to the extent their realization is not more likely than not.

Uncertain income tax positions are accounted for by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements.

Valuation of Goodwill: Goodwill, representing the excess of acquisition costs over the fair value of assets and liabilities of acquired businesses, is subject to a periodic assessment for impairment in accordance with Accounting Standards Codification ("ASC") 350—Intangibles, Goodwill and Other. We assess goodwill for impairment on an annual basis as of June 30 of each year or more frequently if an event occurs or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Our assessment of goodwill impairment is at the HMS Holdings Corp. entity level as we operate as a single reporting unit.

We have the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If we can support the conclusion that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then we would not need to perform the two-step impairment test for that reporting unit. If we cannot support such a conclusion, or we do not elect to perform the qualitative assessment, then the first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill.

In the prior year, we performed our impairment testing for goodwill using the two step approach.

In the current year, we performed a qualitative assessment to determine if an impairment is more likely than not to have occurred and there was no impairment of goodwill identified.

There are no impairment charges related to goodwill for any of the fiscal periods presented.

Estimating valuation allowances and accrued liabilities, such as bad debt: The preparation of financial statements requires our management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reported period. In particular, management must make estimates of the probability of collecting our accounts receivable. When evaluating the adequacy of the allowance for doubtful accounts, management reviews our accounts receivable based on an analysis of historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms. As of December 31, 2014 and 2013, the accounts receivable balance was $157.1 million and $171.7 million, respectively, net of allowance for doubtful accounts of $1.9 million and $0.9 million, respectively and estimated allowance for appeals, closures and other adjustments of $4.8 million and $13.9 million, respectively.

Stock-based Compensation: We grant stock options to purchase our common stock and restricted stock units to our employees and directors. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period, which is generally the vesting period.

We estimate the fair value of options granted using the Black-Scholes and the Monte Carlo option pricing models. The application of these valuation models involves assumptions that are highly subjective, judgmental and sensitive in the determination of compensation cost. The Black-Scholes and Monte Carlo models incorporate the expected term of the option, the expected volatility of the price of our common stock, risk free interest rates and the expected dividend yield of our common stock. Expected volatilities are calculated based on the historical volatility of our stock. Management monitors stock option exercises 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 terms of options granted are based on our historical experience for similar types of stock option awards. The risk-free interest rate for periods within the contractual life of the option is based on the interest rate of U.S. Treasury Note's with the same expected term of the grant. All share based payment awards are amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, stock-based compensation in future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

We estimate forfeitures at the time of grant and revise the forfeiture rate in subsequent periods if actual forfeitures differ from our estimates. If actual forfeitures vary from our estimates, we will recognize the difference in compensation expense in the period the actual forfeitures occur or at the time of vesting.

Use of estimates: We prepare our consolidated financial statements in accordance with U.S. GAAP. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we have discussed further above. We have reviewed our critical accounting policies and estimates with the Audit Committee of our Board of Directors.

Contingencies: From time to time, we are involved in legal proceedings in the ordinary course of business. We assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. Significant judgment is required to determine both probability and the estimated amount. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and updated information. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. The amount of reserves required may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

The policies described above are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP, with no need for management's judgment in their application. There are also areas in which the audited consolidated financial statements and notes thereto included in this Form 10-K contain accounting policies and other disclosures required by U.S. GAAP.

Years Ended December 31, 2014 and 2013

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Comprehensive Income expressed as a percentage of revenue:

	Years ended December 31,	
	2014	2013
Revenue	100.0%	100.0%
Cost of services:		
Compensation	40.0	37.8
Data processing	8.9	7.5
Occupancy	3.8	3.7
Direct project costs	9.7	9.4
Other operating costs	5.6	5.4
Amortization of acquisition related software and intangible assets	6.5	6.5
Total cost of services	74.5	70.3
Selling, general and administrative expenses	17.8	14.0
Total operating expenses	92.3	84.3
Operating income	7.7	15.7
Interest expense	(1.8)	(2.6)
Other income, net	—	0.2
Income before income taxes	5.9	13.3
Income taxes	(2.8)	(5.2)
Net income and comprehensive income	3.1%	8.1%

Operating Results

Revenue for the year ended December 31, 2014 was $443.2 million, a decrease $48.6 million, or 9.9%, from revenue of $491.8 million for the year ended December 31, 2013. This resulted from an $86.0 million decrease in revenue related to the transitional reduction in revenue from the Medicare RAC contract and a $15.7 million decrease related to contract expirations. These decreases were partially offset by a $45.4 million increase in revenue resulting from changes in the yield and scope of projects from existing customers and differences in the timing of when customer projects were completed in the current year compared to the prior year. For the year ended December 31, 2014, an additional $7.7 million in revenue was generated from new customers.

Compensation expense as a percentage of revenue was 40.0% for the year ended December 31, 2014, compared to 37.8% for the prior year. Compensation expense was $177.3 million for 2014, a decrease of $8.5 million, or 4.6%, from the prior year compensation expense of $185.8 million. This decrease reflects a $7.4 million decrease in salary and overtime expense and a $2.2 million decrease in variable compensation, partially offset by a $0.8 million increase in severance expense and a $0.3 million increase in fringe benefits expenses. For the year ended December 31, 2014, we averaged 2,167 employees, a 10.5% decrease over the year ended December 31, 2013, during which we averaged 2,421 employees.

Data processing expense as a percentage of revenue was 8.9% for the year ended December 31, 2014, compared to 7.5% for the prior year. Data processing expense was $39.7 million for 2014, an increase of $2.6 million, or 7.0%, from the prior year data processing expense of $37.1 million. Improvements to our technology infrastructure and the requirement for higher transaction capacity resulted in higher expenses in 2014. Additional software costs of $2.6 million were primarily related to software maintenance and amortization of capitalized software and additional hardware costs of $0.6 million were primarily related to depreciation expense. These increases were partially offset by a $0.6 million decrease in data communications costs, data costs and data processing supplies expense.

Occupancy expense as a percentage of revenue was 3.8% for the year ended December 31, 2014, compared to 3.7% for the prior year. Occupancy expense was $17.0 million for 2014, a decrease of $1.4 million, or 7.6%, from the prior year occupancy expense of $18.4 million. The reduction was primarily related to the downsizing of office space and relocation of our office in New York City in 2013, and our offices in Charlestown, Massachusetts and Las Vegas in 2014. Additional savings were realized as a result of closing several of our smaller field offices in 2013 and 2014.

Direct project expense as a percentage of revenue was 9.7% for the year ended December 31, 2014, compared to 9.4% for the prior year. Direct project expense for the current period was $42.9 million, a $3.4 million, or 7.3%, decrease compared to direct project expense of $46.3 million for the prior year. The reduction reflects a $6.0 million decrease in temporary employee costs as the verification process was transitioned to subcontractors from temporary employees, which was partially offset by a $1.9 million increase in subcontractor expenses. Data costs decreased by $3.5 million as the number of patient charts reviewed were reduced in connection with the transitional reduction in revenue from the Medicare RAC Contract. Additionally, key punch and data conversion expense decreased by $1.3 million as a portion of our customer collections data shifted from hard copy to electronic media. These decreases were partially offset by increases of $5.1 million in provision for bad debt associated with two contracts and $0.4 million in lockbox expenses.

Other operating expenses as a percentage of revenue were 5.6% for the year ended December 31, 2014, compared to 5.4% for the prior year. Other operating expenses for 2014 were $24.6 million, a decrease of $1.9 million, or 7.2%, from the prior year expense of $26.5 million. This decrease primarily resulted from a $0.8 million decrease in travel and entertainment expense, a $0.6 million decrease due to a contingent payment reversal and a decrease of $0.3 million in recruiting and employee relocations.

Amortization of acquisition related software and intangible assets as a percentage of revenue was 6.5% for both years ended December 31, 2014 and 2013. Amortization of acquisition related software and intangible assets for 2014 was $28.6 million, a decrease of $3.1 million, or 9.8%, compared to the prior year expense of $31.7 million. This expense consists primarily of amortization of customer relationships, trade names and software and includes a $2.7 million decrease in expenses related to the completion of customer relationship intangible asset amortization from our acquisition of Benefits Solutions Practice Area from Public Consulting Group, Inc. in 2006. Additional decreases in amortization expense totaling $0.4 million related to the completion of restrictive covenant and trade name amortization from the Chapman Kelly, Verify Solutions and IntegriGuard acquisitions.

Selling, general and administrative expenses as a percentage of revenue were 17.8% for the year ended December 31, 2014, compared to 14.0% for the prior year. Selling, general and administrative expenses for 2014 were $79.0 million, an increase of $10.3 million, or 15.0%, compared to the prior year expense of $68.7 million. Incremental costs include a $5.9 million increase in compensation expense, which represents $2.7 million of additional salaries expense, $1.6 million in additional variable compensation, $1.4 million in additional stock-based compensation expense and $0.7 million of severance expense, partially offset by a decrease of $0.5 million in fringe benefits expense. Other expenses increased by $4.4 million primarily due to an increase in legal expenses related to our action against Public Consulting Group, Inc. and our former employees. See Item 3—"Legal Proceedings" for additional information. During the year ended December 31, 2014, we averaged 221 employees in the sales, general and administrative group, a 6.3% increase over our average of 208 employees in that group during the year ended December 31, 2013.

Operating income for the year ended December 31, 2014 was $34.2 million, or 7.7% of revenue, compared to $77.2 million, or 15.7% of revenue, for the prior year.

Interest expense was $7.9 million for the year ended December 31, 2014, compared to $12.5 million for the same period in 2013. Interest expense represents borrowings under our revolving credit facility, amortization of deferred financing costs, commitment fees for our revolving credit facility and issuance fees for our Letter of Credit. The $4.6 million decrease compared to the prior year primarily relates to a $4.0 million reduction in interest on our revolving debt since our debt restructure in May 2013, which was the result of a $130.0 million reduction in our principal balance due to debt payments and a decrease in our interest rates. Amortization of deferred financing costs decreased by $1.0 million due to the debt restructure. Other interest expense decreased by $0.1 million. These decreases were partially offset by a $0.5 million increase in commitment fees. Interest income was $57,000 for the year ended December 31, 2014, compared to interest income of $71,000 for the year ended December 31, 2013. There was no other income in the year ended December 31, 2014. Other income in the year ended 2013 represented a release of $0.8 million of the funds held in escrow related to our HDI acquisition.

We recorded income tax expense of $12.4 million for the year ended December 31, 2014, compared to income tax expense of $25.6 million for the year ended December 31, 2013, a decrease of $13.2 million. Net income before taxes decreased $39.3 million year over year, which caused a decrease in tax expense of $13.2 million. Our effective tax rate increased from 39.0% to 47.0% primarily due to a change in state apportionments and permanent differences. The principal difference between the statutory rate and our effective rate is state taxes and permanent differences.

Net income and comprehensive income of $13.9 million for the year ended December 31, 2014 represents a decrease of $26.1 million compared to net income for the same period in 2013 of $40.0 million.

Years Ended December 31, 2013 and 2012

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Comprehensive Income expressed as a percentage of revenue:

	Years ended December 31,	
	2013	2012
Revenue	100.0%	100.0%
Cost of services:		
Compensation	37.8	34.1
Data processing	7.5	6.6
Occupancy	3.7	3.7
Direct project costs	9.4	11.7
Other operating costs	5.4	4.3
Amortization of acquisition related software and intangible assets	6.5	6.9
Total cost of services	70.3	67.3
Selling, general and administrative expenses	14.0	11.7
Total operating expenses	84.3	79.0
Operating income	15.7	21.0
Interest expense	(2.6)	(3.5)
Other income, net	0.2	0.1
Income before income taxes	13.3	17.6
Income taxes	(5.2)	(6.9)
Net income and comprehensive income	8.1%	10.7%

Operating Results

Revenue for the year ended December 31, 2013 was $491.8 million, an increase of $18.1 million, or 3.8%, from revenue of $473.7 million for the year ended December 31, 2012, with $21.3 million attributable to new contracts. Organic growth in existing customer accounts together with changes in the yield and scope of those customer projects and differences in the timing of when customer projects were completed in the current year compared to the prior year provided an increase of $5.6 million. These increases in revenue were offset by a reduction of $8.8 million resulting from contracts that expired during 2013.

Compensation expense as a percentage of revenue was 37.8% for the year ended December 31, 2013, compared to 34.1% for the prior year. Compensation expense was $185.8 million for 2013, an increase of $24.3 million, or 15.0%, from the prior year compensation expense of $161.5 million. This increase reflected $15.2 million in additional salary expense. Average salary expense per employee increased by 2.7% over average salary expense last year due to annual salary increases. There was a $5.7 million increase in incentive compensation related to retention bonuses paid in the year, sign-on bonuses and annual bonus accrual for bonuses that were paid in the first quarter of 2014. Employee benefits expense increased by $2.8 million, or approximately 10.2%. This increase was related to increases in employer payroll taxes and other benefits expenses. Severance expense increased by $0.6 million related to our restructuring initiatives. For the year ended December 31, 2013, we averaged 2,421 employees, an 8.6% increase over the year ended December 31, 2012, during which we averaged 2,229 employees. This increase primarily reflected the addition of staff in the areas of information technology and product delivery.

Data processing expense as a percentage of revenue was 7.5% for the year ended December 31, 2013, compared to 6.6% for the prior year. Data processing expense was $37.1 million for 2013, an increase of

$5.6 million, or 17.9%, from the prior year data processing expense of $31.5 million. Improvements to our technology infrastructure and the requirement for higher transaction capacity resulted in higher expenses in 2013. Additional hardware costs of $4.0 million were primarily related to maintenance expense, hosting costs and depreciation expense and additional software costs of $1.6 million was primarily related to software maintenance.

Occupancy expense as a percentage of revenue was effectively flat year over year. Occupancy expense was $18.4 million for 2013, an increase of $0.9 million, or 5.4%, from the prior year occupancy expense of $17.5 million. This increase was primarily related to our assuming full occupancy of our Irving, Texas office building in 2013. In the prior year, a portion of that building was rented to tenants; as a result, occupancy costs related to the rented portion of the building were netted against rental income and recorded in Other Income. For the year ended December 31, 2013 occupancy cost increases relating to our Irving, Texas office building contributed $0.7 million of additional costs over the prior year, which included depreciation of building improvements and common area maintenance expenses. Additionally, in 2013, we closed four of our smaller offices, and relocated two other offices, which contributed approximately $0.2 million of losses related to fixed asset disposals.

Direct project expense as a percentage of revenue was 9.4% for the year ended December 31, 2013, compared to 11.7% for the prior year. Direct project expense for the current period was $46.3 million, a $9.0 million, or 16.2%, decrease compared to direct project expense of $55.3 million for the prior year. The reduction reflected a $6.9 million decrease in temporary employee costs as full time employees were utilized in the verification process as opposed to temporary employees. A $1.5 million decrease in subcontractor expenses primarily related to a large project wind-down and reductions in subcontractors used to support a major customer. A $1.1 million decrease in data costs resulted from a reduction in the number of patient charts reviewed in connection with the transitional reduction in revenue from the Medicare RAC Contract. A $0.8 million decrease in travel expense was related to cost control efforts. A $0.5 million decrease in postage and delivery expense resulted from electronic data retrieval. Supplies expenses decreased by $0.4 million. These decreases were partially offset by increases of $1.3 million in electronic data conversion expenses and $0.9 million in provision for bad debt.

Other operating expenses as a percentage of revenue were 5.4% for the year ended December 31, 2013, compared to 4.3% for the prior year. Other operating expenses for 2013 were $26.5 million, an increase of $5.9 million, or 28.7%, from the prior year expense of $20.6 million. This increase primarily resulted from a $2.6 million increase in professional and subcontractor fees. The reversal, in September 2012, of $2.3 million in contingent consideration related to our AMG-SIU acquisition contributed to the increase compared to last year. In addition, there was a $1.0 million increase in office-related expenses, including postage, delivery and supplies.

Amortization of acquisition related software and intangible assets as a percentage of revenue was 6.5% for the year ended December 31, 2013, compared to 6.9% for the prior year. Amortization of acquisition related software and intangible assets for 2013 was $31.7 million, a decrease of $0.9 million, or 2.5%, compared to the prior year expense of $32.6 million. This expense consists primarily of amortization of customer relationships, trade names and software and includes a decrease of $2.3 million in expenses related to the completion of trade name and software intangible amortization from prior acquisitions, primarily that of Benefits Solutions Practice Area in 2006. This decrease was offset by an increase of $1.5 million in amortization expense related to our acquisition of MRM in December 2012.

Selling, general and administrative expenses as a percentage of revenue were 14.0% for the year ended December 31, 2013, compared to 11.7% for the prior year. Selling, general and administrative expenses for 2013 were $68.7 million, an increase of $13.4 million, or 24.3%, compared to the prior year expense of $55.3 million. Incremental costs include a $5.5 million increase in compensation expense. This increase represents $2.9 million of additional stock-based compensation expense, $1.5 million of additional salaries expense, $0.4 million of severance expense, $0.4 million of fringe benefits expense and $0.3 million of additional variable compensation. Data processing expense increased by $0.8 million relating to higher software and equipment expenses. Occupancy expenses increased by $0.3 million due to additional space utilized in our corporate headquarters. Other expenses increased by $6.8 million primarily due to an increase in legal expenses of $6.6 million. During the year ended December 31, 2013, we averaged 208 employees in the sales, general and administrative group, a 0.5% decrease over our average of 209 employees in that group during the year ended December 31, 2012.

Operating income for the year ended December 31, 2013 was $77.2 million, or 15.7% of revenue, compared to $99.5 million, or 21.0% of revenue, for the prior year. This decrease as a percentage of revenue was primarily the result of increases in investment in our technology infrastructure in the year ended December 31, 2013.

Interest expense was $12.5 million for the year ended December 31, 2013, compared to $16.6 million for the same period in 2012. Interest expense represents borrowings under our revolving credit facility, amortization of deferred financing costs, commitment fees for our revolving credit facility and issuance fees for our Letter of Credit. The decrease of $4.1 million compared to the prior year primarily related to a reduction in debt interest expense, due to a more favorable interest rate in our revolving credit facility and a reduction in principal balance. Interest income was $71,000 for the year ended December 31, 2013, compared to interest income of $12,000 for the year ended December 31, 2012. Other income increased to $0.8 million for the year ended December 31, 2013 from $0.4 million for the year ended December 31, 2012. Other income in the year ended December 31, 2013 represented a release of $0.8 million of the funds held in escrow related to our HDI acquisition. This increase was partially offset by a $0.4 million reduction in tenant income for leases associated with our Irving, Texas building. During 2013, we assumed full occupancy of that building.

We recorded income tax expense of $25.6 million for the year ended December 31, 2013, compared to income tax expense of $32.8 million for the year ended December 31, 2012, a decrease of $7.2 million. Net income before taxes decreased $17.7 million year over year, which caused a decrease in tax expense of $7.2 million. Our effective tax rate decreased from 39.4% to 39.0% primarily due to a change in state apportionments and permanent differences. The principal difference between the statutory rate and our effective rate is state taxes and permanent differences.

Net income and comprehensive income of $40.0 million for the year ended December 31, 2013 represents a decrease of $10.5 million compared to net income for the same period in 2012 of $50.5 million.

Off-Balance Sheet Arrangements

Other than our Letter of Credit, we do not have any off-balance sheet arrangements.

Liquidity and Capital Resources

At December 31, 2014, our cash and cash equivalents and net working capital were $133.1 million and $226.3 million, respectively.

In connection with our acquisition of HDI, we entered into a five-year, revolving and term secured credit agreement, ("2011 Credit Agreement"), with certain financial institutions and Citibank, N.A. as Administrative Agent. In May 2013, we amended and restated the 2011 Credit Agreement and entered into a $500 million five-year, amended and restated revolving credit agreement ("2013 Credit Agreement"). Under specified circumstances, the revolving credit facility under the 2013 Credit Agreement can be increased or one or more incremental term loan facilities can be added. Our obligations and any amounts due under the 2013 Credit Agreement are guaranteed by our material subsidiaries and secured by a security interest in all or substantially all of our and our subsidiaries' physical assets. As of

December 31, 2014, the outstanding principal balance due on the revolving credit facility was $197.8 million.

The 2013 Credit Agreement provides for an initial $500 million revolving credit facility, and, under specified circumstances, the revolving credit facility can be increased or one or more incremental term loan facilities can be added, provided that the incremental credit facilities do not exceed in the aggregate the sum of (a) $75 million plus (b) an additional amount not less than $25 million, so long as our total secured leverage ratio, calculated giving pro forma effect to the requested incremental borrowing and other customary and appropriate pro forma adjustment events, including any permitted acquisitions, is no greater than 2.5:1.0.

The 2013 Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants, and events of default. The 2013 Credit Agreement requires us to comply, on a quarterly basis, with certain principal financial covenants, including a maximum consolidated leverage ratio reducing from 3.50:1.00 to 3.25:1.00 over the next five years and a minimum interest coverage ratio of 3.00:1.00.

The interest rates applicable to the revolving credit facility are, at our option, either (a) the LIBOR multiplied by the statutory reserve rate plus an interest margin ranging from 1.50% to 2.25% based on our consolidated leverage ratio, or (b) a base rate (which is equal to the greatest of (a) Citibank's prime rate, (b) the federal funds effective rate plus 0.50% and (c) the one-month LIBOR plus 1.00% plus an interest margin ranging from 0.50% to 1.25% based on our consolidated leverage ratio). We will pay an unused commitment fee on the revolving credit facility during the term of the 2013 Credit Agreement ranging from 0.375% to 0.50% per annum based on our consolidated leverage ratio.

Our obligations under the 2013 Credit Agreement may be accelerated upon the occurrence of an event of default, which includes customary events of default including, without limitation, payment defaults, failures to perform affirmative covenants, failure to refrain from actions or omissions prohibited by negative covenants, the inaccuracy of representations or warranties, cross-defaults, bankruptcy and insolvency related defaults, defaults relating to judgments, defaults due to certain ERISA related events and a change of control default.

As of December 31, 2014, we were in compliance with all the terms of 2013 Credit Agreement.

As of December 31, 2014, we had incurred $4.2 million of interest on the outstanding principal and $1.5 million in commitment fees on the revolving credit facility. The loan origination fee and issuance costs of $15.6 million incurred upon consummation of the Credit Agreement have been recorded as deferred financing costs and are being amortized as interest expense over the five year life of the Credit Agreement. For the year ended December 31, 2014, $2.1 million of the financing cost has been amortized to interest expense.

As part of our contractual agreement with a customer, we have an outstanding irrevocable letter of credit or Letter of Credit for $4.6 million, which we established against our existing revolving credit facility.

We expect that operating cash flows will continue to be a primary source of liquidity for our operating needs. In addition, we have the revolving credit facility, which may be used for general corporate purposes, including acquisitions.

The following tables, which should be read in conjunction with our Consolidated Statements of Cash Flows, represent the cash and cash equivalents, working capital and a summary of our cash flows at December 31, 2014 and 2013, respectively:

(In thousands)	December 31, 2014	December 31, 2013
Cash and cash equivalents	$133,116	$ 93,366
Working capital	$226,271	$199,069

A summary of our cash flows is as follows:

(In thousands)	December 31, 2014	December 31, 2013
Net cash provided by operating activities	$ 98,761	$ 101,181
Net cash used in investing activities	$(26,201)	$ (26,283)
Net cash used in financing activities	$(32,810)	$(116,759)
Net increase (decrease) in cash and cash equivalents	$ 39,750	$ (41,861)

We believe that our cash generating capability and financial condition, together with our funds available under our 2013 Credit Agreement, will be adequate to meet our operating, investing and financing needs. Our principal source of cash has been our cash flow from operations and our $500 million five-year revolving credit facility. The primary uses of cash are compensation expenses, data processing, direct project costs and selling, general and administration expenses and acquisitions. Other sources of cash include proceeds from exercise of stock options and tax benefits associated with stock option exercises. We expect that operating cash flows will continue to be a primary source of liquidity for our operating needs.

We rely on operating cash flows and cash and cash equivalent balances to provide for our liquidity requirements. We believe that we have the ability to obtain both short-term and long-term loans to meet our financing needs for the foreseeable future. Due to our significant operating cash flows, access to capital markets and available revolving credit facility under the 2013 Credit Agreement, we continue to believe that we have the ability to meet our liquidity needs for the foreseeable future, which include:

- the working capital requirements of our operations;
- investments in our business;
- business development activities; and
- repayment of our revolving credit facility under our 2013 Credit Agreement.

In connection with our appeal process in the matter of Kern Health Systems, on September 30, 2014 we obtained a surety bond in the amount of approximately $2.2 million, which was collateralized by a cash deposit and reflected in Other current assets on our audited Consolidated Balance Sheet at December 31, 2014. See Note 14—"Commitments and Contingencies" in our Notes to the Consolidated Financial Statements in Item 8. Consolidated Financial Statements and Supplementary Data.

Cash Flows from Operating Activities

Net cash provided by operating activities for the year ended December 31, 2014 was $98.8 million, a $2.4 million decrease from net cash provided by operating activities of $101.2 million for the year ended December 31, 2013. The decrease was due to normal changes in our working capital accounts.

The results of operations after non-cash adjustments to net income for the current period contributed $65.2 million as compared to a contribution of $107.9 million for the prior year. The $42.7 million decrease primarily resulted from our change in net income due to the transitional reduction in revenue from the

Medicare RAC contract. Changes in operating assets and liabilities further contributed net cash inflows of $33.6 million primarily as a result of a $5.8 million decrease in accounts receivable primarily resulting from the transitional reduction in revenue from the Medicare RAC contract, an $18.0 million increase in accounts payable, accrued expenses and other liabilities and a $3.4 million decrease in prepaid income taxes. These changes were offset by a $7.2 million decrease in our estimated liability for appeals. The decrease in our estimated liability for appeals is primarily associated with the Medicare RAC contract.

Net cash provided by operating activities for the year ended December 31, 2013 was $101.2 million. Results of operations, after noncash adjustments to net income, contributed $107.9 million to cash flows provided by operating activities, compared to a contribution of $97.4 million for the year ended December 31, 2012. This increase primarily resulted from organic growth in customer accounts and cost savings from restructuring initiatives during the year ended December 31, 2013. The contribution by results of operations was offset by changes in net cash outflows of $6.7 million related to our 2013 operating assets and liabilities. The net outflow was primarily due to a $21.9 million increase in our accounts receivable that was offset by an increase in our estimated liability for appeals of $14.5 million.

In order to allow the Days Sales Outstanding ("DSOs") calculation to be made from the face of our balance sheet, we have changedour presentation of DSOs this quarter. Historically, we have calculated and disclosed our DSOs net of certain estimated liability for appeals.We have now revised our DSO calculation to exclude them.

Our DSO calculation can be derived by dividing total net accounts receivable at the end of period, by the daily average of the current quarter's annualized sales.For the year ended December 31, 2014, revenue was $443.2 million, a decrease of $48.6 million compared to revenue of $491.8 million for the year ended December 31, 2013. The number of DSOs decreased by 1 day to 126 days as of December 31, 2014, as compared to 127 days as of December 31, 2013. DSOs utilizing the prior method of calculation were 110 days as of December 31, 2014, as compared to 105 days as of December 31, 2013.

We expect our future DSOs to be impacted by the factors described below:

- increased revenue from commercial customers that generally include longer payment terms in their contracts;
- delays in receipt of payment for previously recognized revenue due to timing delays in certain customers processing our findings through their systems, which has led to delays in paying us; operational issues, such as missing Explanation of Benefits, as well as an increase in appealed Medicare RAC receivables awaiting resolution, and
- contract renewal discussions that certain customers have used to delay making payments for previously provided services.

These factors may result in higher accounts receivable balances and higher DSOs in future periods, which would reduce net cash from operating activities in those periods. We do not anticipate collection issues with these accounts receivable, however, nor do we expect that any extended collections will materially impact our liquidity.

The majority of our customer relationships have been in place for several years. Our future operating cash flows could be adversely affected by a decrease in a demand for our services, delayed payments from customers or if one or more contracts with our largest customers is terminated or not re-awarded.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2014 was $26.2 million, a $0.1 million decrease compared to net cash used in investing activities of $26.3 million for the year ended December 31, 2013. The decrease primarily related to a $0.5 million decrease in investments in common stock and a $0.1 million decrease in investment in capitalized software, partially offset by a $0.5 million increase in purchases of property and equipment.

Net cash used in investing activities for the year ended December 31, 2013 was $26.3 million, an $11.8 million decrease compared to net cash used in investing activities of $38.1 million for the year ended December 31, 2012. The decrease primarily related to our 2012 acquisition of MRM for $12.4 million, a $3.1 million decrease in purchases of property and equipment and a $2.5 million decrease in investments in common stock. These decreases were partially offset by a $4.8 million inflow in the prior year period related to a certificate of deposit reaching maturity and a $1.4 million increase in investment in capitalized software.

Cash Flows from Financing Activities

Net cash used in financing activities for the year ended December 31, 2014 was $32.8 million, an $84.0 million decrease from net cash used in financing activities of $116.8 million for the year ended December 31, 2013. This decrease was primarily attributable to a $60.0 million reduction in payments toward the principal outstanding on our revolving credit facility and a $25.0 million reduction for treasury stock purchases. No treasury stock repurchases were made in the year ended December 31, 2014.

Net cash used in financing activities for the year ended December 31, 2013 was $116.7 million, a $110.0 million increase over net cash used in financing activities of $6.7 million for the year ended December 31, 2012. This increase was primarily attributable to $95.0 million in payments toward the principal outstanding on our revolving credit facility and an increase of $14.4 million in treasury stock purchases.

Contractual Obligations

The following tables represent the scheduled maturities of our contractual cash obligations and other commitments at December 31, 2014 (*in thousands*):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
Operating leases[1]	$ 40,541	$11,848	$10,258	$ 7,668	$10,767
Revolving credit facility[2]	197,796	—	—	197,796	—
Interest expense[3]	13,439	4,024	8,059	1,356	—
Commitment fee[4]	5,039	1,509	3,022	508	—
Capital leases[5]	1,214	1,160	54	—	—
Letter of Credit fee[6]	40	40	—	—	—
Total	$258,069	$18,581	$21,393	$207,328	$10,767

(1) Represents the future minimum lease payments under non-cancelable operating leases. In addition to minimum rent, certain of our leases require the payment for insurance, maintenance and other costs. These costs have historically represented approximately 3 to 6 percent of the minimum rent amount. These additional amounts are not included in the table of contractual obligations as the timing and/or amounts of such payments are unknown.

(2) Represents scheduled repayments of principal on the revolving credit facility under the terms of the 2013 Credit Agreement. See Note 8—"Credit Agreement" in our Notes to the Consolidated Financial Statements in Item 8. Consolidated Financial Statements and Supplementary Data for additional information regarding the Credit Agreement.

(3) Represents estimates of amounts due on revolving credit facility based on the interest rate as of December 31, 2014 and on scheduled repayments of principal. See Note 8—"Credit Agreement" in our Notes to the Consolidated Financial Statements in Item 8. Consolidated

Financial Statements and Supplementary Data for additional information regarding the 2013 Credit Agreement.

(4) Represents the commitment fee due on the revolving credit facility. See Note 8—"Credit Agreement" in our Notes to the Consolidated Financial Statements in Item 8. Consolidated Financial Statements and Supplementary Data for additional information regarding the 2013 Credit Agreement.

(5) Represents the future minimum lease payments under capital leases.

(6) Represents the fees for the letter of credit established against the revolving credit facility. See Note 8—"Credit Agreement" in our Notes to the Consolidated Financial Statements in Item 8. Consolidated Financial Statements and Supplementary Data for additional information regarding the Credit Agreement.

In May 1997, our Board of Directors authorized us to repurchase up to $10 million of shares of our common stock. We repurchased 4,988,538 shares in 1997, at an average price of $1.88 per share. In February 2006, our Board of Directors increased the aggregate repurchase amount to a maximum of $20 million. We repurchased an additional 436,309 shares at an average price of $24.29 per share and completed the Share Repurchase Plan in May 2012.

In October 2012, our Board of Directors authorized us to repurchase up to $50 million of our common stock from time to time on the open market or in privately negotiated transactions, for a period of up to two years. During this two-year period, we purchased a total of 1,101,458 shares at an average price of $22.65 per share, which amounts to $25.0 million of our common stock pursuant to this authorization.

Repurchased shares will be available for use in connection with our stock plans and for other corporate purposes.

As part of our contractual agreement with a customer, we have an outstanding irrevocable letter of credit for $4.6 million, which we established against our existing revolving credit facility.

Recently Issued Accounting Pronouncements

On March 31, 2014, the New York Bank and Corporate Franchise Tax Reform was enacted. Under this new law, banks and general corporations will be subject to a substantially revised Article 9-A franchise tax. Substantive changes to the 9-A franchise tax include, but are not limited to, new economic nexus standards, reduced corporate franchise tax rates for general corporations and qualified manufacturers, revised apportionment provisions, and new rules for when unitary combined reporting is required. As required by ASC 740-10-25-48, the effects of a change in the tax law shall be recognized as of the date of enactment. The adoption of this guidance did not have a material effect on our consolidated financial statements.

In May 2014, FASB issued an ASU that amends the FASB ASC by creating a new Topic 606, *Revenue from Contracts with Customers*. The new guidance will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance on revenue recognition throughout the Industry Topics of the Codification.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In addition, an entity should disclose sufficient qualitative and quantitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. This amendment is to be either retrospectively adopted to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

In June 2014, FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12"). ASU 2014-12 brings consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 is effective for annual reporting periods (including interim periods) beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance will not have a material effect on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

At December 31, 2014, 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. We are exposed to changes in interest rates, primarily with respect to our revolving credit facility under our 2013 Credit Agreement. If the effective interest rate for all of our variable rate debt were to increase by 100 basis points (1%), our annual interest expense would increase by a maximum of $2.0 million based on our debt balances outstanding at December 31, 2014. 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 8. Consolidated Financial Statements and Supplementary Data.

The information required by Item 8 is found on pages 55 to 88 of this Annual Report.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 or the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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 December 31, 2014. Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of period covered by this Annual Report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by Rule 13a-15(f) of the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and our Chief Financial Officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. GAAP.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

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

In connection with the preparation of our annual consolidated financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014, based on criteria established in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. In May 2013, COSO issued an updated Internal Control—Integrated Framework, or the 2013 Framework. We adopted the new framework in 2014.

Based on this assessment, management has concluded that as of December 31, 2014, our internal control over financial reporting was effective in providing assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. GAAP.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report, has issued an attestation report on our assessment of our internal control over financial reporting, a copy of which appears on page 57.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation of our controls performed during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Unless provided in an amendment to this Annual Report on Form 10-K, the following information is incorporated by reference from our definitive proxy statement for our 2015 Annual Meeting of Stockholders ("2015 Proxy Statement") as follows: (i) information about our Board of Directors, from the section captioned "*Proposal One: Election of Directors—Our Board of Directors,*" (ii) information about our Executive Officers, from the section captioned "*Executive Officers,*" (iii) information about compliance with Section 16(a) of the Exchange Act, from the section captioned "*Section 16(a) Beneficial Ownership Reporting Compliance*," (iv) information about our Code of Ethics, from the section captioned "*Board of Directors and Corporate Governance—Code of Ethics,*" (v) information regarding the procedures by which our stockholders may recommend nominees to our Board of Directors, from the sections captioned "*Questions and Answers—Stockholder Proposals and Director Nominations*" and *"Board of Directors and Corporate Governance—Director Nomination Process,"* (vi) information about our Audit Committee, including the members of the Committee, and our Audit Committee financial expert, from the section captioned "*Board of Directors and Corporate Governance—Board Committees—Audit Committee*."

Item 11. Executive Compensation.

Unless provided in an amendment to this Annual Report on Form 10-K, information about executive compensation and the compensation of our Board of Directors is incorporated by reference from the sections of our 2015 Proxy Statement captioned "*Executive Compensation,*" "*Director Compensation,*" "*Board of Directors and Corporate Governance—Compensation Committee Interlocks and Insider Participation,*" and "*Executive Compensation—Compensation Committee Report*."

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

Unless provided in an amendment to this Annual Report on Form 10-K, information about the security ownership of certain beneficial owners and management is incorporated by reference from the section in our 2015 Proxy Statement captioned "*Security Ownership of Certain Beneficial Owners and Management*."

Equity Compensation Plan Information

The following table summarizes information about our equity compensation plans as of December 31, 2014. For additional information about our equity compensation plans see Note 11—"Stock-Based Compensation" in our Notes to the Consolidated Financial Statements in Item 8 Consolidated Financial Statements and Supplemental Data.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders(1)	4,599,635	$15.35	5,945,337
Equity compensation plans not approved by stockholders(2)	180,000	$ 6.37	—
HDI plans not approved by stockholders(3)	230,447	$21.86	251,214
Total	5,010,082		

(1) This includes stock options to purchase common stock granted under our 1999 Plan and the 2006 Stock Plan and restricted stock awards and restricted stock units granted under the 2006 Stock Plan.

(2) Stock options outstanding under plans not approved by the stockholders include 180,000 options granted in July 2007 to Walter D. Hosp, our former Chief Financial Officer, under the terms of his employment agreement.

(3) Includes stock options to purchase common stock granted under the HDI 2011 Stock Plan, which was assumed in connection with our acquisition of HDI.

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

Unless provided in an amendment to this Annual Report on Form 10-K, the following information is incorporated by reference from our 2015 Proxy Statement as follows: (i) information about certain relationships and transactions with related parties to the section captioned *"Board of Directors and Corporate Governance—Certain Relationships and Related Person Transactions,"* and (ii) information about director independence to the section captioned "*Board of Directors and Corporate Governance—Board Determination of Independence.*"

Item 14. Principal Accounting Fees and Services.

Unless provided in an amendment to this Annual Report on Form 10-K, information about the fees for professional services rendered by our independent registered public accounting firm in 2014 and 2013 and our Audit Committee's policy on pre-approval of audit and permissible non-audit services provided by our independent registered public accounting firm is incorporated by reference from the section in our 2015 Proxy Statement captioned "*Proposal Three: Ratification of the Selection of Independent Registered Public Accounting Firm.*"

PART IV

Item 15. Exhibits and Financial Statement Schedules.

1. *Financial Statements.*

   The financial statements are listed in the Index to Consolidated Financial Statements on page 55.

2. *Financial Statement Schedules.*

   Financial Statement Schedule II-Valuation and Qualifying Accounts is set forth on page 89. All other financial statement schedules have been omitted as they are either not required, not applicable or the information is otherwise included.

3. *Exhibits.*

   The Exhibits are set forth on the Exhibit Index on page 90 and incorporated herein by reference.

SIGNATURES

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

HMS Holdings Corp.
(Registrant)

By: /s/ WILLIAM C. LUCIA

William C. Lucia
Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

Date: March 2, 2015

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

Signatures	Title	Date
/s/ WILLIAM C. LUCIA William C. Lucia	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2015
/s/ JEFFREY S. SHERMAN Jeffrey S. Sherman	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 2, 2015
/s/ JOSEPH M. DONABAUER Joseph M. Donabauer	Senior Vice President and Controller (Principal Accounting Officer)	March 2, 2015
/s/ ROBERT M. HOLSTER Robert M. Holster	Chairman, Board of Directors	March 2, 2015
/s/ CRAIG R. CALLEN Craig R. Callen	Director	March 2, 2015
/s/ DANIEL N. MENDELSON Daniel N. Mendelson	Director	March 2, 2015

Signatures	Title	Date
/s/ WILLIAM F. MILLER III William F. Miller III	Director	March 2, 2015
/s/ ELLEN A. RUDNICK Ellen A. Rudnick	Director	March 2, 2015
/s/ BART M. SCHWARTZ Bart M. Schwartz	Director	March 2, 2015
/s/ RICHARD H. STOWE Richard H. Stowe	Director	March 2, 2015
/s/ CORA M. TELLEZ Cora M. Tellez	Director	March 2, 2015

HMS HOLDINGS CORP. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
HMS Holdings Corp.:

We have audited the accompanying consolidated balance sheets of HMS Holdings Corp. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HMS Holdings Corp. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), HMS Holdings Corp.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP
New York, New York
March 2, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
HMS Holdings Corp.:

We have audited HMS Holdings Corp.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). HMS Holdings Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, HMS Holdings Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of HMS Holdings Corp. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and financial statement schedule and our report dated March 2, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP
New York, New York
March 2, 2015

HMS HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$133,116	$ 93,366
Accounts receivable, net of allowance for doubtful accounts of $1,898 and $916, respectively and estimated allowance for appeals of $4,824 and $13,939, at December 31, 2014 and 2013, respectively	157,101	171,726
Prepaid expenses	11,810	12,942
Prepaid income taxes	5,142	6,792
Deferred tax assets	7,811	—
Other current assets	2,639	489
Total current assets	317,619	285,315
Property and equipment, net	116,027	123,006
Goodwill	361,468	361,468
Intangible assets, net	74,578	95,312
Deferred financing costs, net	6,957	9,041
Other assets	4,339	4,460
Total assets	$880,988	$878,602
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 54,549	$ 37,123
Estimated liability for appeals	36,799	41,852
Deferred tax liabilities	—	6,326
Acquisition related contingent consideration	—	945
Total current liabilities	91,348	86,246
Long-term liabilities:		
Revolving credit facility	197,796	232,796
Deferred tax liabilities	50,853	52,523
Deferred rent	5,037	724
Other liabilities	2,864	3,874
Total long-term liabilities	256,550	289,917
Total liabilities	347,898	376,163
Commitments and contingencies (Note 14)		
Stockholders' 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; 94,511,444 shares issued and 87,985,139 shares outstanding at December 31, 2014; 93,826,453 shares issued and 87,300,148 shares outstanding at December 31, 2013	943	936
Capital in excess of par value	313,214	296,517
Retained earnings	263,947	250,000
Treasury stock, at cost: 6,526,305 shares at December 31, 2014 and 2013, respectively	(45,014)	(45,014)
Total stockholders' equity	533,090	502,439
Total liabilities and stockholders' equity	$880,988	$878,602

See accompanying notes to the consolidated financial statements.

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

	Year ended December 31,		
	2014	2013	2012
Revenue	$443,225	$491,762	$473,696
Cost of services:			
Compensation	177,313	185,788	161,547
Data processing	39,661	37,115	31,491
Occupancy	16,950	18,397	17,456
Direct project costs	42,934	46,343	55,272
Other operating costs	24,588	26,493	20,593
Amortization of acquisition related software and intangible assets	28,612	31,747	32,551
Total cost of services	330,058	345,883	318,910
Selling, general and administrative expenses	78,963	68,701	55,274
Total operating expenses	409,021	414,584	374,184
Operating income	34,204	77,178	99,512
Interest expense	(7,931)	(12,460)	(16,561)
Interest income	57	71	12
Other income, net	—	801	382
Income before income taxes	26,330	65,590	83,345
Income taxes	12,383	25,593	32,829
Net income and comprehensive income	$ 13,947	$ 39,997	$ 50,516
Basic income per common share:			
Net income per common share—basic	$ 0.16	$ 0.46	$ 0.59
Diluted income per common share:			
Net income per common share—diluted	$ 0.16	$ 0.45	$ 0.57
Weighted average shares:			
Basic	87,673	87,598	86,204
Diluted	88,164	88,344	88,365

See accompanying notes to the consolidated financial statements

HMS HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock		Capital in		Treasury Stock		Total
	# of Shares Issued	Par Value	Excess of Par Value	Retained Earnings	# of Shares	Amount	Stockholders' Equity
Balance at January 1, 2012	90,575,837	$906	$240,241	$159,487	4,988,538	$ (9,397)	$391,237
Net income and comprehensive income	—	—	—	50,516	—	—	50,516
Stock-based compensation expense	—	—	9,116	—	—	—	9,116
Purchase of treasury stock			—		436,309	(10,617)	(10,617)
Exercise of stock options	1,673,457	16	11,957	—	—	—	11,973
Vesting of restricted stock awards and units, net of shares withheld for employee tax	125,245	1	(1,785)	—	—	—	(1,784)
Excess tax benefit from exercise of stock options	—	—	12,433	—	—	—	12,433
Balance at December 31, 2012	92,374,539	923	271,962	210,003	5,424,847	(20,014)	462,874
Net income and comprehensive income	—	—	—	39,997	—	—	39,997
Stock-based compensation expense	—	—	11,997	—	—	—	11,997
Purchase of treasury stock	—	—	—	—	1,101,458	(25,000)	(25,000)
Exercise of stock options	1,305,538	12	9,248	—	—	—	9,260
Vesting of restricted stock awards and units, net of shares withheld for employee tax	146,376	1	(1,923)	—	—	—	(1,922)
Excess tax benefit from exercise of stock options	—	—	5,233	—	—	—	5,233
Balance at December 31, 2013	93,826,453	936	296,517	250,000	6,526,305	(45,014)	502,439
Net income and comprehensive income	—	—	—	13,947	—	—	13,947
Stock-based compensation expense	—	—	13,356	—	—	—	13,356
Exercise of stock options	516,552	5	4,105	—	—	—	4,110
Vesting of restricted stock awards and units, net of shares withheld for employee tax	168,439	2	(1,660)	—	—	—	(1,658)
Excess tax benefit from exercise of stock options	—	—	1,795	—	—	—	1,795
Shortfall due to exercise of stock options	—	—	(323)	—	—	—	(323)
Deferred tax asset reversal for unexercised stock options	—	—	(576)	—	—	—	(576)
Balance at December 31, 2014	94,511,444	$943	$313,214	$263,947	6,526,305	$(45,014)	$533,090

See accompanying notes to the consolidated financial statements.

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

	Year ended December 31,		
	2014	2013	2012
Operating activities:			
Net income and comprehensive income	$ 13,947	$ 39,997	$ 50,516
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	32,864	31,360	26,902
Amortization of intangible assets	20,734	23,631	24,245
Amortization of deferred financing costs	2,084	3,077	3,689
Stock-based compensation expense	13,356	11,997	9,116
Excess tax benefit from exercised stock options	(1,795)	(5,233)	(12,433)
Deferred income taxes	(12,290)	(4,354)	(6,323)
Allowance for doubtful accounts and bad debt write-offs	(3,444)	6,943	3,751
Change in fair value of contingent consideration	(517)	35	(2,300)
Loss on disposal of fixed assets	219	431	290
Changes in operating assets and liabilities:			
Accounts receivable	5,769	(21,899)	(40,235)
Prepaid expenses	1,132	1,341	(7,670)
Prepaid income taxes	3,445	(1,559)	14,326
Other current assets	(2,150)	(172)	667
Other assets	121	28	(127)
Accounts payable, accrued expenses and other liabilities	18,039	1,050	(1,340)
Estimated liability for appeals	7,247	14,508	19,965
Net cash provided by operating activities	98,761	101,181	83,039
Investing activities:			
Purchases of land, property and equipment	(22,687)	(22,127)	(25,222)
Investment in capitalized software	(3,514)	(3,656)	(2,244)
Investment in common stock	—	(500)	(3,024)
Acquisitions, net	—	—	(12,393)
Proceeds from redemption of certificate of deposit	—	—	4,809
Net cash used in investing activities	(26,201)	(26,283)	(38,074)
Financing activities:			
Repayment of revolving credit facility	(35,000)	(95,000)	—
Proceeds from exercise of stock options	4,110	9,260	11,973
Excess tax benefit from exercised stock options	1,795	5,233	12,433
Payments of tax withholdings on behalf of employees for net-share settlement for stock-based compensation	(1,658)	(1,922)	(1,784)
Payments on capital lease obligations	(1,629)	(1,711)	(996)
Payments on contingent consideration	(428)	—	(250)
Purchases of treasury stock	—	(25,000)	(10,617)
Repayment of term loan	—	(8,750)	(17,500)
Proceeds from revolving credit facility	—	4,046	—
Payment of financing fees related to revolving credit facility	—	(2,915)	—
Net cash used in financing activities	(32,810)	(116,759)	(6,741)
Net increase (decrease) in cash and cash equivalents	39,750	(41,861)	38,224
Cash and cash equivalents at beginning of year	93,366	135,227	97,003
Cash and cash equivalents at end of year	$133,116	$ 93,366	$135,227
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 21,144	$ 34,922	$ 20,490
Cash paid for interest	$ 4,458	$ 9,520	$ 13,236
Supplemental disclosure of noncash activities:			
Accrued property and equipment purchases	$ 1,610	$ 1,725	$ 4,439
Equipment purchased through capital leases	$ 20	$ 2,401	$ 2,127
Decrease in appeals liability for lost appeals offset with a reduction in accounts receivable	$ 12,300	$ —	$ —

See accompanying notes to the consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

We are incorporated in the State of Delaware. We were originally incorporated on October 2, 2002 in the State of New York. On March 3, 2003, we adopted a holding company structure and assumed the business of our predecessor, Health Management Systems, Inc. In connection with the adoption of this structure, Health Management Systems, Inc. which began doing business in 1974, became our wholly owned subsidiary. Unless the context otherwise indicates, references in these Notes to the Consolidated Financial Statements to the terms "we," "our" and "us" refer to HMS Holdings Corp., and its subsidiaries and its affiliates.

We operate in the U.S. healthcare insurance benefit cost containment marketplace. We provide coordination of benefits services to government and private healthcare payers and sponsors to ensure that the responsible party pays healthcare claims. Our payment integrity services ensure that healthcare claims billed are accurate and appropriate. Together, these various services help customers recover amounts from liable third parties; prevent future improper payments; reduce fraud, waste and abuse; and ensure regulatory compliance.

We have grown both organically and through targeted acquisitions. Initially, we provided coordination of benefits services to state Medicaid agencies. When Medicaid began to delegate members to managed care organizations, we began providing similar coordination of benefits services to those plans. We launched our payment integrity services in 2007 and have since acquired several businesses to expand our service offerings. In 2009, we began providing cost containment services for Medicare with our acquisition of IntegriGuard, LLC ("IntegriGuard"), which is now doing business as our wholly owned subsidiary HMS Federal, providing fraud, waste and abuse analytical services to the Medicare program, the Veterans Health Administration and the Department of Defense. In 2009 and 2010, we began providing cost containment services to large self-funded employers through our acquisitions of Verify Solutions, Inc. and Chapman Kelly, Inc. In 2011, we expanded our cost benefit services among federal, state and commercial payers with our acquisition of HealthDataInsights, Inc. ("HDI"). HDI provides improper payment identification services for government and commercial health plans, and is the Medicare Recovery Audit Contractor ("RAC") in CMS Region D, covering 17 states and three U.S. territories. In December 2012, we extended our workers' compensation recovery services to commercial health plans through our asset purchase of MedRecovery Management, LLC ("MRM").

We are managed and operate 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.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The 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.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, primarily accounts receivable, intangible assets,

2. Summary of Significant Accounting Policies (Continued)

accrued expenses, estimated liability for appeals and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Our actual results could differ from those estimates.

(c) Reclassifications

Certain reclassifications were made to prior year amounts to conform to the current period presentation.

(d) Cash and Cash Equivalents

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

(e) Concentration of Credit Risk

Financial instruments (principally cash and cash equivalents, accounts receivable, accounts payable and accrued expenses) are carried at cost, which approximates fair value due to the short-term maturity of these instruments. Our long-term debt or revolving credit facility is carried at cost. Due to the variable interest rate associated with the revolving credit facility, its fair value approximates its carrying value.

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 in cash depository accounts and certificate of deposits with large financial institutions. The balance in certain of these accounts exceeds the maximum balance insured by the Federal Deposit Insurance Corporation of 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 perform ongoing credit evaluations of our customers and generally do not require collateral. We have no history of significant losses from uncollectible accounts.

(f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets utilizing the straight-line method. We provide amortization of leasehold improvements on a straight-line basis over the shorter of a five year period or the term of the related lease. Equipment leased under capital leases is depreciated over the shorter of (i) the term of the lease and (ii) the estimated useful life of the equipment. The depreciation expense on assets acquired under capital leases is included in our Consolidated Statements of Comprehensive Income as depreciation expense. The estimated useful lives are as follows:

Equipment	2 - 3 years
Leasehold improvements	3 - 5 years
Furniture and fixtures	5 - 7 years
Building and building improvements	up to 39.5 years

2. Summary of Significant Accounting Policies (Continued)

(g) Software and Software Development Cost

Certain software development costs related to software that is acquired or developed for internal use while in the application development stage are capitalized. All other costs to develop software for internal use, either in the preliminary project stage or post-implementation stage, are expensed as incurred. Amortization of software and software development costs is calculated on a straight-line basis over the expected economic life of the product, generally estimated to be 5 years.

(h) Goodwill

Goodwill, representing the excess of acquisition costs over the fair value of assets and liabilities of acquired businesses, is subject to a periodic assessment for impairment in accordance with Accounting Standards Codification ("ASC") 350—Intangibles, Goodwill and Other. We assess goodwill for impairment on an annual basis as of June 30 of each year or more frequently if an event occurs or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Our assessment of goodwill impairment is at the HMS Holdings Corp. entity level as we operate as a single reporting unit.

We have the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If we can support the conclusion that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then we would not need to perform the two-step impairment test for that reporting unit. If we cannot support such a conclusion, or we do not elect to perform the qualitative assessment, then the first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill.

In the prior year, we performed our impairment testing for goodwill using the two step approach.

In the current year, we performed a qualitative assessment to determine if an impairment is more likely than not to have occurred and there was no impairment of goodwill identified.

There are no impairment charges related to goodwill for any of the fiscal periods presented.

(i) Long-Lived Assets

Long-lived assets, which include property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of its asset group to the estimated undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the asset group exceeds the fair value of the assets, which amount is charged to earnings. Fair value is based on a projection of the estimated discounted future net cash flows expected to result from the asset group, using a discount rate reflective of our cost of funds.

For long-lived assets and intangible assets, 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, we would recognize an impairment charge. 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

2. Summary of Significant Accounting Policies (Continued)

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 years ended December 31, 2014 and 2013, as management believes that carrying amounts were not impaired.

(j) Acquisition Accounting

The acquisition method of accounting requires companies to assign values to assets acquired and liabilities assumed based upon their fair value. In most instances there is not a readily defined or listed market price for individual assets and liabilities acquired in connection with a business, including intangible assets. The determination of fair value for individual assets and liabilities in many instances requires a high degree of estimation. The valuation of intangible assets, in particular, is very subjective. The use of different valuation techniques and assumptions could change the amounts and useful lives assigned to the assets and liabilities acquired, including goodwill and other intangible assets and related amortization expense.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary and permanent differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits for net operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is provided against deferred tax assets to the extent their realization is not more likely than not.

Uncertain income tax positions are accounted for by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements.

(l) Revenue Recognition and Estimated Liability for Appeals

We provide products and services under contracts that contain various fee structures, including contingency fee and fixed fee arrangements. We recognize revenue when a contract exists, products or services have been provided to the customer, the fee is fixed and determinable, and collectability is reasonably assured. In addition, we have contracts with the federal government which are generally cost-plus or time and material based. Revenue on cost-plus contracts is recognized based on costs incurred plus an estimate of the negotiated fee earned. Revenue on time and materials contracts is recognized based on hours worked and expenses incurred.

Under our Medicare RAC contract with CMS, our Medicaid RAC contracts with various states, and similar contracts for commercial customers, we recognize revenue when claims are sent to the customer for offset against future claims payments. Providers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of the customer. We accrue an estimated liability for appeals based on the amount of fees that are subject to appeals, closures or other adjustments and which we estimate are probable of being returned to providers following a successful appeal. This estimated liability

2. Summary of Significant Accounting Policies (Continued)

for appeals is an offset to revenue in our Consolidated Statements of Comprehensive Income. Our estimates are based on our historical experience with appeals. The estimated liability for appeals of $36.8 million at December 31, 2014, and $41.9 million as of December 31, 2013, represents our estimate of the potential amount of repayments related to appeals of claims, closures and other adjustments for which fees were previously collected. This is reflected as a separate line item in the current liabilities section of our balance sheet titled "Estimated liability for appeals." To the extent the amount to be returned to providers following a successful appeal, closure or other adjustment exceeds the amount accrued, revenue in the applicable period would be reduced by the amount of the excess.

As of December 31, 2014, we have accrued an estimated liability for appeals and estimated allowance for appeals based on our historical experience with this activity under our customers' contracts. At this time, we do not believe that we face a risk of significant loss in excess of the amounts accrued. Accordingly, we believe that an estimate of any possible loss in excess of the amounts accrued is immaterial. Any future changes to any of our customer contracts, including further modifications to the transition plan for incumbent Medicare recovery audit contractors, may require us to apply different assumptions that could affect our estimated liability for future periods. We similarly accrue an allowance against accounts receivable related to fees yet to be collected, based on the same estimates used to establish the estimated liability for appeals of fees received. Our inability to correctly estimate the estimated liabilities and allowance against accounts receivable could adversely affect our revenue in future periods.

When contracts have multiple deliverables, we evaluate these deliverables at the inception of each contract and as each item is delivered. As part of this evaluation, we (i) consider whether a delivered item has value to a customer on a standalone basis; (ii) use the vendor specific objective evidence ("VSOE") of selling price or third party estimate ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use best estimated selling price for that deliverable; and (iii) allocate revenue to each non-contingent element based upon the relative selling price of each element. Revenue allocated to each element is then recognized when the above four basic revenue recognition criteria are met for each element. Arrangements, including implementation and transaction related revenue, are accounted for as a single unit of accounting. Since implementation services do not carry a standalone value, the revenue relating to these services is recognized over the term of the customer contract to which it relates.

In addition, some of our contracts may include customer acceptance provisions. Formal customer sign-off is not always necessary to recognize revenue, provided we objectively demonstrate that the criteria specified in the acceptance provision are satisfied. Due to the range of products and services that we provide and the differing fee structures associated with each type of contract, we may recognize revenue in irregular increments.

(m) Stock-Based Compensation

The cost of stock-based compensation is recognized in our Consolidated Statements of Comprehensive Income based on the fair value of all awards granted using the Black-Scholes method and the Monte Carlo option pricing model for valuation. The Black-Scholes option pricing model is used for "non-performance-based" grants and the Monte Carlo option pricing model is used for performance-based grants with certain market conditions. The fair value of each award is determined and the compensation cost is recognized over the service period required to obtain full vesting. Compensation cost to be recognized reflects an estimate of the number of awards expected to vest after taking into consideration an estimate of award forfeitures based on actual experience. Upon the exercise of stock

2. Summary of Significant Accounting Policies (Continued)

options or the vesting of restricted stock units and restricted stock awards, the resulting excess tax benefits, if any, are credited to additional paid-in capital. Any resulting tax deficiencies will first be offset against those cumulative credits to additional paid-in capital. If the cumulative credits to additional paid-in capital are exhausted, tax deficiencies will be recorded to the provision for income taxes. Excess tax benefits are required to be reflected as financing cash inflows in the accompanying Consolidated Statements of Cash Flows.

(n) Fair Value of Financial Instruments

We measure certain financial assets and liabilities at fair value based on valuation techniques using the best information available, which may include quoted market prices, market comparables and discounted cash flow projections. Financial instruments may include time deposits, money market funds, and other cost method investments. In general, and where applicable, we use quoted prices in active markets for identical assets to determine fair value. If quoted prices in active markets for identical assets are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. If quoted prices for identical or similar assets are not available, we use internally developed valuation models, whose inputs include bid prices, and third party valuations utilizing underlying asset assumptions.

The fair values of our financial instruments reflect the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In addition, the Financial Accounting Standards Board (the "FASB"), authoritative guidance requires us to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value.

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 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. In the event the fair value is not readily available or determinable, the financial instrument is carried at cost and referred to as a cost method investment. The evaluation of whether an investment's fair value is less than cost is determined by using a disclosed fair value estimate, if one is available, otherwise, it is determined by evaluating whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment (an impairment indicator). We are not aware of any identified events or change in circumstances that would have a significant adverse effect on the carrying value of our cost method investments. Financial instruments 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.

2. Summary of Significant Accounting Policies (Continued)

(o) Leases

We account for our lease agreements at their inception as either operating or capital leases, depending on certain defined criteria. We recognize lease costs on a straight-line basis without regard to deferred payment terms, such as rent holidays, that defer the commencement date of required payments. Additionally, incentives we receive, such as tenant improvement allowances, are capitalized and are treated as a reduction of our rental expense over the term of the lease agreement.

(p) Recently Issued Accounting Pronouncements

On March 31, 2014, the New York Bank and Corporate Franchise Tax Reform was enacted. Under this new law, banks and general corporations will be subject to a substantially revised Article 9-A franchise tax. Substantive changes to the 9-A franchise tax include, but are not limited to, new economic nexus standards, reduced corporate franchise tax rates for general corporations and qualified manufacturers, revised apportionment provisions, and new rules for when unitary combined reporting is required. As required by ASC 740-10-25-48, the effects of a change in the tax law shall be recognized as of the date of enactment. The adoption of this guidance did not have a material effect on our consolidated financial statements.

In May 2014, FASB issued an ASU that amends the FASB ASC by creating a new Topic 606, *Revenue from Contracts with Customers*. The new guidance will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance on revenue recognition throughout the Industry Topics of the Codification.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In addition, an entity should disclose sufficient qualitative and quantitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. This amendment is to be either retrospectively adopted to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. We are currently evaluating the impact of the adoption of this guidance to our consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

In June 2014, FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ("ASU 2014-12"). ASU 2014-12 brings consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 is effective for annual reporting periods (including interim periods) beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance will not have a material effect on our consolidated financial statements.

3. Acquisitions

The results of operations for our acquisitions have been included in our consolidated financial statements from the respective dates of acquisition.

MedRecovery Management, LLC.

In December 2012, we acquired the assets and liabilities of MRM for an aggregate purchase price of $11.7 million, consisting of a $10.8 million initial cash payment and $0.9 million in future contingent payments that are based on the achievement of certain performance milestones. We recognized $1.9 million of goodwill in connection with our acquisition of MRM. In June 2013, we finalized the valuation of intangible assets and future contingent consideration related to this acquisition and determined that, as of acquisition date, the value of intangible assets was $9.2 million and the value of future contingent consideration was $0.9 million. The Consolidated Balance Sheet for the year ended December 31, 2012 was retrospectively adjusted to increase the carrying amount of intangible assets by $9.2 million, decrease the carrying value of future contingent consideration by $0.1 million and decrease the carrying value of goodwill by $9.3 million. Of the total intangible assets acquired, $8.9 million was related to customer relationships and has an amortization period of seven years and $0.3 million was related to restrictive covenants and has an amortization period of two years. During 2014, we paid approximately $0.4 million of contingent consideration due to the achievement in 2013 of certain performance milestones. We reversed approximately $0.5 million of contingent consideration liability upon the non-achievement of the remaining performance milestones. This amount is included in other operating costs for the year ended December 31, 2014.

4. Property and Equipment

Property and equipment at December 31, 2014 and 2013 consisted of the following (*in thousands*):

	December 31, 2014	December 31, 2013
Equipment	$ 94,686	$ 86,494
Leasehold improvements	9,194	3,712
Building	8,624	8,624
Building improvements	8,762	7,404
Land	2,769	1,163
Furniture and fixtures	12,107	11,045
Capitalized software	101,069	97,555
	237,211	215,997
Less accumulated depreciation and amortization	(121,184)	(92,991)
Property and equipment, net	$ 116,027	$123,006

Depreciation and amortization expense related to property and equipment charged to operations for the years ended December 31, 2014, 2013 and 2012 was $32.9 million, $31.4 million and $26.9 million, respectively. Net capital leases included as part of equipment were approximately $1.2 million and $2.8 million at December 31, 2014 and 2013, respectively. Accumulated depreciation for equipment under capital leases was approximately $4.8 million and $3.2 million for the years ended December 31, 2014 and 2013. Depreciation expense for equipment under capital leases for the years ended December 31, 2014, 2013 and 2012 was approximately $1.6 million, $1.7 million, and $1.4 million, respectively.

5. Intangible Assets

Intangible assets consisted of the following at December 31, 2014 and 2013 (*in thousands*):

	Gross Value	Accumulated Amortization	Net Book Value	Useful Life
December 31, 2014				
Customer relationships	$102,755	$(44,020)	$58,735	5 - 10 years
Restrictive covenants	18,000	(11,394)	6,606	3 - 7 years
Trade name	17,000	(7,763)	9,237	3 - 5 years
	$137,755	$(63,177)	$74,578	
December 31, 2013				
Customer relationships	$102,755	$(29,504)	$73,251	5 - 10 years
Restrictive covenants	18,300	(7,981)	10,319	3 - 7 years
Trade name	19,532	(7,790)	11,742	3 - 5 years
	$140,587	$(45,275)	$95,312	

5. Intangible Assets (Continued)

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

Year ending December 31,	
2015	$20,270
2016	19,934
2017	16,613
2018	15,992
2019	1,582
Thereafter	187

For the years ended December 31, 2014, December 31, 2013 and December 31, 2012, amortization expense related to intangible assets was $20.7 million, $23.6 million and $24.2 million, respectively.

There were no changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013.

6. Accounts Payable, Accrued Expenses and Other Liabilities

Accounts payable, accrued expenses and other liabilities at December 31, 2014 and 2013 consisted of the following (*in thousands*):

	December 31,	
	2014	2013
Accounts payable, trade	$14,840	$ 7,217
Accrued compensation	16,895	15,419
Accrued direct project costs	1,543	1,629
Accrued refunds	1,842	2,667
Liability for tax payments	4,159	—
Accrued other liabilities	15,270	10,191
Total accounts payable, accrued expenses and other liabilities	$54,549	$37,123

7. Income Taxes

The income tax expense for the years ended December 31, 2014, 2013 and 2012 is as follows (*in thousands*):

	December 31,		
	2014	2013	2012
Current tax expense:			
Federal	$ 20,244	$25,211	$33,456
State	4,429	4,736	5,696
	24,673	29,947	39,152
Deferred tax expense (benefit):			
Federal	(12,421)	(3,485)	(6,085)
State	131	(869)	(238)
	(12,290)	(4,354)	(6,323)
Total income tax expense	$ 12,383	$25,593	$32,829

A reconciliation of the income tax expense calculated using the applicable federal statutory rates to the actual income tax expense for the years ended December 31, 2014, 2013 and 2012 is as follows (*in thousands*):

	December 31,					
	2014	%	2013	%	2012	%
Computed at federal statutory rate	$ 9,215	35.0	$22,946	35.0	$29,171	35.0
State and local tax expense, net of federal benefit	2,973	11.3	2,448	3.7	3,548	4.3
Other, net	195	0.7	199	0.3	110	0.1
Total income tax expense	$12,383	47.0	$25,593	39.0	$32,829	39.4

Our effective tax rate increased to 47.0% for the year ended December 31, 2014 from 39.0% for the year ended December 31, 2013, primarily due to a change in state apportionments and permanent differences. The principal difference between the statutory rate and our effective rate is state taxes and permanent differences.

Deferred income taxes are recognized for the future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities. The tax effect of temporary

7. Income Taxes (Continued)

differences that give rise to a significant portion of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 were as follows (*in thousands*):

	December 31,	
	2014	2013
Deferred tax assets:		
Deferred stock-based compensation expense	$ 7,739	$ 6,112
Goodwill and intangible assets	10,416	7,679
Accounts receivables	2,576	1,905
Allowance for doubtful accounts and deferred revenue	1,473	669
Deferred rent	783	215
Restructuring cost	513	369
Tenant improvements	1,339	—
Net operating loss carry-forwards	122	69
Other	2,824	843
Total deferred tax assets	27,785	17,861
Deferred tax liabilities:		
Goodwill and intangible assets	61,328	64,317
Property and equipment	6,107	8,287
Capitalized software cost	3,392	2,995
Prepaid expenses	—	1,111
Total deferred tax liabilities	70,827	76,710
Total net deferred tax liabilities	$43,042	$58,849
Net current deferred tax (assets) liabilities	$ (7,811)	$ 6,326
Net non-current deferred tax liabilities	50,853	52,523
Total net deferred tax liabilities	$43,042	$58,849

During 2014, we utilized $4.9 million in tax deductions arising from stock-based compensation, which resulted in an excess tax benefit of $1.8 million that was recorded to capital in excess of par value and an offsetting reduction to taxes payable.

As of December 31, 2014 and 2013, the total amount of unrecognized tax benefits was approximately $1.3 million and $1.0 million, respectively (net of the federal benefit for state issues) of unrecognized tax benefits that, if recognized, would favorably affect our future effective tax rate. The accrued liability for interest expense and penalties related to unrecognized tax benefits was $0.2 million for both December 31, 2014 and 2013. We include interest expense and penalties in the provision for income taxes in the Consolidated Statements of Comprehensive Income. The amount of interest expense (net of federal and state income tax benefits) and penalties in the Consolidated Statements of Comprehensive Income for the years ended December 31, 2014 and 2013 was immaterial. We do not expect any significant change in unrecognized tax benefits during the next twelve months.

7. Income Taxes (Continued)

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the twelve months ended December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
Unrecognized tax benefits at January 1	$1,034	$ 799
Additions for tax positions of prior periods	484	26
Additions for tax positions of current periods	—	280
Reductions related to the expiration of statutes of limitations	(189)	(71)
Unrecognized tax benefits at December 31	$1,329	$1,034

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 2011. 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. We are currently being examined by the State of New York.

8. Credit Agreement

In connection with our acquisition of HDI, we entered into a five-year, revolving and term secured credit agreement, ("2011 Credit Agreement"), with certain financial institutions and Citibank, N.A. as Administrative Agent. In May 2013, we amended and restated the 2011 Credit Agreement and entered into a $500 million five-year, amended and restated revolving credit agreement ("2013 Credit Agreement"). During the year ended December 31, 2014, we made principal payments of $35.0 million against our revolving credit facility. During the year ended December 31, 2013, we made principal payments of $8.8 million against our term loan and $95.0 million against our revolving credit facility. The $197.8 million principal balance of our revolving credit facility is due in May 2018.

The 2013 Credit Agreement provides for an initial $500 million revolving credit facility, and, under specified circumstances, the revolving credit facility can be increased or one or more incremental term loan facilities can be added, provided that the incremental credit facilities do not exceed in the aggregate the sum of (a) $75 million plus (b) an additional amount not less than $25 million, so long as our total secured leverage ratio, calculated giving pro forma effect to the requested incremental borrowing and other customary and appropriate pro forma adjustment events, including any permitted acquisitions, is no greater than 2.5:1.0. The 2013 Credit Agreement is collateralized by our assets.

The 2013 Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants, and events of default. The 2013 Credit Agreement requires us to comply, on a quarterly basis, with certain principal financial covenants, including a maximum consolidated leverage ratio reducing from 3.50:1.00 to 3.25:1.00 over the next five years and a minimum interest coverage ratio of 3.00:1.00.

The interest rates applicable to the revolving credit facility are, at our option, either (a) the LIBOR multiplied by the statutory reserve rate plus an interest margin ranging from 1.50% to 2.25% based on our consolidated leverage ratio, or (b) a base rate (which is equal to the greatest of (a) Citibank's prime rate, (b) the federal funds effective rate plus 0.50% and (c) the one-month LIBOR plus 1.00% plus an interest margin ranging from 0.50% to 1.25% based on our consolidated leverage ratio). We pay an unused

8. Credit Agreement (Continued)

commitment fee on the revolving credit facility during the term of the 2013 Credit Agreement ranging from 0.375% to 0.50% per annum based on our consolidated leverage ratio.

Our obligations under the 2013 Credit Agreement may be accelerated upon the occurrence of an event of default, which includes customary events of default including, without limitation, payment defaults, failures to perform affirmative covenants, failure to refrain from actions or omissions prohibited by negative covenants, the inaccuracy of representations or warranties, cross-defaults, bankruptcy and insolvency related defaults, defaults relating to judgments, defaults due to certain ERISA related events and a change of control default. As of December 31, 2014, we were in compliance with all the terms of the 2013 Credit Agreement.

Borrowings under the 2013 Credit Agreement were used to refinance the outstanding principal and unpaid interest of $323.8 million and $1.1 million, respectively, under the term loan of the 2011 Credit Agreement. We paid lender fees of $2.9 million in connection with amending and restating the Credit Agreement.

The interest expense and the commitment fees on the unused portion of our revolving credit facility are as follows (*in thousands*):

	December 31,		
	2014	2013	2012
Interest expense	$4,186	$8,156	$12,200
Commitment fees	$1,465	$ 887	$ 500

At December 31, 2014 and December 31, 2013, the unamortized balance of deferred origination fees and debt issue costs were $6.9 million and $9.0 million, respectively. For the years ended December 31, 2014 and 2013, we amortized $2.1 million and $3.1 million, respectively, of interest expense related to our deferred origination fees and debt issue costs.

Although we expect that operating cash flows will continue to be a primary source of liquidity for our operating needs, we have the revolving credit facility, which may be used for general corporate purposes, including acquisitions, available for future cash flow needs, if necessary.

As part of our contractual agreement with a customer, we have an outstanding irrevocable letter of credit or Letter of Credit for $4.6 million, which we established against our existing revolving credit facility.

9. Equity

(a) Treasury Stock

In October 2012, our Board of Directors authorized us to repurchase up to $50 million of our common stock from time to time on the open market or in privately negotiated transactions, for a period of up to two years. During this two year period, we purchased a total of 1,101,458 shares at an average price of $22.65 per share, which amounts to $25.0 million of our common stock pursuant to this authorization.

The above repurchased shares will be available for use in connection with our stock plans and for other corporate purposes.

9. Equity (Continued)

(b) Preferred Stock

Our certificate of incorporation, as amended, authorizes the issuance of up to 5,000,000 shares of "blank check" preferred stock with such designations, rights and preferences as may be determined by our Board of Directors. As of December 31, 2014, no preferred stock had been issued.

10. Employee Benefit Plan

We sponsor a benefit plan to provide retirement benefits for our employees, which is known as the HMS Holdings Corp. 401(k) Plan (the "401(k) Plan"). Eligible employees must complete 90 days of service in order to enroll in the 401(k) Plan. Participants may make voluntary contributions to the 401(k) Plan of up to 60% of their annual base pre-tax compensation not to exceed the federally determined maximum allowable contribution. In addition, the 401(k) Plan permits us to make discretionary contributions. We match 100% of the first 3% of pay contributed by each eligible employee and 50% on the next 2% of pay contributed. These matching contributions vest immediately and are not in the form of our common stock.

For the years ended December 31, 2014, 2013 and 2012, we contributed $5.0 million, $4.6 million and $3.7 million, respectively, to the 401(k) Plan in the form of matching contributions.

11. Stock-Based Compensation

We grant stock options to purchase our common stock, restricted stock awards and restricted stock units to our employees and directors under the Amended 2011 Stock Option and Stock Issuance Plan (the "HDI 2011 Stock Plan"), which we assumed in connection with our acquisition of HDI and the Fourth Amended and Restated 2006 Stock Plan (the "2006 Stock Plan"). The HDI 2011 Stock Plan superseded the HealthDataInsights Inc. Amended 2004 Stock Option/Stock Issuance Plan. The 2006 Stock Plan was adopted in June 2006 and superseded our 1999 Long-Term Incentive Stock Plan (the "1999 Plan"). We have previously granted stock options outside of our plans, and some of those stock options still remain outstanding.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. Stock options granted under the HDI 2011 Stock Plan had vesting schedules ranging from one month to four years. Stock options granted under the 2006 Stock Plan generally vest over a one to four year period. All stock options granted under the 1999 Plan and outside our plans are fully vested. The restricted stock awards and restricted stock units granted under the 2006 Stock Plan vest over a one to five year period and the related stock-based compensation expense is ratably recognized over those same time periods.

Total stock-based compensation expense charged as a selling, general and administrative expense related to our stock compensation plans was $13.4 million, $12.0 million and $9.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. The excess tax benefit from the exercise of stock options for the years ended December 31, 2014, 2013 and 2012 was $1.8 million, $5.2 million and $12.4 million, respectively.

11. Stock-Based Compensation (Continued)

(a) Amended 2011 Stock Option and Stock Issuance Plan

We assumed the HDI 2011 Stock Plan in connection with our acquisition of HDI. As of December 31, 2014, there were stock options to purchase 230,447 shares of common stock outstanding under the HDI 2011 Stock Plan.

The HDI 2011 Stock Plan is divided into two separate equity programs: a stock option grant program and a stock issuance program. The HDI 2011 Stock Plan permits the grant of incentive stock options, non-qualified stock options and share awards. A total of 836,122 shares have been authorized for issuance under the 2011 Stock Plan. The maximum number of shares available to be issued under the Plan is currently 251,214 shares, subject to adjustments for any stock splits, stock dividends or other specified adjustments which may take place in the future. Former HDI employees as well as new (i) employees, (ii) non-employee directors and (iii) consultants and other independent advisors are eligible to participate in the HDI 2011 Stock Plan. However, only employees are eligible to receive incentive stock options. The exercise price of stock options granted under the HDI 2011 Stock Plan may not be less than fair market value of a share of stock on the grant date, as measured by the closing price of our common stock on The NASDAQ Global Select Market and the term of a stock option may not exceed ten years.

(b) Fourth Amended and Restated 2006 Stock Plan

The 2006 Stock Plan permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights ("SARs"), restricted stock awards and restricted stock units, performance shares and performance units and other share awards.

Our 2006 Stock Plan was approved by our stockholders in June 2006. The purpose of the 2006 Stock Plan is to furnish a material incentive to our employees and non-employee directors by making available to them the benefits of a larger common stock ownership through stock options and awards. We believe that these increased incentives stimulate the efforts of employees and non-employee directors towards our continued success, as well as assist in the recruitment of new employees and non-employee directors.

A total of 18,000,000 shares have been authorized for issuance under the 2006 Stock Plan. Any shares issued in connection with awards other than stock options and SARs are counted against the 18,000,000 share limit as one and eighty-five hundredths (1.85) of a share for every one share issued in connection with such award or by which the award is valued by reference.

All of our employees as well as our non-employee directors are eligible to participate in the 2006 Stock Plan. However, only our employees are eligible to receive incentive stock. The exercise price of stock options granted under the 2006 Stock Plan may not be less than fair market value of a share of stock on the grant date, as measured by the closing price of our common stock on The NASDAQ Global Select Market and the term of a stock option may not exceed seven years.

In November 2014, the Compensation Committee of the Board of Directors approved the grant of non-qualified stock options to purchase an aggregate of 565,823 shares of common stock to certain of our directors and employees, including our executive officers, under the 2006 Stock Plan at an exercise price of $21.63 per share, the closing price of our common stock on the grant date. The Committee also approved the grant of 318,654 restricted stock units to directors and certain employees on the same date. The stock options and restricted stock units granted to our executive officers vest as follows: one half of the awards vest in equal installments on each of the first three anniversaries of the grant date, and provided the average closing price per share of our common stock is at least 25% higher than the exercise price for a

11. Stock-Based Compensation (Continued)

period of 30 consecutive days, which we refer to as the performance condition, then the other half will vest in accordance with a pre-defined schedule depending upon when during the three year period following the grant date the performance condition is achieved. The stock options and restricted stock units granted to the other employees vest in equal installments on each of the first three anniversaries of the grant date. The stock options and restricted units granted to our directors in November 2014 vest quarterly over a one year period commencing on December 31, 2014.

During the year ended December 31, 2014, we granted stock options to purchase an aggregate of 761,918 shares of common stock and 582,936 restricted stock units under the 2006 Stock Plan.

As of December 31, 2014, there were 5,945,337 shares of common stock available for future grant under the 2006 Stock Plan. We had the following outstanding under the 2006 Stock Plan as of December 31, 2014: (i) stock options to purchase 3,615,810 shares of common stock and (ii) 909,535 restricted stock units. There are no restricted stock awards outstanding under the 2006 Stock Plan as of December 31, 2014.

(c) 1999 Long-Term Incentive Plan

The 1999 Plan was approved by our stockholders in March 1999 and was superseded by the 2006 Stock Plan in June 2006. Accordingly, no additional awards or options may be granted thereunder. As of December 31, 2014, there were 74,290 stock options outstanding under the 1999 Plan.

(d) Options Issued Outside the Plans

As of December 31, 2014, there were stock options to purchase an aggregate of 180,000 shares of our common stock outstanding that were not granted under the 2006 Stock Plan, the 1999 Plan or the HDI 2011 Stock Plan, of which 180,000 stock options were granted in July 2007 to Walter D. Hosp, our former Chief Financial Officer, under the terms of his employment agreement.

(e) Summary of Stock Options

Presented below is a summary of our stock option activity for the year ended December 31, 2014 (*shares and aggregate intrinsic value in thousands*):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at				
December 31, 2013	4,273	$17.53		
Granted	762	21.27		
Exercised	(461)	7.96		
Forfeitures	(286)	23.49		
Expired	(187)	22.92		
Outstanding at December 31, 2014	4,101	18.72	4.54	16,246
Expected to vest at December 31, 2014	1,752	22.09	6.14	345
Exercisable at December 31, 2014	2,305	$16.10	3.29	$15,892

11. Stock-Based Compensation (Continued)

For awards subject to service-based vesting conditions, we recognize stock-based compensation expense, net of estimated forfeitures, equal to the grant date fair value of stock options on a straight-line basis over the requisite service period, which is generally the vesting term. For awards subject to both performance and service-based vesting conditions, we recognize stock-based compensation expense using the straight-line recognition method when it is probable that the performance condition will be achieved. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The fair value of each option grant with service-based vesting conditions was estimated using the Black-Scholes pricing models. The performance share awards granted in 2014 and 2013 are market condition awards as attainment is based on the performance of our common stock for the relevant performance period. These awards were valued on the date of grant using a Monte Carlo simulation model.

Expected volatilities are calculated based on the historical volatility of our common stock. Management monitors stock option exercises 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 on our historical experience for similar types of stock option awards. The risk-free interest rate is based on U.S. Treasury Notes.

11. Stock-Based Compensation (Continued)

The weighted-average grant-date fair value per share of the stock options granted during the years ended December 31, 2014, 2013 and 2012 was $7.59, $7.07 and $9.35, respectively. We estimated the fair value of each stock option grant on the date of grant using a Black-Scholes option pricing model and weighted-average assumptions set forth in the following table:

	Year ended December 31,		
	2014	2013	2012
Expected dividend yield	0%	0%	0%
Risk-free interest rate	1.57%	1.21%	0.55%
Expected volatility	38.18%	37.22%	40.13%
Expected life	4.82 years	4.51 years	4.47 years

During the years ended December 31, 2014, 2013 and 2012, we issued 516,552 shares, 1,300,000 shares and 1,700,000 shares, respectively, of our common stock upon the exercise of outstanding stock options and received proceeds of $4.1 million, $9.3 million and $12.0 million, respectively. The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was $6.5 million, $23.9 million and $39.6 million, respectively.

For the years ended December 31, 2014, 2013 and 2012, approximately $7.6 million, $6.7 million and $7.3 million, respectively, of stock-based compensation expense relating to stock options was charged against income.

As of December 31, 2014, there was approximately $10.7 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 1.5 years.

(f) Restricted Stock Units

In 2014, 2013 and 2012, certain employees 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. As of December 31, 2014, 2013 and 2012, 813,346, 571,204 and 379,734 restricted stock units remain unvested and there was approximately $13.8 million, $11.6 million and $4.1 million, respectively, of unamortized compensation cost related to restricted stock units which is expected to be recognized over the remaining weighted-average vesting period of 1.6 years.

For the years ended December 31, 2014, 2013 and 2012, stock-based compensation expense related to restricted stock units, was $5.7 million, $4.5 million and $1.0 million, respectively.

11. Stock-Based Compensation (Continued)

A summary of the status of our restricted stock units and of changes in restricted stock units outstanding under the 2006 Stock Plan, as amended, as of December 31, 2014 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 Share	Aggregate Intrinsic Value
Outstanding balance at December 31, 2013	636	$25.50	
Granted	583	21.00	
Vesting of restricted stock units, net of shares withheld for taxes	(110)	25.07	
Shares withheld for taxes	(50)	25.07	
Forfeitures	(149)	24.67	
Outstanding balance at December 31, 2014	910	$22.84	$19,246

(g) Restricted Stock Awards

Certain 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 and in addition, restricted stock holders are permitted to vote and 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. Shares withheld to pay taxes are retired upon the vesting of the restricted stock awards. We did not issue restricted stock awards during the year ended December 31, 2014. At December 31, 2014, there are no unvested shares underlying restricted stock awards and there is no unrecognized compensation cost related to restricted stock awards. For each of the years ended December 31, 2014, 2013 and 2012, stock-based compensation expense related to restricted stock awards was $0.1 million, $0.7 million, and $0.8 million, respectively.

A summary of the status of our restricted stock awards as of December 31, 2014 and of changes in restricted stock awards outstanding under the 2006 Stock Plan for the year ended December 31, 2014 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, 2013	82	$10.42	
Vesting of restricted stock awards	(54)	10.42	
Shares withheld for payment of taxes upon vesting of restricted stock awards	(28)	10.42	
Outstanding balance at December 31, 2014	—	$ —	$—

12. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2014, 2013 and 2012.

Basic and diluted	Years Ended December 31 2014	2013	2012
	(in thousands, except per share data)		
Net income	$13,947	$39,997	$50,516
Net weighted average common shares outstanding—basic	87,673	87,598	86,204
Plus: net effect of dilutive stock options and restricted common shares	491	746	2,161
Weighted average common shares outstanding—diluted	88,164	88,344	88,365
Net income per common share—basic	$ 0.16	$ 0.46	$ 0.59
Net income per common share—diluted	$ 0.16	$ 0.45	$ 0.57

For the years ended December 31, 2014, 2013 and 2012, 2,422,628, 1,111,795 and 566,876 stock options, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive. For the years ended December 31, 2014, 2013 and 2012, restricted stock units representing, 90,905, 88,327 and 50,300 shares of common stock, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive.

13. Transactions with Officers, Related Parties and Others

(a) Public Consulting Group, Inc.

Since our acquisition of Benefits Solutions Practice Area ("BSPA") from Public Consulting Group, Inc. ("PCG") in 2006, we have entered into subcontractor agreements with PCG, pursuant to which we provide cost containment services. In February 2013, we further amended and extended our Master Teaming and Non-Compete Agreements with PCG, first entered into in September 2006, and (ii) Supplementary Medicaid RAC Contract Teaming and Confidentiality with PCG, first entered into in July 2011. Both of these agreements expired on December 31, 2013.

For the years ended December 31, 2013 and 2012, amounts recognized as revenue under subcontractor agreements with PCG were $0.4 million and $0.6 million, respectively. No revenue was recognized during 2014. As of December 31, 2014 and 2013, no accounts receivable were outstanding related to these subcontract agreements with PCG.

In connection with the BSPA acquisition, we entered into an Intercompany Services Agreement ("ISA") with PCG to allow each party to perform services for the other, such as information technology support and contractual transition services. Services performed under the ISA were billed at pre-determined rates specified in the ISA. No significant services were rendered by PCG under the ISA during 2014. For the years ended December 31, 2013 and 2012 services rendered by PCG under the ISA were valued at approximately $42,000 and $58,000, respectively. For the years ended December 31, 2014, 2013 and 2012 our services rendered to PCG were valued at approximately $21,000, $70,000 and $41,000, respectively.

13. Transactions with Officers, Related Parties and Others (Continued)

Since the BSPA acquisition, amounts collected by or paid on our behalf by PCG are reimbursed to PCG at cost. For the years ended December 31, 2014 and 2013, we did not owe any amount to PCG.

(b) Employment Agreements

Effective March 1, 2013, and as amended on April 30, 2013, we entered into an Executive Employment Agreement with William C. Lucia, our President and Chief Executive Officer, with a termination date of February 28, 2015. Mr. Lucia is eligible to receive bonus compensation from us in respect of each fiscal year (or portion thereof) during the term of his employment, in each case as may be determined by our Compensation Committee in its sole discretion on the basis of performance or such other criteria as may be established from time to time by the Compensation Committee in its sole discretion. Mr. Lucia's annualized base salary remains at $650,000 and his target bonus remains at 100% of his base salary.

On January 20, 2015, the Executive Agreement with Mr. Lucia was further amended. See Note 16—"Subsequent Events" for terms of the amended agreement.

If we terminate Mr. Lucia's employment without Cause, in connection with a Change in Control (as defined in the agreement) or otherwise, or if his employment ceases because of his disability or if he terminates his employment with Good Reason (as defined in the agreement), then provided Mr. Lucia executes and does not revoke a separation agreement and release and complies with certain restrictive covenants, he will be entitled to receive cash severance in an amount equal to (i) 24 times his monthly base salary paid ratably in equal installments over a 24 month period, (ii) twice a bonus component that will vary depending upon whether the bonus for the year of termination is intended to be performance-based compensation and the performance is satisfied or whether the bonus is under a different program, in which case it will be his target bonus and will be paid on the same schedule as (i) above, and (iii) continued health coverage for 24 months or until he becomes eligible for health coverage from another employer, whichever is earlier.

In addition, under the terms of our employment agreements with our other executive officers, under certain circumstances, we could be required to provide severance in an amount equal to 12 times his/her monthly base salary plus a lump sum amount equal to 12 times the difference between the monthly COBRA coverage premium for the same type of medical and dental coverage the executive is receiving as of the date his/her employment ends and his/her then monthly employee contribution, which amount may be used for any purpose.

14. Commitments and Contingencies

(a) Lease commitments

We lease office space, data processing equipment and software licenses under operating leases that expire on various dates through 2024. The lease agreements provide for rent escalations. Lease expense, exclusive of sublease income, for the year ended December 31, 2014 was $6.9 million, and $7.6 million for each of the years ended December 31, 2013 and 2012. Lease and sublease income was $42,000, $0.3 million and $0.6 million, for the years ended December 31, 2014, 2013 and 2012, respectively.

14. Commitments and Contingencies (Continued)

Minimum annual lease payments to be made both under capital leases and operating leases, and sublease payments to be received for each of the next five years ending December 31 and thereafter are as follows (*in thousands*):

	Capital Lease Payments	Operating Lease Payments
2015	$1,160	$11,848
2016	50	5,698
2017	4	4,560
2018	—	4,144
2019	—	3,524
Thereafter	—	10,767
	1,214	$40,541
Less: Interest	(31)	
	$1,183	

(b) Litigation

From time to time, we may be subject to investigations, legal proceedings and other disputes arising in the ordinary course of our business, including but not limited to regulatory audits, billing and contractual disputes and employment-related matters. We record accruals for outstanding legal matters when we believe it is probable that a loss will be incurred and the amount can be reasonably estimated. We evaluate, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, we do not establish an accrued liability. None of our accruals for outstanding legal matters are material in the aggregate to our financial position.

Our contractual relationships, including those with federal and state government entities, subject our operations, billing and business practices to scrutiny and audit, including by multiple agencies and levels of government, as well as to frequent transitions and changes in the personnel responsible for oversight of our contractual performance. From time to time, we may have contractual disputes with our customers arising from differing interpretations of contractual provisions that define our rights, obligations, scope of work or terms of payment, and with associated claims of liability for inaccurate or improper billing for reimbursement of contract fees, or for sanctions or damages for alleged performance deficiencies. Resolution of such disputes may involve litigation or may require that we accept some amount of loss or liability in order to avoid customer abrasion, negative marketplace perceptions and other disadvantageous results that could affect our business, financial condition, results of operations and cash flows.

Kern Health Systems: In August 2011, in the Superior Court of the State of California, County of Los Angeles, Kern Health Systems ("KHS" or "Plaintiff") sought to recover in excess of $7.0 million exclusive of interest, attorney fees and costs, against Allied Management Group Special Investigation Unit, Inc. ("AMG"), Dennis Demetre, and Lori Lewis (collectively, "Defendants"), jointly and severally, on causes of action for breach of contract, professional negligence, intentional misrepresentation, negligent misrepresentation and unfair business practices under the California Business and Professions Code. On

14. Commitments and Contingencies (Continued)

June 9, 2014, the jury issued its verdict in favor of all Defendants, and against KHS, on all causes of action except negligent misrepresentation. On that cause of action, the jury issued a verdict against all Defendants, jointly and severally, in the sum of $1.38 million. The negligent misrepresentation verdict was based on representations to KHS allegedly made by AMG and former owner Dennis Demetre in the spring of 2008, prior to our acquisition of AMG. We believe that the jury erroneously awarded damages based on an error inasmuch as the jury unanimously found that Defendants (through Demetre) made the negligent misrepresentation to KHS while having reasonable grounds for believing the representation to be true. Based on the jury's verdict, we believe we are properly characterized as the prevailing party on the breach of contract claim. AMG has filed an appeal of the verdict and is seeking to recover its attorney fees and costs in the sum of approximately $2.3 million. We have not recorded an obligation on this matter at this time, as we have appealed this decision and believe it is probable that we will prevail on the appeal of this matter, although there are risks and uncertainties related to any litigation, including appeals, and neither we nor our counsel can assure litigation results. Pending the appeal process, we were required to obtain a surety bond in the amount of 150% of the final judgment amount, or approximately $2.2 million, which was collateralized by a cash deposit and is reflected in Other current assets on our audited Consolidated Balance Sheet at December 31, 2014.

Dennis Demetre and Lori Lewis: In July 2012, two of AMG's former owners, Dennis Demetre and Lori Lewis filed an action in the Supreme Court of the State of New York, claiming an undetermined amount of damages alleging that various actions unlawfully deprived Demetre and Lewis of the acquisition earn-out portion of the purchase price of AMG under the applicable Stock Purchase Agreement (the "SPA") and that we had breached certain contractual provisions under the SPA. Demetre and Lewis filed a second amended complaint with two causes of action for breach of contract. We filed a counter claim for breach of contract arising out of Demetre's and Lewis's failure to indemnify us for costs, including attorney fees arising out of our defense of the KHS action described above and for fraud arising out of Demetre's and Lewis's misrepresentations concerning capabilities of their software platform. We believe we have a meritorious defense and will continue to defend this matter vigorously, although there are risks and uncertainties related to any litigation.

Restrictive Covenants and Trade Secret Actions in Texas and New York: We are the plaintiff in lawsuits filed in August 2014, entitled HMS Holdings Corp., et al. v. Public Consulting Group, Inc., James Gambino, and Jason Ramos, in the District Court of Dallas County, Texas, Cause No. DC-14-09047 (the "Texas Action"), and HMS Holdings Corp., et al. v. Matthew Arendt, Sean Curtin, and Danielle Lange, in New York State Supreme Court, Albany County, Index No. A00754/2014 (the "New York Action"). These suits allege that, in violation of their respective contractual, statutory and common law obligations to us, defendant Public Consulting Group, Inc. and defendant former HMS employees Gambino, Ramos, Arendt, Curtin, and Lange, unlawfully misappropriated our confidential, proprietary and trade secret information, as well as our employee and customer relationships. The lawsuits seek damages and injunctive relief and assert causes of action including breach of contract, breach of fiduciary duty and misappropriation of trade secrets. At the Texas Court's direction, an agreed temporary restraining order was entered, under which, inter alia, the defendants are prohibited from using our confidential information, and must return any of our information. Both the Texas and New York matters are currently in the discovery phase.

As of December 31, 2014, we accrued $0.9 million for litigation or other legal proceedings asserted or pending against us that could have, in the aggregate, a material adverse effect on our financial condition,

14. Commitments and Contingencies (Continued)

results of operations or cash flows, and believe that adequate provision for any probable and estimable losses has been made in our consolidated financial statements. However, the ultimate result of any current or future litigation or other legal proceedings, audits or disputes is inherently unpredictable and could result in liabilities that are higher than currently predicted.

15. Customer Concentration

(a) Geographic Information

We operate within the United States.

(b) Major Customers

Our largest customer in 2014 accounted for 9.5%, 5.6% and 6.4% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. We provide services to this customer pursuant to a contract that was originally awarded in January 2008 and extends through April 2015. The contract was also expanded in 2011 to designate us as the Medicaid RAC.

Our second largest customer in 2014 accounted for 5.3%, 4.6% and 5.2% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. We provide services to this customer pursuant to a contract that expires in January 2016.

Our third largest customer in 2014 accounted for 5.0%, 22.3% and 18.2% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. Our largest contract with this customer is through our wholly owned subsidiary HDI, under which contract HDI has served as the Medicare RAC for Region D since October 2008 and which, after multiple contract modifications, now expires in December 2015.

(c) Concentration of Revenue

The list of our ten largest customers changes periodically. For the years ended December 31, 2014, 2013 and 2012, our ten largest customers represented 40.1%, 47.2% and 46.9% of our total revenue, respectively. Our three largest customers accounted for 19.8%, 32.5% and 29.8% of our total revenue for each of the years ended December 31, 2014, 2013 and 2012, respectively. Our agreements with our ten current largest customers expire between 2015 and 2018. In many instances, we provide our services pursuant to agreements that may be renewed subject to a competitive reprocurement process. Several of our contracts, including those with some of our largest customers, may be terminated for convenience.

16. Subsequent Events

(a) Employment Agreements

On January 20, 2015 (effective as of March 1, 2013), Mr. Lucia's Executive Employment Agreement (the "Agreement") was amended and will terminate on February 28, 2018.

If Mr. Lucia's employment is terminated by us without Cause or Mr. Lucia resigns for Good Reason (as defined in the Agreement), Mr. Lucia will be treated as continuing in service for the purposes of the vesting of any equity award until the earliest of: (i) the end of the Noncompetition Period (as defined in Mr. Lucia's Noncompetition, Nonsolicitation, Proprietary and Confidential Information and Developments Agreement with us (the "Restrictive Covenants Agreement")), (ii) the last of the applicable

16. Subsequent Events (Continued)

vesting dates under such awards, or (iii) the termination or violation of the Restrictive Covenants Agreement.

If Mr. Lucia's employment is terminated by us without Cause or Mr. Lucia resigns for Good Reason and a Change in Control (as defined in the Agreement) occurs within six months following such termination, then with respect to any equity awards outstanding or deemed to be outstanding, or canceled or forfeited as a result of Mr. Lucia's termination or such Change in Control, Mr. Lucia will receive a cash payment equal to the excess of the amount he would have received for such equity awards if he were continuing in service as of the date of the Change in Control and terminated immediately thereafter over the amount actually received, paid in a single lump sum payment at the time provided in the Agreement. To the extent that the payments and benefits provided under the Agreement and benefits provided to Mr. Lucia, or for Mr. Lucia's benefit, under any other of our company's plans or agreements would be subject to the excise tax imposed under Section 4999 of the Code, such benefits shall be reduced (but not below zero) if and to the extent that a reduction in such benefits would result in Mr. Lucia retaining a larger amount, on an after-tax basis (taking into account federal, state and local income taxes and such excise tax), than if Mr. Lucia received all of such benefits pursuant to the provisions set forth in the Agreement.

Except as described above, all other provisions of the Agreement will remain in full force and effect.

(b) Stock-Based Compensation

On February 20, 2015, the Compensation Committee of the Board of Directors approved March 4, 2015 grants of stock option awards and restricted stock units to employees. The stock options and restricted stock units vest over 3 years. We estimate the fair value of these grants to be $16.4 million, utilizing the method and assumptions set forth in Note 11—"Stock-Based Compensation."

In connection with the preparation of these audited consolidated financial statements, an evaluation of subsequent events was performed through the date these audited consolidated financial statements were issued and there are no other events that have occurred that would require adjustments or disclosure to our audited consolidated financial statements.

17. Quarterly Financial Data (unaudited)

The table below summarizes our unaudited quarterly operating results for the last two fiscal years (*in thousands, except per share amounts*).

Year ended December 31, 2014[1]	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$104,707	$112,561	$113,796	$112,161
Operating income (loss)	$ 7,797	$ 12,558	$ 13,940	$ (91)
Net income (loss) and comprehensive income (loss)	$ 3,353	$ 6,038	$ 6,950	$ (2,394)
Net income (loss) per common share—basic	$ 0.04	$ 0.07	$ 0.08	$ (0.03)
Net income (loss) per common share—diluted	$ 0.04	$ 0.07	$ 0.08	$ (0.03)

17. Quarterly Financial Data (unaudited) (Continued)

Year ended December 31, 2013(1)				
Revenue	$116,607	$125,809	$127,754	$121,592
Operating income	$ 15,268	$ 20,366	$ 21,283	$ 20,261
Net income and comprehensive income	$ 6,976	$ 10,420	$ 11,508	$ 11,093
Net income per common share—basic	$ 0.08	$ 0.12	$ 0.13	$ 0.13
Net income per common share—diluted	$ 0.08	$ 0.12	$ 0.13	$ 0.13

(1) The summation of the above quarterly results may not agree to the full year 2014 reported results as amounts have been rounded for presentation purposes.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2014 and 2013

Allowance for doubtful accounts and estimated liability for appeals as of December 31, 2014 and 2013 are as follows:

Allowance for doubtful accounts (in thousands):

Balance, December 31, 2012	$ 830
Provision	718
Recoveries	(42)
Charge-offs	(590)
Balance, December 31, 2013	$ 916
Provision	6,085
Recoveries	(17)
Charge-offs	(5,086)
Balance, December 31, 2014	$ 1,898

Estimated liability for appeals and estimated allowance for appeals (in thousands):

Balance, December 31, 2012	$ 34,426
Provision	41,076
Appeals found in providers favor	(19,711)
Balance, December 31, 2013	$ 55,791*
Provision	16,822
Appeals found in providers favor	(30,990)
Balance, December 31, 2014	$ 41,623*

* Includes $4,824 and $13,939 related to estimated allowance for appeals that apply to uncollected accounts receivable as of December 31, 2014 and December 31, 2013, respectively.

HMS Holdings Corp. and Subsidiaries
Exhibit Index

Where an exhibit is filed by incorporation by reference to a previously filed registration statement or report, such registration statement or report is identified after the description of the exhibit.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of December 16, 2002, among Health Management Systems, Inc., HMS Holdings Corp. and HMS Acquisition Corp. Incorporated by reference to Exhibit A to HMS Holdings Corp.'s Prospectus and Proxy Statement, filed with the SEC on January 24, 2003.
2.2	Agreement and Plan of Merger dated as of November 7, 2011 by and among HMS Holdings Corp., HDI Holdings, Inc., Montmartre Merger Sub, Inc., and with respect to Articles II, VIII, IX and X only, Fortis Advisors LLC, as Securityholders' Representative. Incorporated by reference to Exhibit 2.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on December 19, 2011.
2.3	Agreement and Plan of Merger, dated as of July 17, 2013, between the HMS Holdings Corp., a Delaware corporation and HMS Holdings Corp., a New York corporation. Incorporated by reference to Exhibit 2.1 to HMS Holding Corp.'s Current Report on Form 8-K12G, File No. 000-50194, filed with the SEC on July 23, 2013.
3.1	Amended and Restated Certificate of Incorporation of HMS Holdings Corp. Incorporated by reference to Exhibit 3.1 to HMS Holding Corp.'s Current Report on Form 8-K12G, File No. 000-50194, filed with the SEC on July 23, 2013.
3.2	By-laws of HMS Holdings Corp. Incorporated by reference to Exhibit 3.2 to HMS Holding Corp.'s Current Report on Form 8-K12G, File No. 000-50194, filed with the SEC on July 23, 2013.
4.1	Specimen Common Stock Certificate. Incorporated by reference to Exhibit 4.1 to HMS Holding Corp.'s Current Report on Form 8-K12G, File No. 000-50194, filed with the SEC on July 23, 2013.
4.2	See Exhibits 3.1 and 3.2 for provisions defining the rights of holders of common stock of HMS Holdings Corp.
10.1†	HMS Holdings Corp. 1999 Long-Term Incentive Stock Plan, as amended. Incorporated by reference to Exhibit 4 to HMS Holdings Corp.'s Registration Statement on Form S-8, File No. 333-108436, filed with the SEC on September 2, 2003.
10.2†	Form of Incentive Stock Option Agreement under the 1999 Long-Term Incentive Stock Plan. Incorporated by reference to Exhibit 10.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on December 14, 2004.
10.3†	Form of Employee Non-Qualified Stock Option Agreement under the 1999 Long Term Incentive Stock Plan. Incorporated by reference to Exhibit 10.2 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on December 14, 2004.
10.4†	Form of Director Non-Qualified Stock Option Agreement under the 1999 Long Term Incentive Stock Plan. Incorporated by reference to Exhibit 10.3 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on December 14, 2004.

Exhibit Number	Description
10.5†	HMS Holdings Corp. Fourth Amended and Restated 2006 Stock Plan (the "2006 Stock Plan"). Incorporated by reference to Exhibit 3.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on July 12, 2011.
10.6†	Amendment No. 1 to the 2006 Stock Plan. Incorporated by reference to Exhibit 10.6 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.7†	Form of Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 4.6(ii) to HMS Holdings Corp.'s Registration Statement on Form S-8, File No. 333-139025, filed with the SEC on November 30, 2006.
10.8†	Form of 2009 Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference Exhibit 10.1 to HMS Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, File No. 000-50194, filed with the SEC on November 6, 2009.
10.9†	Form of 2010 Director Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.2 to HMS Holdings Corp.'s Quarterly Report on Form 10-Q, File No. 000-50194, filed with the SEC on November 8, 2010.
10.10†	Form of 2010 Director Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.3 to HMS Holdings Corp.'s Quarterly Report on Form 10-Q, File No. 000-50194, filed with the SEC on November 8, 2010.
10.11†	Form 2010 Employee Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.4 to HMS Holdings Corp.'s Quarterly Report on Form 10-Q, File No. 000-50194, filed with the SEC on November 8, 2010.
10.12†	Form of 2011 Director Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.16 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.13†	Form of 2011 Director Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.17 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.14†	Form of 2011 Employee Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.18 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.15†	Form of 2011 Employee Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.19 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.16†	Form of 2012 Director Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.20 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on March 1, 2013.
10.17†	Form of 2012 Director Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.21 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on March 1, 2013.
10.18†	Form of 2012 Executive Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.22 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on March 1, 2013.

Exhibit Number	Description
10.19†	Form of 2012 Executive Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.23 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on March 1, 2013.
10.20†	Form of 2013 Executive Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.24 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on March 1, 2013.
10.21†	Form of 2013 Director Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.1 to HMS Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, File No. 000-50194, filed with the SEC on May 12, 2014.
10.22†	Form of 2013 Director Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.2 to HMS Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, File No. 000-50194, filed with the SEC on May 12, 2014.
10.23†	Form of 2013 Executive Non-Qualified Stock Option Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.3 to HMS Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, File No. 000-50194, filed with the SEC on May 12, 2014.
10.24†	Form of March 2014 Executive Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.4 to HMS Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, File No. 000-50194, filed with the SEC on May 12, 2014.
10.25†	Form of November 2014 Executive Restricted Stock Unit Agreement under the 2006 Stock Plan. Incorporated by reference to Exhibit 10.1 to HMS Holding Corp.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, File No. 000-50194, filed with the SEC on November 10, 2014.
10.26†*	Form of 2014 Director Non-Qualified Stock Option Agreement under the 2006 Stock Plan.
10.27†*	Form of 2014 Director Restricted Stock Unit Agreement under the 2006 Stock Plan.
10.28†*	Form of 2014 Executive Non-Qualified Stock Option Agreement under the 2006 Stock Plan.
10.29†*	Form of 2014 Senior Vice President Restricted Stock Unit Agreement under the 2006 Stock Plan.
10.30†*	Form of 2014 Senior Vice President Non-Qualified Stock Option Agreement under the 2006 Stock Plan.
10.31†	HealthDataInsights, Inc. Amended 2004 Stock Option/Stock Issuance Plan. Incorporated by reference to Exhibit 10.20 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.32†	HDI Holdings, Inc. Amended 2011 Stock Option and Stock Issuance Plan (the "HDI 2011 Stock Plan"). Incorporated by reference to Exhibit 10.21 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.

Exhibit Number	Description
10.33†	Form of 2011 Employee Non-Qualified Stock Option Agreement under the HDI 2011 Stock Plan. Incorporated by reference to Exhibit 10.22 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on February 29, 2012.
10.34†	Executive Employment Agreement between William C. Lucia and HMS Holdings Corp. dated March 1, 2013. Incorporated by reference to Exhibit 10.20 to HMS Holdings Corp.'s Annual Report on Form 10-K, File No. 000-50194, filed with the SEC on March 1, 2013.
10. 35†	Letter of Amendment to Executive Employment Agreement between William C. Lucia and HMS Holdings Corp. dated April 30, 2013. Incorporated by reference to Exhibit 10.1 to HMS Holdings Corp.'s Annual Report on Form 10-K/A, File No. 000-50194, filed with the SEC on April 30, 2013.
10.36†	Second Amendment to Executive Employment Agreement between HMS Holdings Corp. and William C. Lucia dated January 20, 2015. Incorporated by reference to Exhibit 10.1 to HMS Holding Corp.'s Current Report on Form 8-K, Filed No. 000-50194, filed with the SEC on January 23, 2015.
10.37†	Letter Agreement between Walter Hosp and HMS Holdings Corp. dated March 6, 2014. Incorporated by reference to Exhibit 10.1 to HMS Holding Corp.'s Current Report on Form 8-K, File No.000-50194, filed with the SEC on March 12, 2014.
10 38†	Employment Agreement between Jeffrey S. Sherman and HMS Holdings Corp. dated July 28, 2014. Incorporated by reference to Exhibit 10.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on September 8, 2014.
10.39†	Employment Agreement between Andrea Benko and HMS Holdings Corp. dated December 20, 2011. Incorporated by reference to Exhibit 99.1 to HMS Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2013, File No. 000-50194, filed with the SEC on March 3, 2014.
10.40†	Separation Agreement and General Release of Claims among Andrea Benko, HMS Holdings Corp. and HealthDataInsights, Inc. dated November 17, 2014. Incorporated by reference to Exhibit 10.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on November 20, 2014.
10.41†	Employment Agreement between Semone Wagner and HMS Holdings Corp. dated January 16, 2013. Incorporated by reference to Exhibit 99.2 to HMS Holding Corp.'s Annual Report on Form 10-K for the year ended December 31, 2013, File No. 000-50194, filed with the SEC on March 3, 2014.
10. 42†	Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on August 6, 2014.
10.43†	HMS Holdings Corp. Director Deferred Compensation Plan. Incorporated by reference to Exhibit 10.62 to HMS Holdings Corp.'s Annual Report on Form 10-K for the year ended December 31, 2010, File No. 000-50194, filed with the SEC on March 1, 2011.
10.44†	HMS Holdings Corp. Annual Incentive Plan. Incorporated by reference to Exhibit 99.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on July 12, 2011.

Exhibit Number	Description
10.45	Credit Agreement dated May 3, 2013 among HMS Holdings Corp., the Guarantors Party thereto, the Lenders party thereto and Citibank, N.A. as Administrative Agent. Incorporated by reference to Exhibit 10.1 to HMS Holdings Corp.'s Current Report on Form 8-K, File No. 000-50194, filed with the SEC on May 6, 2013.
10.46	HealthDataSights, Inc. Lease between New Russell One LLC and HMS Business Services, Inc. dated February 27, 2014. Incorporated by reference to Exhibit 10.5 to HMS Holdings Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, File No. 000-50194, filed with the SEC on May 12, 2014.
14.1*	HMS Holdings Corp. Amended Code of Conduct.
21.1*	HMS Holdings Corp. List of Subsidiaries
23.1*	Consent of Independent Registered Public Accounting Firm
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
31.3*	Rule 13a-14(a)/15d-14(a) Certification of the Principal Accounting 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
32.3‡	Section 1350 Certification of the Principal Accounting 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

† Indicates a management contract or compensatory plan, contract or arrangement

* Filed herewith

‡ Furnished herewith

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2014

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)

Delaware	**11-3656261**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5615 High Point Drive, Irving, TX	**75038**
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code)

(214) 453-3000

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

Title of each class	Name of each exchange on which registered
Common Stock $0.01 par value	NASDAQ Global Select Market

Securities registered pursuant to section 12(g) of the Act: **None**

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) 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 ☒

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2014, the last business day of the registrant's most recently completed second quarter was $1.8 billion based on the last reported sale price of the registrant's Common Stock on the NASDAQ Global Select Market on that date.

There were 88,540,272 shares of common stock outstanding as of April 15, 2015.

Documents Incorporated by Reference

None.

HMS HOLDINGS CORP. AND SUBSIDIARIES
AMENDMENT NO. 1 TO THE ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K/A (the "Amendment") amends the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (the "Annual Report"), as filed by the Registrant with the Securities and Exchange Commission ("SEC") on March 2, 2015 (the "Original Filing"), and is being filed solely to replace Part III, Items 10 through Item 14 and to include additional exhibits to the Exhibit Index referenced in Item 15 of the Original Filing, which includes the Certifications to the Amendment. The reference in the Original Filing to the incorporation by reference of the Registrant's definitive proxy statement into Part III of the Annual Report on Form 10-K is hereby deleted.

For purposes of this Amendment, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (i) Items 10 through 14 in the Original Filing have been amended and restated in their entirety and (ii) the Exhibit Index in the Original Filing has been amended to include the new exhibits set forth herein. Except as specifically provided herein, this Amendment does not reflect events occurring after the filing of the Original Filing and no attempt has been made in this Amendment to modify or update other disclosures as presented in the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and any filings with the SEC made thereafter.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Board of Directors

The following table sets forth information with respect to our Board of Directors, including the composition of our four standing Committees: Audit, Compensation, Compliance and Nominating & Governance.

Name	Age	Position	Committee Memberships
Craig R. Callen	59	Class I Director	Compensation Nominating & Governance
Robert M. Holster[2]	68	Chairman and Class I Director	
William C. Lucia[2]	57	President, Chief Executive Officer and Class I Director	
Daniel N. Mendelson[3]	50	Class II Director	Compensation Compliance Nominating & Governance
William F. Miller III	65	Class II Director	
Ellen A. Rudnick	64	Class II Director	Audit[1] Compliance Nominating & Governance
Bart M. Schwartz	68	Class I Director	Audit Compliance[1] Nominating & Governance
Richard H. Stowe[3]	71	Class II Director	Compensation[1] Nominating & Governance[1]
Cora M. Tellez[4]	65	Class II Director	Audit Nominating & Governance

(1) Current Committee Chair

(2) In April 2015, and effective as of the date of the 2015 Annual Meeting of Stockholders (the "2015 Annual Meeting"), Mr. Holster stepped down as Chairman of the Board and the Board of Directors appointed Mr. Lucia as Chairman, President and Chief Executive Officer, also effective as of the date of the 2015 Annual Meeting.

(3) In April 2015, the Board of Directors appointed Mr. Mendelson as Chair of the Nominating & Governance Committee, with Mr. Stowe continuing to serve as a member of the committee, effective as of the date of the 2015 Annual Meeting, subject to their re-election as a Class II director. In addition, in April 2015, the Board of Directors appointed Mr. Stowe as Lead Independent Director, effective as of the date of the 2015 Annual Meeting, subject to his re-election as a Class II director.

(4) In April 2015, the Board of Directors appointed Ms. Tellez as an additional member of the Compliance Committee, effective as of the date of the 2015 Annual Meeting, subject to her re-election as a Class II director.

The Board of Directors believes that the combination of the business and professional experience of our directors and the diversity of their areas of expertise has been a contributing factor to its effectiveness and provides a valuable resource to management. The majority of our Board has over five years of service with us and four of our non-employee directors, Ms. Rudnick and Messrs. Holster, Miller and Stowe, have each served on our Board for more than ten years. During their tenure, our directors have gained considerable institutional knowledge about the Company and its operations. Given the growth of our business and the rapidly changing healthcare environment, this continuity of service and development of institutional knowledge enables our Board to be more efficient and more effective in developing strategy and long-term plans for the Company.

A description of the specific experience, qualifications, attributes and skills that led our Board of Directors to conclude that each member of the Board of Directors should serve as a director follows the biographical information of each director below.

Class II: Directors Whose Terms Expire in 2015

William F. Miller III has served as one of our directors since October 2000. In 2013, Mr. Miller joined KKR Advisors, a global investment firm, as healthcare industry advisor. From 2006 to 2013, Mr. Miller was a partner at Highlander Partners, a private equity group in Dallas, Texas focused on investments in healthcare products, services and technology. From October 2000 to April 2005, Mr. Miller served as our Chief Executive Officer and from December 2000 to April 2006, Mr. Miller served as our Chairman. From 1983 to 1999, Mr. Miller served as President and Chief Operating Officer of EmCare Holdings, Inc., a national healthcare services firm focused on the provision of emergency physician medical services. From 1980 to 1983, Mr. Miller served as Administrator/Chief Operating Officer of Vail Mountain Medical. Mr. Miller also serves as a director of several private companies. From 1997 to 2012, Mr. Miller served as a director of Lincare Holdings, Inc.

Mr. Miller brings to the Board of Directors both a thorough understanding of our business and the healthcare industry and extensive experience in the financial markets. His significant operational experience, both at HMS and at EmCare Holdings, makes him well-positioned to provide the Company with insight on financial, operational and strategic issues.

Daniel N. Mendelson has served as one of our directors since February 2013. Mr. Mendelson is the Chief Executive Officer and Chairman of Avalere Health, a strategic advisory company which he founded in 2000. From 1998 to 2000, Mr. Mendelson served as Associate Director for Health at the White House Office of Management and Budget (OMB) in Washington, D.C. Prior to joining OMB, Mr. Mendelson served as Senior Vice President and Director of the Medical Technology practice at The Lewin Group. He is also on faculty at the Wharton School of Business at the University of Pennsylvania and serves as a director of Champions Oncology. From 2005 to 2013, Mr. Mendelson served as a director of Coventry Healthcare and from 2007 to 2011 he served as a director of PharMerica Corporation.

Mr. Mendelson brings over 20 years of experience with government healthcare programs, healthcare policy and business to the Board and is a recognized leader in healthcare policy. This expertise is complemented by his extensive operational and public company board experience, which make him well-positioned to serve as the Chair of the Nominating & Governance Committee and as a member of the Compensation and Compliance Committees. In addition, given that healthcare in the United States is continuously evolving, Mr. Mendelson's background and expertise is very valuable as we adapt our business to meet these changes.

Ellen A. Rudnick has served as one of our directors since 1997. Since 1999, Ms. Rudnick has served as Executive Director and Clinical Professor of the Polsky Center for Entrepreneurship, University of Chicago Booth School of Business. From 1993 to 1999, Ms. Rudnick served as Chairman of Pacific Biometrics, Inc., a publicly held healthcare biodiagnostics company and its predecessor, Bioquant, which she co-founded. From 1990 to 1992, she served as President and Chief Executive Officer of Healthcare Knowledge Resources (HKR), a privately held healthcare information technology corporation and subsequently served as President of HCIA, Inc. (HCIA) following the acquisition of HKR by HCIA. From 1975 to 1990, Ms. Rudnick served in various positions at Baxter Health Care Corporation, including Corporate Vice President and President of its Management Services Division. Ms. Rudnick also serves as a director of Patterson Companies, Inc. and First Midwest Bancorp, Inc.

Ms. Rudnick brings to the Board of Directors extensive business understanding and demonstrated management expertise, having served in key leadership positions at a number of healthcare companies. Ms. Rudnick has a comprehensive understanding of the operational, financial and strategic challenges facing companies and knows how to make businesses work effectively and efficiently. Her management experience and service on other public company boards has provided her with a thorough understanding of the financial and other issues facing large companies, making her particularly valuable as the Chair of our Audit Committee and as a member of our Compliance and Nominating & Governance Committees.

Richard H. Stowe has served as one of our directors since 1989. Mr. Stowe is a general partner of Health Enterprise Partners LP, a private equity firm. From 1999 to 2005, Mr. Stowe was a private investor, a senior advisor to the predecessor funds to Health Enterprise Partners, and a senior advisor to Capital Counsel LLC, an asset management firm. From 1979 until 1998, Mr. Stowe was a general partner of Welsh, Carson, Anderson & Stowe. Prior to 1979, he was a Vice President in the venture capital and corporate finance groups of New Court Securities Corporation (now Rothschild, Inc.). Mr. Stowe is also a director of several private and not-for-profit companies and educational institutions.

Mr. Stowe brings 40 years of financial, capital markets and investment experience to our Board of Directors. Mr. Stowe's background and extensive experience make him well-positioned to serve as the Chair of the Compensation Committee, a member of the Nominating & Governance Committee and as our Lead Independent Director. Mr. Stowe has effectively carried out his responsibilities as Chair for several of our Board committees and is well-respected by the independent directors. The Board believes that Mr. Stowe is highly qualified and will be successful as our Lead Independent Director.

Cora M. Tellez has served as one of our directors since October 2012. Ms. Tellez is the President and Chief Executive Officer of Sterling HSA, an independent health savings accounts administrator which she founded in 2004. Prior to starting Sterling HSA, Ms. Tellez served as President of the health plans division of Health Net, Inc., an insurance provider. She later served as President of Prudential's western health care operations, CEO of Blue Shield of California, Bay Region and Regional Manager for Kaiser Permanente of Hawaii. Ms. Tellez serves on the board of directors of several private and not-for-profit companies. From 2004 to 2007, Ms. Tellez served as a director of First Consulting Group.

Ms. Tellez brings over 25 years of healthcare policy and operations experience to the Board. Her public company operational, financial and corporate governance experience is a valuable resource for our Board and makes her well-positioned to serve as a member of the Audit, Compliance and Nominating & Governance Committees and as our Audit Committee Financial Expert.

Class I: Directors Whose Terms Expire in 2016

Craig R. Callen has served as one of our directors since October 2013. Mr. Callen is a Senior Advisor at Crestview Partners, a private equity firm with over $4.0 billion under management. From 2004 to 2007, Mr. Callen was Senior Vice President and Head of Strategic Planning and Business Development and a member of the Executive Committee for Aetna, Inc. In his role at Aetna, Mr. Callen reported directly to the Chairman and CEO and was responsible for oversight and development of Aetna's corporate strategy, including mergers and acquisitions. During his tenure, Mr. Callen and his team led the acquisitions of seven companies, investing over $2.0 billion, broadening Aetna's revenue, global presence, product line, targeted markets and participation in government programs. Prior to joining Aetna, Mr. Callen was a Managing Director and Head of U.S. Healthcare Investment Banking at Credit Suisse First Boston and Co-Head of Healthcare Investment Banking at Donaldson, Lufkin & Jenrette. Mr. Callen serves on the board of directors of Omega Healthcare Investors, Inc. and Symbion, Inc., a Crestview portfolio company. Previously he served on the boards of Sunrise Senior Living Inc. and Kinetic Concepts Inc. Mr. Callen holds a B.S./B.A. from Boston University and an MBA from Harvard Business School.

Mr. Callen brings 20 years of healthcare investment banking experience and corporate development expertise to our Board, which are invaluable to us as we evaluate, develop and implement new solutions for clients. His extensive experience in a corporate setting and as an advisor to public/private healthcare companies positions him well to serve on the Compensation and Nominating & Governance Committees.

Robert M. Holster has served as one of our directors since May 2005, as Non-Executive Chairman from March 2009 to December 2010, and as Chairman of our Board from April 2006 to July 2015. Since 2001, Mr. Holster has held senior executive level positions with us, including serving as our Chief Executive Officer from May 2005 to February 2009 and as our President and Chief Operating Officer from April 2001 to May 2005. In March 2009, Mr. Holster stepped down as our Chief Executive Officer but remained an employee of the Company through December 2010. Previously, Mr. Holster served as our Executive Vice President from 1982 through 1993 and as one of our directors from 1989 through 1996. Mr. Holster previously served in a number of executive positions including Chief Executive Officer of HHL Financial Services, Inc., Chief Financial Officer of Macmillan, Inc. and Controller of Pfizer Laboratories, a division of Pfizer, Inc.

Mr. Holster served as a member of our management team and that of our predecessor, Health Management Systems, Inc., for an aggregate of over 20 years, including serving as our Chief Executive Officer for four years and as our President and Chief Operating Officer for four years. On April 24, 2015, Mr. Holster stepped down from his role as Chairman, effective as of the date of the 2015 Annual Meeting. Mr. Holster will remain on our Board and continue to work closely with Mr. Lucia to ensure a seamless transition of board leadership to Mr. Lucia. As a director who has served in the combined role as the Chairman and Chief Executive Officer of our Company, Mr. Holster will be able to provide guidance to Mr. Lucia on matters such as the Company's risk profile, long-term strategy and potential growth opportunities while offering the Board a unique insight into the Company's challenges, operations, and strategic opportunities. Given his extensive history with the Company and past experience as the Company's former Chairman and Chief Executive Officer, Mr. Holster brings an unmatched depth of industry and Company-specific experience to our Board.

William C. Lucia has served as our President and Chief Executive Officer since March 2009 and as one of our directors since May 2008. On April, 24, 2015, Mr. Lucia was appointed Chairman of the Board, to replace Mr. Holster effective as of the date of the 2015 Annual Meeting. From May 2005 to March 2009, Mr. Lucia served as our President and Chief Operating Officer, gaining critical insights into how to manage and grow our business in a complex and dynamic healthcare environment. Since joining us in 1996, Mr. Lucia has held several positions with us, including: President of our subsidiary, Health Management Systems, Inc., from 2002 to 2009; President of our Payor Services Division from 2001 to 2002; Vice President and General Manager of our Payor Services Division from 2000 to 2001; Vice President of our Business Office Services from 1999 to 2000; Chief Operating Officer of our former subsidiary Quality Medical Adjudication, Incorporated (QMA) and Vice President of West Coast Operations from 1998 to 1999; Vice President and General Manager of QMA from 1997 to 1998; and Director of Information Systems for QMA from 1996 to 1997. Prior to joining us, Mr. Lucia served in various executive positions including Senior Vice President, Operations and Chief Information Officer for Celtic Life Insurance Company and Senior Vice President, Insurance Operations for North American Company for Life and Health Insurance. Mr. Lucia is a Fellow of the Life Management Institute Program through LOMA, an international association through which insurance and financial services companies around the world engage in research and educational activities to improve company operations.

With over 19 years of experience with the Company working across multiple divisions and his prior experience in the insurance industry, Mr. Lucia brings to our Board in-depth knowledge of the Company and the healthcare and insurance industries, the evolving healthcare landscape and the array of challenges to be faced and demonstrates an ability to formulate and implement key strategic initiatives, making him well-positioned to lead our management team and provide essential insight and guidance to the Board as our Chairman.

Bart M. Schwartz has served as one of our directors since July 2010. Mr. Schwartz currently serves as the Chairman and Chief Executive Officer of SolutionPoint International, LLC, which provides an integrated array of business intelligence, security and compliance, identity assurance and situational awareness solutions. In 2003, Mr. Schwartz founded his own law firm, which specializes in, among other areas, conducting independent investigations, monitoring and Independent Private Sector Inspector General engagements and developing, auditing and implementing compliance programs. From 1991 to 2003, Mr. Schwartz served as the Chief Executive Officer of Decision Strategies, an internationally recognized investigative and security firm, which was sold to SPX Corporation in 2001. Mr. Schwartz has over 30 years' experience managing domestic and international investigations, prosecutions and assessments for clients in both the public and private sectors.

Mr. Schwartz brings extensive legal and compliance experience to our Board, which is particularly valuable as we continue to expand our business. Mr. Schwartz's background makes him well-positioned to serve as the Chair of the Compliance Committee and as a member of the Audit and Nominating & Governance Committees.

Audit Committee and Audit Committee Financial Expert

We have a separately-designated standing Audit Committee which consists of Ms. Rudnick (Chair), Mr. Schwartz and Ms. Tellez. The Board of Directors has determined that each member of the Audit Committee is an independent director, as defined in the NASDAQ Stock Market, Inc. Marketplace Rules (the "NASDAQ Marketplace Rules") and the independence requirements contemplated by Rule 10A-3 under the Exchange Act, and meets NASDAQ's financial knowledge and sophistication requirements. In addition, the Board has determined that Ms. Tellez qualifies as an "audit committee financial expert," as such term is defined in Item 407(d)(5)(ii) of Regulation S-K.

Material Changes to the Procedures for Recommending Nominees to the Board of Directors

There have been no material changes to the procedures described by which security holders may recommend nominees to our Board of Directors as described in our Proxy Statement for our 2014 Annual Meeting, filed with the SEC on April 30, 2014 (the "2014 Proxy Statement").

Executive Officers

The following table sets forth certain information with respect to each person who currently serves as one of our executive officers as of the date of this Amendment. Our executive officers are elected annually by our Board of Directors and generally serve at the discretion of our Board of Directors. There are no arrangements or understandings between any of our executive officers and any other person pursuant to which they were selected as an officer. None of our directors and/or executive officers is related to any other director and/or executive officer of HMS or any of its subsidiaries by blood, marriage or adoption.

Name	Age	Position
William C. Lucia	57	President and Chief Executive Officer
Eugene V. DeFelice	56	Executive Vice President, General Counsel and Corporate Secretary
Cynthia Nustad	44	Executive Vice President and Chief Information Officer
Jeffrey S. Sherman	49	Executive Vice President, Chief Financial Officer and Treasurer
Tracy A. South	56	Chief Administrative Officer and Executive Vice President, Human Resources
Semone Wagner	51	Executive Vice President, Operations
Douglas M. Williams	56	Division President, Markets

The principal occupations for the last five years, as well as certain other biographical information, for each of our current executive officers are set forth below.

William C. Lucia has served as our President and Chief Executive Officer since March 2009 and as one of our directors since May 2008. In addition, Mr. Lucia has been appointed by the Board of Directors to serve as Chairman of the Board, effective as of the date of the 2015 Annual Meeting. From May 2005 to March 2009, Mr. Lucia served as our President and Chief Operating Officer. Since joining us in 1996, Mr. Lucia has held several positions with us, including: President of our subsidiary, Health Management Systems, Inc. from 2002 to 2009; President of our Payor Services Division from 2001 to 2002; Vice President and General Manager of our Payor Services Division from 2000 to 2001; Vice President of our Business Office Services from 1999 to 2000; Chief Operating Officer of our former subsidiary Quality Medical Adjudication, Incorporated (QMA) and Vice President of West Coast Operations from 1998 to 1999; Vice President and General Manager of QMA from 1997 to 1998; and Director of Information Systems for QMA from 1996 to 1997. Prior to joining us, Mr. Lucia served in various executive positions including Senior Vice President, Operations and Chief Information Officer for Celtic Life Insurance Company, and Senior Vice President, Insurance Operations for North American Company for Life and Health Insurance. Mr. Lucia is a Fellow of the Life Management Institute Program through LOMA, an international association through which insurance and financial services companies around the world engage in research and educational activities to improve company operations.

Eugene V. DeFelice has served as our Executive Vice President, General Counsel and Corporate Secretary since March 2014. Mr. DeFelice has more than 30 years of legal experience, 20 years of which has been in corporate healthcare and technology. From September 2010 to March 2014, Mr. DeFelice served as Vice President, General Counsel and Corporate Secretary for Barnes & Noble, Inc. and was responsible for all legal matters. From November 2006 to August 2010, he served as Senior Vice President, General Counsel and Corporate Secretary of Savvis Inc., a global information technology service provider. Prior to Savvis, he held various general counsel and other legal positions, as well as operational roles, in several healthcare and technology companies, and also spent approximately nine years at Hoffmann-LaRoche in progressively senior positions.

Cynthia Nustad has served as our Executive Vice President and Chief Information Officer since February 2011. Ms. Nustad has over 17 years of management experience in the healthcare information technology industry. From January 2005 to January 2011, Ms. Nustad served as Vice President of Architecture and Technology for Regence (Blue Cross Blue Shield), where she was responsible for servicing a large corporation across multiple sites and states. From May 2002 to December 2004, Ms. Nustad served as the Vice President of Software Development and Product Management for OAO Healthcare Solutions, Inc. (OAO). During her tenure at OAO, Ms. Nustad managed, from inception to commercialization, the strategic development of a flagship platform and database-independent managed care benefits and claims processing system designed for healthcare plans, self-insured employer groups and government agencies—among others. Prior to OAO, Ms. Nustad held leadership roles at e-MedSoft.com and WellPoint Health Networks.

Jeffrey S. Sherman has served as our Executive Vice President, Chief Financial Officer and Treasurer since September 2014. Mr. Sherman has over 25 years of experience in healthcare operations, strategic planning and financial performance in senior financial executive positions. Prior to joining HMS, Mr. Sherman served as Executive Vice President and Chief Financial Officer of AccentCare, a healthcare delivery organization, from September 2013 to August 2014. From April 2009 to September 2013, he served as Executive Vice President and Chief Financial Officer of Lifepoint Hospitals, Inc. From September 2005 until April 2009, Mr. Sherman served as Vice President and Treasurer of Tenet Healthcare, where he managed all aspects of corporate finance, including cash flow management and capital structure, and was responsible for risk management. Mr. Sherman served in various capacities for Tenet and its predecessor company since 1990, including as a hospital chief financial officer and regional vice president.

Tracy A. South has served as our Chief Administrative Officer and Executive Vice President, Human Resources, since May 2014. She served as our Senior Vice President of Human Resources from December

2011 to May 2014. Ms. South has over 20 years of executive-level human resources experience, including at national healthcare organizations. From 2003 to 2011, Ms. South served as the Senior Vice President, Chief Human Resources Officer at Mosaic Sales Solutions, a privately-held full-service marketing agency in Irving, Texas. She built that company's North America Human Resources department, focusing on attracting and training a dispersed workforce of over 10,000 employees hired to represent world-class brands at retail, in the community and online. In her role, Ms. South oversaw Talent Acquisition, HR Services and Organizational Effectiveness. Ms. South also served as Vice President of Human Resources for Tenet Healthcare, initially for the Central Northeast Division, which included 38 hospitals and over 40,000 employees, and subsequently at the corporate level. Prior to Tenet, she led the Human Resources department for Aetna US Healthcare, where she oversaw a broad range of functions and designed human resources strategies to align with business practice areas.

Semone Wagner has served as our Executive Vice President of Operations since April 2013, responsible for our core operations, including the coordination of benefits service line. Ms. Wagner has extensive experience in healthcare claims processing, operations and reengineering. She has a track record for leading change, driving quality performance and reducing unit costs in complex operating environments. Prior to joining HMS, Ms. Wagner served as Senior Vice President of Claim Operations at United HealthCare (UHC), where she oversaw the operations for all business lines and major platforms processing over 500 million claims annually. Under her leadership, the company achieved industry-leading performance levels, earning the American Medical Association designation for the industry's best claim operation in 2011 and 2012.

Douglas M. Williams has served as our Division President of Markets since January 2015, responsible for leading the state and federal government and commercial markets, sales and marketing. From December 2013 to January 2015, he served as our Division President of Commercial Solutions, responsible for leading our commercial product and business development strategy. Mr. Williams has over 25 years of experience in healthcare information technology, sales, and operations. From 2010 to 2013, Mr. Williams served as Chief Information Officer of Aveta, which was acquired by Optum Inc. in 2012. From 2008 to 2010, he served as a Healthcare Partner with Protiviti, Inc., where he built a healthcare consulting practice. From 2006 to 2008, he served as Senior Vice President of the Payer Business Unit at MedeAnalytics, where he was responsible for building the sales team and significantly expanding the company's sales pipeline. Mr. Williams' healthcare consulting background also includes serving as a Global Healthcare Partner for IBM, where he was responsible for developing and managing IBM's global healthcare practice.

Section 16(A) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Exchange Act, as amended, our executive officers, directors and persons owning more than 10% of a registered class of our equity securities are required to file reports of ownership and changes in ownership of common stock with the SEC. Copies of such reports are required to be furnished to us.

Based solely on a review of the copies of such reports furnished to us, or written representations that no other reports were required, we believe that during fiscal year 2014, all of our executive officers and directors complied with the requirements of Section 16(a), except that (i) due to administrative error, 1 report covering 1 transaction was not timely reported by each of Mr. Donabauer and Ms. Wagner, and (ii) 5 late reports from 2009 through 2013, covering an aggregate of 14 transactions involving a change in beneficial ownership from direct holdings to indirect holdings through a series of gifts of shares to a revocable family trust for which Mr. Lucia serves as trustee were not timely reported by Mr. Lucia. All of such reports were promptly filed on behalf of the respective officers upon learning of the unreported transactions.

Code of Ethics

As previously disclosed, on July 31, 2014, our Board of Directors approved certain amendments to the Company's Code of Conduct, Code of Conduct for Designated Senior Financial Managers and Code of Ethics to harmonize the codes and integrate them into one document (the "Amended Code of Conduct") applicable to all of our directors, officers and employees, including all of the Company's subsidiaries' employees, officers, directors, contractors, contingent workers and business affiliates. No substantive amendment to any element of the "code of ethics" definition enumerated in Item 406(b) of Regulation S-K was effectuated as a result of these amendments. A copy of the Amended Code of Conduct is publicly available on our website under the "Investor Relations"/"Corporate Governance" section at: http://investor.hms.com/governance.cfm and can also be obtained free of charge by sending a request to our Corporate Secretary at 5615 High Point Drive, Irving, Texas 75038. We intend to disclose any future amendments or waivers to the provisions of the Amended Code of Conduct that relate to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions by filing such information on a Current Report on Form 8-K with the SEC within four business days, to the extent such filing is required by the NASDAQ Marketplace Rules; otherwise, we will disclose such amendments or waivers by posting such information on our website.

Item 11. Executive Compensation.

Compensation Discussion and Analysis

Introduction

This Compensation Discussion and Analysis ("CD&A"), describes our 2014 executive compensation program and should be read in conjunction with the compensation tables and related narrative descriptions that follow those tables. In particular, this CD&A explains how the Compensation Committee of the Board of Directors made its compensation decisions for our named executive officers for 2014.

For 2014, our named executive officers are:

- William C. Lucia, President and Chief Executive Officer;
- Jeffrey S. Sherman, Executive Vice President, Chief Financial Officer and Treasurer;
- Eugene V. DeFelice, Executive Vice President, General Counsel and Corporate Secretary;
- Cynthia Nustad, Executive Vice President and Chief Information Officer;
- Semone Wagner, Executive Vice President, Operations;
- Walter D. Hosp, former Executive Vice President, Chief Financial Officer and Chief Administrative Officer; and
- Joseph M. Donabauer, Senior Vice President and Controller and former interim Principal Financial Officer and interim Treasurer.

On March 10, 2014, Mr. Hosp tendered his resignation as our Executive Vice President, Chief Financial and Administrative Officer, which was effective June 6, 2014. Mr. Donabauer served as interim Principal Financial Officer and interim Treasurer from June 6, 2014 through September 8, 2014, the date that Mr. Sherman joined the Company.

2014 Say-on-Pay Vote

At the Company's 2014 Annual Meeting of Stockholders, approximately 99% of the votes cast on the say-on-pay proposal were in favor of our executive compensation program described in our 2014 Proxy Statement. The Compensation Committee believes that this vote affirms stockholders' support of the Company's general approach to executive compensation, and therefore, did not change its compensation philosophy as it made decisions for 2014. As market practices on executive compensation policies evolve, the Compensation Committee will continue to evaluate and, if needed, make changes to our executive compensation program to ensure that the program continues to reflect our pay-for-performance compensation philosophy and objectives. The Compensation Committee will also continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for executive officers.

Executive Summary

2014 Financial Performance Overview

The following is an overview of our financial performance for the year ended December 31, 2014.

- For the full year ended December 31, 2014, we reported revenue of $443.2 million, a 9.9% decrease compared to 2013 revenue of $491.8 million due primarily to an $86.0 million decline in our Medicare Recovery Audit Contractor (RAC) business. Excluding RAC revenue, revenue for the year increased by $37.4 million, or 9.7%, to $421.2 million.
- Our 2014 commercial revenue was $170.9 million, a 14.6% increase over 2013 commercial revenue of $149.1 million, and our 2014 state government revenue was $225.9 million, an 8.9% increase over 2013 state government revenue of $207.5 million.
- We reported adjusted earnings before interest, taxes, depreciation, amortization and stock-based compensation expense (adjusted EBITDA) of $101.2 million for the full year 2014, which represented a decrease of 30.2% compared to adjusted EBITDA of $145.0 million for the prior year.
- Our stock price declined by 6.9% for the one-year period ending December 31, 2014 and declined 33.9% for the three-year period ended December 31, 2014.

A reconciliation of the non-GAAP measure adjusted EBITDA is set forth on <u>Annex A</u> of this Amendment.

Key Compensation Actions

The following highlights key decisions and actions during 2014 and early 2015 regarding our executive compensation practices and program. These decisions and actions were made with the advice of the Compensation Committee's independent consultant, Frederic W. Cook & Co., Inc. ("F.W. Cook") (see "Role of Compensation Consultant" below) and are discussed in greater detail elsewhere in this CD&A.

- **Changes to the Short-Term (Cash) Incentive Program.** In February 2014, we introduced certain corporate strategic objectives as a performance measure under the 2014 Short-Term Incentive Program in addition to financial objectives, such as EBITDA and revenue. We believe that the addition of strategic objectives better balances the achievement of short-term financial goals with other leading indicators of the Company's success.
- **New Executive Talent.** In order to attract and retain top executive talent in 2014, in connection with the commencement of employment of Messrs. DeFelice and Sherman, we approved, among other things, a sign-on bonus, subject to certain conditions, and an initial equity grant, subject to certain conditions and restrictions, for each of Messrs. DeFelice and Sherman, pursuant to their respective employment agreements with the Company. A discussion regarding these actions and decisions follows later in this CD&A.
- **Introduction of Stock Ownership Guidelines and Clawback Policy.** In October 2014, to better align the interests of our directors and executives officers with the interests of our stockholders and further promote our commitment to sound corporate governance and executive compensation

practices, the Board adopted stock ownership guidelines, as well as a "clawback" policy applicable to certain cash and equity compensation, to help protect against malfeasance risk.

- **Changes in Equity Mix of Long-Term Incentive Awards.** On October 20, 2014, with the advice of our independent consultant F.W. Cook., we approved changes in the equity mix of the long-term incentive awards granted annually in the fourth quarter to our senior executives. Consistent with the market practice of our peers, we changed the mix of long-term incentive awards to our senior executives, including the named executive officers, from 100% non-qualified stock options to 50% non-qualified stock options and 50% restricted stock units. Fifty percent of both the stock option and restricted stock unit awards are subject to stock price performance conditions.

- **Updated Peer Group.** In November 2014, we modified our executive compensation peer group by adding one company and removing one company. These changes were made to ensure that our peer group continues to provide an appropriate benchmark for competitive pay analyses.

- **Extension of President and Chief Executive Officer's Employment Agreement.** In January 2015, we amended our employment agreement with Mr. Lucia on substantially the same terms as his prior agreement, in order to extend Mr. Lucia's employment with us for an additional three year term.

- **Combination of Two Annual Long-Term Incentive Awards into One Annual Award.** We determined in October 2014 that, effective beginning in 2015, the two long-term incentive awards historically granted in the first and fourth quarters of each year will be combined instead into one annual grant in the first quarter of each year. This change better aligns us with peer group practice and simplifies our equity plan administration. We also believe that a single long-term incentive grant is more retentive and motivational than two smaller grants.

Philosophy, Objectives and Principles of Our Executive Compensation Program

Our mission is to work passionately to increase the value of the healthcare system so healthcare dollars can benefit more people. To support this mission and other strategic objectives as approved by the Board and to provide adequate returns to stockholders, we must compete for, attract, develop, motivate and retain top quality executive talent at the corporate and operating business unit levels during periods of both favorable and unfavorable business conditions.

Our executive compensation program is a critical management tool in achieving this goal. "Pay for performance" is the underlying philosophy for our executive compensation program. The program is designed and administered to:

- reward performance that drives the achievement of our short and long-term goals;

- align the interests of our senior executives with the interests of our stockholders, thus rewarding individual and team achievements that contribute to the attainment of our business goals;

- foster teamwork and encourage our senior executives to work together with key personnel in the interest of company performance;

- attract, develop, motivate and retain high-performing senior executives by providing a balance of total compensation opportunities, including salary and short and long-term incentives that are competitive with similarly situated companies and reflective of our performance;

- help ensure that costs are appropriately supported by performance in a manner consistent with our intention that, where practicable, short and long-term incentive compensation payouts qualify as performance-based compensation that is tax deductible under Code Section 162(m); and

- motivate our senior executives to pursue objectives that create long-term stockholder value and discourage behavior that could lead to excessive risk, by balancing our fixed and at-risk pay (both short and long-term incentives) and choosing financial metrics that we believe drive long-term stockholder value.

Pay-For-Performance

We design our compensation programs to make a meaningful amount of target total direct compensation (salary, plus target annual incentive compensation, plus long-term incentives) dependent on the achievement of performance objectives. In the tables that follow, we compare the target total direct compensation for our Chief Executive Officer in each of the last three fiscal years (Table 1) to the corresponding amounts that were paid or that may be considered realizable (based on the methodology described below) as of December 31, 2014 (Table 2).

Table 1 below presents our President and Chief Executive Officer's salary, incentive bonus opportunity at the target level, stock awards and option awards for each of the last three fiscal years. In Table 1, the stock award and option award amounts reflect the grant date fair value of each such award (at the target level with respect to the stock awards for 2013 and 2014, which were subject to performance-vesting criteria), the same value at which such awards are required, under applicable SEC regulations, to be reflected in the Summary Compensation Table included in this Amendment.

Table 1—Target Total Direct Compensation—Chief Executive Officer

Fiscal Year	Salary ($)	Short-Term (Cash) Incentive (STIP) Opportunity at Target ($)	Stock Awards ($)	Option Awards ($)	Target Total Direct Compensation ($)
2014	650,000	650,000	1,412,490	737,497	3,449,987
2013	650,000	650,000	674,988	1,200,000	3,174,988
2012	650,000	650,000	—	1,200,000	2,500,000
3-Year Totals	1,950,000	1,950,000	2,087,478	3,137,497	9,124,975

Table 2 below illustrates how our performance affected payouts and realization of the target total direct compensation that was available to our President and Chief Executive Officer.

Table 2—Total Direct Compensation That May Be Considered Realizable at 12/31/2014 as a Percentage of Target Total Direct Compensation—Chief Executive Officer

Fiscal Year	Salary ($)	Short-Term (Cash) Incentive (STIP) Payout ($)(1)	Value of Stock Awards at 12/31/2014 ($)(2)	Intrinsic Value of Option Awards at 12/31/2014 ($)(3)	Total Direct Compensation at 12/31/2014 ($)	Total Direct Compensation at 12/31/2014 as a percentage of Target Total Direct Compensation (%)
2014	650,000	468,000	1,426,844	—	2,544,844	74
2013	650,000	—	496,494	—	1,146,494	36
2012	650,000	—	—	—	650,000	26
3-Year Totals	1,950,000	468,000	1,923,338	—	4,341,338	
Percent of Corresponding Amount in Table 1	100%	24%	92%	0%	48%	48%

(1) This column shows the portion of the target-level STIP in Table 1 that was actually paid to our President and Chief Executive Officer in each of the last three fiscal years. Due to the level of

achievement in comparison to the performance objectives that were part of our annual incentive compensation program, payouts to our President and Chief Executive Officer over the past three fiscal years amounted to approximately 24% of the aggregate target short-term cash incentive compensation for such period.

(2) Stock awards for fiscal 2014 and 2013 are valued based on the closing market price per share of our common stock on December 31, 2014 of $21.14 per share. There were no stock awards in 2012.

(3) For purposes of this table, option awards are valued at zero because each such award has an exercise price that is greater than the closing market price for a share of our common stock on December 31, 2014. While our President and Chief Executive Officer may realize value on such option awards in the future, the value realized, if any, will depend on the extent to which there is appreciation in the market price of our common stock.

The foregoing tables illustrate that our annual and long-term incentive programs over the past three fiscal years have been designed to make a meaningful amount of our President and Chief Executive Officer's target total direct compensation dependent on the achievement of performance objectives and have resulted in actual compensation significantly less than the target amount.

Key Governance Features of Our Executive Compensation Program

Our executive compensation programs reflect a number of best practices implemented by the Compensation Committee and the Board of Directors in recent years, including:

- No tax gross-ups on perquisites and no change-in-control-related excise tax gross-ups in employment agreements;
- No history of option repricing or cash buyouts of underwater options;
- Employees and directors are prohibited from pledging our securities as collateral for a loan and entering into hedging and derivative transactions with respect to our securities;
- Equity plans do not have evergreen share authorizations and do not allow for liberal share recycling;
- Salary increases and short-term incentive compensation are not guaranteed;
- Retention by our Compensation Committee of an independent compensation consultant;
- No pensions or supplemental executive retirement plans;
- Limited use of executive perquisites;
- Significant stock ownership guidelines pursuant to which the Chief Executive Officer is required to hold five times his base salary in our common stock and all other executive officers are required to hold two times their base salary in our common stock; and
- Adoption of a clawback policy that permits the Company to recover from any current or former Company executive officer such executive officer's incentive bonus and equity compensation gains attributable to such executive officer's misconduct occurring after January 1, 2015, that causes a subsequent restatement of our financial statements.

Management and the Compensation Committee

Role of Management

Our President and Chief Executive Officer together with our Chief Financial Officer and Executive Vice President of Human Resources develop recommendations regarding the design of our executive compensation program. In addition, they are involved in setting the financial and strategic objectives that, subject to the approval of the Board and the Compensation Committee, are used as the performance measures for the short and long-term incentive plans. Our Chief Financial Officer provides the Compensation Committee with financial information relevant to determining the achievement of performance objectives and related annual cash incentive compensation. As part of its review process, the Compensation Committee receives from our President and Chief Executive Officer a compensation recommendation and assessment of performance against individual objectives, for each other named executive officer and recommendations regarding base salary and short and long-term incentives.

Role of Compensation Committee

Our executive compensation program is administered by the Compensation Committee. The Compensation Committee determines and approves total executive remuneration based on its review and evaluation of recommendations presented by our President and Chief Executive Officer and the advice of F.W. Cook. Our President and Chief Executive Officer does not participate in the Compensation Committee's deliberations or decisions with regard to his own compensation.

Compensation Consultant and Peer Group Analysis

Role of Compensation Consultant

The Compensation Committee has retained F.W. Cook as its independent compensation consultant to provide advice and guidance with respect to executive compensation. F.W. Cook reports directly to the Compensation Committee and the Compensation Committee oversees the fees paid for F.W. Cook's services. The Compensation Committee uses F.W. Cook to review management's executive compensation recommendations with the instruction that F.W. Cook is to advise the Compensation Committee independent of management and to provide such advice for the benefit of the Company and its stockholders. F.W. Cook does not provide any consulting services to the Company beyond its role as a consultant to the Compensation Committee. The Compensation Committee has assessed the independence of F.W. Cook pursuant to SEC rules and concluded that no conflict of interest exists that would prevent F.W. Cook from serving as an independent consultant to the Compensation Committee.

F.W. Cook provided the following services to the Compensation Committee in 2014:

- assisted in the design and development of all elements of the 2014 executive compensation program;
- assisted with the review of the amendment to Mr. Lucia's employment agreement;
- provided competitive benchmarking and market data analysis;
- provided analyses and industry trends relating to the compensation of our President and Chief Executive Officer and our other named executive officers;
- aided the evaluation of modifications to long-term incentive grant practices, including changes to timing of equity grants, equity mix, performance conditions, and allocation of equity amounts;
- provided updates with regard to emerging trends and best practices in executive compensation; and
- reviewed and provided advice on the Company's executive compensation-related disclosures in this Amendment.

Peer Group Compensation Analysis

When evaluating our executive compensation program, our Compensation Committee measures our program against that of a peer group of public companies that is developed with guidance from F.W. Cook. This peer group, which is reviewed annually by the Compensation Committee, consists of companies the Compensation Committee believes are generally comparable to us in size, financial profile and scope of operations and, in certain cases, against which the Compensation Committee believes we compete for executive talent.

Certain executive compensation decisions for 2014 were based in part on benchmarking data from the peer group established by the Compensation Committee in October 2013. Companies included in this peer group for purposes of establishing 2014 executive compensation levels through October 2014 were: Accretive Health, Inc., Acxiom Corp, Allscripts-Misys Healthcare Solutions Inc., AthenaHealth, Inc., Bottomline Technologies (de), Inc., DealerTrack Technologies,Inc., ExlService Holdings, Inc., Fair Isaac Corp, MAXIMUS, Inc., MedAssets, Inc., Medidata Solutions, Inc., NeuStar, Inc., Quality Systems, Inc., Tyler Technologies, Inc. and WEX, Inc. (collectively, the "2013 Peer Group"). This peer group reflects (relative to the Company's prior year peer group) the removal of Concur Technologies, Inc. and MICROS Systems, Inc. because of their difference in size relative to us.

The chart below compares HMS's revenue, net income, EBITDA and market capitalization to the median of our 2013 Peer Group at the time the 2013 Peer Group was established. Note that although our revenue and market capitalization are below the peer median, our net income and EBITDA are above the peer median.

(in millions)(1)	HMS	2013 Peer Group Median
Revenue	$ 489	$ 671
Net Income(2)	$ 48	$ 38
EBITDA	$ 151	$ 109
Market Capitalization(3)	$1,887	$2,103

(1) Revenue, Net Income and EBITDA based on most recently available four quarters as of October 21, 2013.

(2) Before extraordinary items and discontinued operations.

(3) As of September 30, 2013.

In November 2014, the Committee, with guidance from F.W. Cook, reviewed the Company's peer group and determined that a majority of the peer group generally continues to be reasonable from both size and business model perspectives. Based on its annual review, the Committee updated the Company's peer group to include the following companies: Acxiom Corp, Allscripts-Misys Healthcare Solutions Inc., AthenaHealth, Inc., Bottomline Technologies (de), Inc., DealerTrack Technologies,Inc., ExlService Holdings, Inc., Fair Isaac Corp, MAXIMUS, Inc., MedAssets, Inc., Medidata Solutions, Inc., NeuStar, Inc., Omnicell, Inc., Quality Systems, Inc., Tyler Technologies, Inc. and WEX, Inc. (collectively, the "2014 Peer Group"). This peer group reflects (relative to the Company's prior peer group) the addition of Omnicell, Inc., a comparably-sized health care technology company, and the removal of Accretive Health because of its delisiting from the New York Stock Exchange in March 2014. We believe these changes maintain the Company's size positioning against the peer group within the median range, consistent with our overall total direct target compensation philosophy.

The chart below compares HMS's revenue, net income, EBITDA and market capitalization to the median revenue, net income, EBITDA and market capitalization for our 2014 Peer Group. Note that although our revenue and market capitalization are below the median, our net income and EBITDA are above the peer median.

(in millions)[1]	**HMS**	**2014 Peer Group Median**
Revenue	$ 467	$ 672
Net Income[2]	$ 32	$ 29
EBITDA	$ 117	$ 107
Market Capitalization[3]	$1,654	$1,946

(1) Revenue, Net Income and EBITDA based on most recently available four quarters as of October 6, 2014.

(2) Before extraordinary items and discontinued operations.

(3) As of September 30, 2014.

2014 Competitive Review

During the fourth quarter of 2014, the Compensation Committee retained F.W. Cook to conduct a competitive review of the overall compensation packages of our named executive officers (the "2014 Competitive Review"). The analysis was based on a review of the compensation of our named executive officers to similarly situated executives in the 2014 Peer Group. While we generally aim to set each named executive officer's target total direct compensation between the median and 75th percentile of the levels paid to similarly situated executives in our peer group, such data is intended to serve as one of several reference points to assist the Compensation Committee in its discussions and deliberation. The Compensation Committee reserves flexibility to vary from this positioning based on a variety of factors including prior year compensation targets, the named executive officer's overall performance, changes in roles or responsibilities, and prior year short- and long-term incentive payments.

As part of the 2014 Competitive Review, the Compensation Committee reviewed (i) a competitive analysis of the target total direct compensation of the named executive officers, including base salary and short and long-term incentives, (ii) an analysis of our 2013 actual compensation levels for the named executive officers and our performance relative to the peer group companies and (iii) a competitive assessment of our aggregate long-term incentive grant practices, including a review of share usage (shares granted in equity plans as a percentage of weighted average shares outstanding), potential dilution relative to peer group practice and fair value transfer that measures the aggregate value of long-term incentives in absolute dollars and as a percent of market capitalization.

2014 Executive Compensation Elements

The primary elements of our executive compensation program are as follows:

Element	Type	Objective
Annual Base Salary	Fixed cash compensation for performing day-to-day responsibilities	Recognizes skills, experience and responsibilities
Annual Short-Term Incentive Compensation	Cash compensation awards based on the achievement of short-term financial goals and other strategic objectives measured over a specific year	Promotes and rewards short-term corporate performance and achievement of our strategic objectives
Annual Long-Term Incentive Compensation	Restricted stock units Nonqualified stock options	Builds executive stock ownership, retains executives and aligns compensation with the achievement of our long-term financial goals of creating stockholder value and our strategic objectives as measured over multi-year periods

In addition, we generally also provide salary and benefit continuation payments that are only payable if an executive officer's employment is terminated under specific circumstances. These benefits, which provide reasonable income protection in the event an executive officer's employment is terminated without cause or, following a change in control, an executive officer resigns for good reason, support our executive retention goal and encourages executive independence and objectivity in considering a potential change in control transaction.

The Compensation Committee does not have a formal or informal policy or target for allocating compensation between cash and non-cash compensation, or among the different forms of non-cash compensation. In allocating compensation between cash and non-cash forms, we, after reviewing information provided by F.W. Cook, determine what we believe in our business judgment is the appropriate level with respect to each of the various compensation components.

For 2014, the Compensation Committee re-evaluated the structure of our short-term (cash) incentive program and long-term incentive compensation and determined to implement a number of changes to establish increased linkage between metrics, goal-setting and incentive payouts and the Company's overall strategic goals, increase participant accountability, and balance annual and long-term results. These changes include modifying the Company's annual short-term (cash) incentive plan to include a portion based on the Company's achievement of non-financial strategic objectives and revising the equity mix of long-term incentive compensation.

Base Salary

Base salary is used to recognize the experience, skills, knowledge and responsibilities of our employees, including our named executive officers. The key factors in determining base salary are the competitive rate among our peers for positions of like responsibility and the level of the named executive officer's salary in relation to other employees within the Company with similar responsibilities and tenure.

The Compensation Committee reviews base salaries annually and, if appropriate, makes adjustments to reflect market levels generally every two years after taking into account individual responsibilities, performance and experience and the recommendations of the Chief Executive Officer. For 2014, the base salaries for Messrs. Lucia and Hosp and Ms. Nustad remained at $650,000, $450,000 and $425,000, respectively. With respect to Ms. Wagner, the Committee increased her base salary in March 2014, from $450,000 to $475,000 based on her significant contributions and increased scope of responsibilities as Executive Vice President of Operations, the recommendation of the Chief Executive Officer and the benchmarking data provided by F.W. Cook. In March 2014, Mr. Donabauer received a merit increase from $245,000 to $252,350 to recognize his performance, contributions and achievements in 2013. Both Mr. DeFelice and Mr. Sherman joined the Company during 2014, and their base salaries were established at $425,000 and $500,000, respectively.

Annual Short-Term (Cash) Incentive Compensation

The Compensation Committee awards annual short-term cash incentive compensation to our named executive officers in accordance with specific performance criteria established each year and based on the extent to which those criteria were achieved. The Compensation Committee believes that this element of our executive compensation program promotes the Company's performance-based compensation philosophy by providing named executive officers with direct financial incentives for achieving specific short-term performance goals. Performance criteria for the annual short-term cash incentive awards are established and awards are ultimately made in a manner intended to reward both overall corporate performance and an individual's participation in attaining such performance. Our annual short-term cash incentive awards are paid in cash, ordinarily in a single payment in the first quarter following the completion of the fiscal year.

Our Board of Directors has adopted, and our stockholders have approved, the HMS Holdings Corp. Annual Incentive Compensation Plan ("AIP") to provide key executives incentive awards that are intended to qualify as performance-based compensation and that are intended to be deductible for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). The AIP is entirely objective. Participants in the AIP are eligible to receive a maximum bonus award of $2,000,000, subject to the Compensation Committee's authority to use negative discretion, if the predetermined objective goal for the fiscal year is met. EBITDA was selected as the performance metric under the AIP for fiscal year 2014 because it is a primary reporting metric for the Company. EBITDA is calculated based on generally accepted accounting principles (GAAP) income before income taxes to exclude the effects of interest, depreciation and amortization of intangible assets, as reported in our financial statements for the year ended December 31, 2014. All of the named executive officers other than Mr. Donabauer were participants under the AIP for fiscal 2014.

In February 2014, the Compensation Committee established the 2014 Short-Term (Cash) Incentive Plan ("2014 STIP"). The 2014 STIP operates as a sub plan under our stockholder approved AIP. This plan within a plan structure is designed to preserve deductibility under Section 162(m) of the Code, while giving the Compensation Committee the flexibility to grant awards that reflect financial and strategic achievements based on both objective and subjective criteria. The Compensation Committee established performance goals for each executive officer under the 2014 STIP that were used to determine actual bonus amounts that were paid in 2015, which are below the officers' maximum award under the AIP, if applicable.

Awards under the 2014 STIP were made from a bonus pool sized based on the aggregate target incentive opportunity for all eligible employees. Generally, an employee's target annual incentive opportunity is established based on the employees' management level within the Company and is expressed as a percentage of annual base salary. The target annual incentive opportunities approved by the Compensation Committee for our named executive officers are as follows:

Named Executive Officer	Target Incentive Opportunity (as a % of base salary)
W. Lucia	100%
J. Sherman	65%
E. DeFelice	65%
K. Wagner	65%
C. Nustad	65%
W. Hosp(1)	65%
J. Donabauer	50%

(1) Mr. Hosp resigned as our Executive Vice President, Chief Financial Officer and Treasurer, effective as of June 6, 2014.

2014 Performance Goals

For 2014, with input from F.W. Cook, the Compensation Committee determined to redesign the short-term (cash) incentive program, which was historically funded based solely on achievement of financial objectives, to include both financial and non-financial objectives. The Compensation Committee established revenue and adjusted EBITDA as the financial metrics under the 2014 STIP. We believe that revenue and adjusted EBITDA are strong indicators of our overall financial performance and are key indicators used by industry analysts to evaluate our operating performance. We define adjusted EBITDA, which is a non-GAAP measure, as earnings before interest, taxes, depreciation, amortization, and stock based compensation. In addition to the financial objectives, the Compensation Committee established certain strategic objectives under the 2014 STIP in order to motivate participants to achieve the overall short-term strategic goals of the Company. Weightings then were established for each of the three performance metrics for 2014—50% for adjusted EBITDA, 25% for revenue and 25% for strategic objectives, as well as specific performance targets for revenue and adjusted EBITDA. The adjusted EBITDA target for 2014 was $123.0 million. The revenue target for 2014 was $443.0 million.

The bonus pool under the 2014 STIP was funded based on the level of achievement of each of the performance objectives. As illustrated in the charts below, the applicable percentage of the bonus target to be paid varies with the Company's level of achievement of its adjusted EBITDA target and revenue target. Payout levels for the portions of the incentive award subject to achievement of these financial objectives were limited to 200% of target.

Adjusted EBITDA

Percent of Target Achieved	Bonus Multiple
<85%	—
85%	0.5
86% - 99%	Payout is a straight line from 0.5 to 1.0
100%	1.0
101% - 130%(1)	Payout is a straight line from 1.0 to 2.0

(1) Payouts above 100% are subject to a limit of 20% of incremental adjusted EBITDA above budget.

Revenue

Percent of Target Achieved	Bonus Multiple
<90%	—
90%	0.5
90% - 99%	Payout is a straight line from 0.5 to 1.0
100%	1.0
101% - 120%(1)	Payout is a straight line from 1.0 to 2.0

(1) Payouts above 100% are subject to a limit of 20% of incremental adjusted EBITDA above budget.

In addition to financial objectives, the following strategic objectives were established for 2014 to align our objectives with those of our customers, stockholders and employees:

- Build increased sales competency: Establish a sales organization and formal sales process and develop a sales incentive plan focused on accelerating profitable growth.
- Drive operational effectiveness/margin improvement: Increase revenue per employee and product yield.
- Rationalize product portfolio: Establish a Product Management function and exit or improve the profitability of underperforming products.
- Improve customer satisfaction: Improve Voice of the Customer participation and scores.
- Enhance employee engagement: Improve engagement scores in 2014 survey.

The level of achievement of the strategic objectives is determined in the Compensation Committee's sole discretion.

When considering whether the Company has achieved its goals for payouts under the pre-existing terms of the short-term (cash) incentive program, the Compensation Committee may determine to exclude certain significant unplanned items that may distort the Company's performance and that were largely out of the control of management. This practice helps ensure that our senior executives will be fairly treated and remain engaged and motivated and will not be unduly influenced in their day-to-day decision-making because they would neither benefit nor be penalized as a result of certain unexpected and uncontrollable or strategic events that may positively or negatively affect the performance goals in the short-term.

2014 Short-Term (Cash) Incentive Compensation Calculation

The named executive officers' 2014 incentive awards generally were determined by applying the predefined financial and strategic objectives weightings in the following formula:

Base Salary	x	Target Incentive Opportunity	x	Company's achievement of: • 50% Adjusted EBITDA Target • 25% Revenue Target • 25% Strategic Objectives	=	Cash Incentive Award

For 2014, the Company had adjusted EBITDA of $101.2 million and revenue of $443.2 million. In determining the cash bonus amounts to be paid to the named executive officers for services performed in 2014, the Compensation Committee approved adjustments to the 2014 financial targets to exclude the Medicare RAC revenue due to the significant uncertainty with the related procurement and award process, which was substantially beyond the control of management, and an adjustment to the adjusted EBITDA calculation to exclude the impact of 2014 legal fees incurred in connection with Public Consulting Group, Inc. (“PCG”) litigation. The Compensation Committee determined that the facts giving rise to the PCG litigation were substantially outside of the control of current management and that the facts and circumstances underlying the litigation occurred in the past, prior to the employment of the management team (other than Mr. Lucia), and were related to the intervening wrongful acts of third parties. Additional considerations included fairness to the Company’s management and employees and employee morale. These adjustments resulted in adjusted EBITDA of $107.4 million and adjusted revenue of $421.2 million, or 87.1% and 95.0% achievement of the respective financial objectives. In addition, the Compensation Committee determined that 100.0% of the strategic objectives for 2014 were met. Based on the Company’s achievement level of each of the pre-determined performance objectives, the bonus pool under the 2014 STIP was funded at 72% of the target bonus pool.

Performance Objectives	Performance Objective Weighting	Bonus Pool at Target	Achievement of Performance Objective	Computed Bonus Pool
		(in thousands)		(in thousands)
Adjusted EBITDA	50%	$ 5,677	87.1%	$3,234
Revenue	25%	$ 2,838	95.0%	$2,141
Strategic Objectives	25%	$ 2,838	100.0%	$2,838
Totals	100%	$11,353		$8,213
% of Bonus Payout				72% of target

Below is a comparison of target bonus amounts to actual bonus amounts paid to the named executive officers under the 2014 STIP.

Named Executive Officer	Target Bonus	Actual Percentage of Target Bonus Paid	Actual Bonus(1)
W. Lucia	$650,000	72%	$468,000
J. Sherman	$325,000	48%	$155,000
E. DeFelice	$276,250	72%	$198,000
K. Wagner	$308,750	86%	$265,000
C. Nustad	$276,250	72%	$200,000
J. Donabauer	$126,175	75%	$ 95,000
W. Hosp(2)	$292,500	—	—

(1) The amounts in this column do not exceed the AIP maximum amounts of $2.0 million for any named executive officer.

(2) Mr. Hosp resigned as our Executive Vice President, Chief Financial Officer and Treasurer, effective as of June 6, 2014.

The actual bonus amounts for each of Messrs. Lucia and DeFelice and Ms. Nustad were determined by multiplying each officer’s target bonus by 72%, the percentage of bonus payout calculated above. Mr. DeFelice’s bonus was not pro-rated for a partial year of employment, pursuant to his employment agreement with the Company. Mr. Sherman joined the Company in September 2014 and was guaranteed a minimum bonus for the 2014 plan year of $150,000, pursuant to his employment agreement with the Company. Taking into consideration the recommendation of the President and Chief Executive Officer, the Compensation Committee approved a bonus of $155,000 for Mr. Sherman. In determining the amount of Ms. Wagner’s bonus for 2014, the Compensation Committee considered her contribution to the Company’s achievement of its overall strategic plan, and her individual contributions to the operations unit relative to the Company’s other business areas, which, among other achievements, include increasing operational efficiency and improving employee engagement scores for 2014, in addition to the pre-established financial and strategic objectives, and determined to increase her award payment above the 72% payout level by $42,700. The amount of Mr. Donabauer's bonus for 2014 was determined in the President and Chief Executive Officer's discretion, pursuant to delegated authority by the Compensation Committee. The President and Chief Executive Officer determined to increase Mr. Donabauer's bonus payment above the 72% payout level based on his roles as interim Principal Financial Officer and interim Treasurer during part of 2014. Mr. Hosp was not eligible to receive a bonus for 2014 because he was not employed by the Company on the date the bonuses were paid.

Annual Long-Term Incentive Compensation

We believe that equity grants provide our named executive officers with a strong link to our long-term performance in order to create an ownership culture and help to align their interests with those of our stockholders.

In accordance with our Fourth Amended and Restated 2006 Stock Plan (the "2006 Stock Plan"), we set the exercise price of all stock options equal to the closing price of our common stock on the NASDAQ Global Select Market on the day of the grant. Accordingly, a stock option grant will provide a return to the executive officer only in the following circumstances, outside of a change in control: (i) the executive officer remains employed during the vesting period, (ii) the performance conditions (which relate to 50% of the stock option grant) are achieved, and (iii) the market price of our common stock appreciates from the option's exercise price. As a result, stock options strongly support our objective of ensuring that pay is aligned with changes in stockholder value.

In addition to stock options, we previously have issued restricted stock awards and in more recent years, restricted stock unit awards, under the 2006 Stock Plan to support the goal of retaining our named executive officers and to further align the interests of our executives with stockholders by increasing their stock ownership. Because restricted stock and restricted stock units awarded to executives generally vest in installments over time, these awards will provide a return to the executive only if the executive remains employed during the vesting period. We also align pay with performance by establishing performance conditions with respect to all or a portion of the awards. With respect to any portion of an award subject to performance conditions, the award will provide a return to the executive only if the Company achieves its objectives. The value of the restricted stock awards and restricted stock unit awards granted to the executive increases or decreases as the market price of our common stock increases or decreases, further supporting our objective of ensuring that pay is aligned with changes in stockholder value.

How Awards Are Granted

The Compensation Committee historically has awarded two annual grants of equity at its regularly scheduled meetings held during the first and fourth quarters of the year. The dates of the regularly scheduled meetings are determined in advance, typically during the fourth quarter of the preceding year. At these regularly scheduled meetings, the Committee will meet with management and F.W. Cook to discuss and consider award determination, and if approved, the Committee will establish a grant date that is two business days after the date that the Company will file its next quarterly report on Form 10-Q or annual report on Form 10-K, as applicable, as well as the award amounts and terms of the awards for the executive officers.

For purposes of determining equity awards for our other named executive officers, our President and Chief Executive Officer presents the Compensation Committee with his recommendations for the other executive officers. With respect to our President and Chief Executive Officer, the Committee considers the Company's performance and relative stockholder return and the awards given to the President and Chief Executive Officer in past years. The Committee also seeks guidance from F.W. Cook as to appropriateness of grant amounts, vesting schedules and performance conditions in light of market practices based on benchmarking data from our peer group companies. These equity awards are granted based upon the Compensation Committee's subjective evaluation of the appropriate grant depending upon the level of responsibility of each named executive officer and competitive positioning among our peer group companies.

In addition to grants that are approved at the regularly scheduled meetings, the Compensation Committee approves off-cycle initial equity grants to attract and retain key new hires based on management's negotiations with the new hire candidate. These off-cycle grants are generally effective as of the date the new hire commences employment with the Company and are subject to time-based vesting.

2014 Competitive Review

In October 2014, the Compensation Committee evaluated the long-term incentive compensation component of the executive compensation program. With the guidance of F.W. Cook, the Committee reviewed the Company's long-term incentive grant practices, including a review of share usage (shares granted in equity plans as a percentage of weighted average shares outstanding), potential dilution relative to peer group practice and fair value transfer that measures the aggregate value of long-term incentives in absolute dollars and as a percent of market capitalization.

Taking into consideration F.W. Cook's recommendations, the Committee established a target amount for total long-term compensation at a slightly higher level than previous years in order to maintain competitive market levels for recently recruited management with more experience to help the Company achieve its growth objectives and to encourage retention in light of the uncertainty of the Medicare RAC contract award process and volatility in the Company's stock price.

2014 Long-Term Incentive Compensation

For the 2014 fiscal year, in making its determinations with respect to granting annual long-term incentives, the Compensation Committee considered F.W. Cook's recommendations based on the 2014 Competitive Review (with respect to the fourth quarter 2014 grants) and peer group benchmarking data and the recommendations of the President and Chief Executive Officer (other than with respect to his own incentives), in addition to several objective factors, including comparative share ownership of similarly-situated executives, the Company's financial performance, the amount of equity previously awarded, the vesting of such awards and the retention value of the award. In determining amounts of long-term incentive compensation to be awarded, no fixed or specific mathematical weighting was applied to the subjective or the objective assessment of the named executive officers' individual achievements.

For 2014, the Committee continued its prior year practice of awarding an annual grant of restricted stock units in the first fiscal quarter and an annual equity grant in the fourth fiscal quarter.

First Quarter 2014 Grants. On March 5, 2014, the Committee awarded an equity grant to (i) Mr. Lucia 33,399 of restricted stock units, (ii) Mr. Hosp 17,318 of restricted stock units, (iii) Mr. Donabauer 7,422 of restricted stock units, (iv) Ms. Wagner 24,740 of restricted stock units, and (v) Ms. Nustad 19,792 of restricted stock units, based on the closing price of our common stock of $20.21 on the NASDAQ Global Select Market on that date, provided that the Company achieved positive operating income before taxes for the fiscal year ending December 31, 2014. The vesting period of restricted stock units for the first quarter 2014 grant was reduced from five years to four years from the date of the grant to align with the market practices of our peer group companies and to match the period after which stock option awards are fully vested and exercisable.

Fourth Quarter 2014 Grants. In November 2014, with advice from F.W. Cook, the Committee determined to make certain changes to the mix of equity for the fourth quarter annual equity award. Specifically, the Committee shifted from an award of 100 percent stock options to an equal value weighting of non-qualified stock options and restricted stock units. The Committee believes that the mix of stock options and restricted stock units is appropriate because the two forms of awards together represent a balanced approach that reinforces our emphasis on pay for performance because the numbers of shares earned depends on the performance against pre-defined goals and the value of the shares fluctuates based on the stock price.

In addition, in November 2014 the Committee determined that 50% of the value of their fourth quarter annual long-term incentive awards would be time-based and 50% would be performance-based with vesting tied solely to our stock price. The Committee believes that this mix of vesting supports several important objectives, including compensating named executive officers for achievement of long-term goals tied to business strategy through the use of performance-based vesting, rewarding named executive officers for sustained increases in stock price and ensuring the overall cost of the program is aligned with compensation realized by named executive officers and performance delivered to stockholders. The Committee believes that restricted stock units provide a retention incentive, enhance executive stock ownership, and align the interests of our executives with the interests of our stockholders. However, the Committee believes that allocating a portion of restricted stock units to performance goals would continue to offer a strong retention incentive while reinforcing the Company's long-term focus.

On November 12, 2014, the following named executive officers received restricted stock unit awards as follows: (i) Mr. Lucia was awarded 34,096 restricted stock units, (ii) Mr. Sherman was awarded 15,603 restricted stock units, (iii) Mr. DeFelice was awarded 9,246 restricted stock units, (iv) Ms. Wagner was awarded 13,291 restricted stock units, (v) Ms. Nustad was awarded 11,558 restricted stock units, and (vi) Mr. Donabauer was awarded 2,080 restricted stock units, based on the closing price of our common stock of $21.63 on the NASDAQ Global Select Market on that date.

On November 12, 2014, the following named executive officers received an award of non-qualified stock options to purchase shares of our common stock as follows: (i) Mr. Lucia was awarded 97,231 non-qualified stock options, (ii) Mr. Sherman was awarded 44,495 non-qualified stock options, (iii) Mr. DeFelice was awarded 26,367 non-qualified stock options, (iv) Ms. Wagner was awarded 37,903 non-qualified stock options, (v) Ms. Nustad was awarded 32,959 non-qualified stock options and (vi) Mr. Donabauer was awarded 5,932 non-qualified stock options.

Early 2015 Compensation Actions

Combination of Annual Long-Term Incentive Grants into One Annual Grant

In the past, we granted long-term incentive compensation in two annual grants during the first and fourth quarters. Beginning in 2015, we determined instead to combine the two annual equity grants made during the first and fourth fiscal quarters into one annual grant during the first fiscal quarter in order to align the timing of annual grants to follow the determination and review of the prior year's financial results. This timing allows us to evaluate an executive's total compensation for the full year at one time while simplifying the annual equity award process.

Limited New Executive Perquisites

In order to enhance the Company's ability to recruit and retain highly qualified executive talent, on February 6, 2015, and based on input from F.W. Cook, we determined to offer Guaranteed Standard Issue, or individual disability income insurance, to employees of the Company earning more than $300,000 in annualized base salary, as well as financial counseling services to the President and Chief Executive Officer and any officers of the Company who report directly to the President and Chief Executive Officer. We believe these benefits are comparable to benefits offered by companies of a similar size to ours. Each of the named executive officers, other than Mr. Donabauer, is eligible to receive these benefits.

Other Elements of Compensation Available to all Employees

Benefits and Other Compensation

We maintain broad-based benefits that are provided to all employees, including health and dental insurance, life and disability insurance and a 401(k) plan. Our named executive officers are eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees. The Company matches 100% of participant contributions to our 401(k) plan up to 3% of their eligible compensation and 50% of the next 2% of their eligible compensation contributed to the 401(k) plan, up to a maximum of $10,200 per annum for 2014.

Severance and Change-in-Control Benefits

To enable us to offer competitive total compensation packages to our senior executives, as well as to ensure the ongoing retention of these individuals when considering transactions that may create uncertainty as to their future employment with us, in 2011, the Compensation Committee approved standardizing the terms of employment of our senior executives, which included providing consistent separation and change-in-control protection.

Based on information provided by F.W. Cook, the Committee believes that the protection afforded by the revised terms of employment described above provides a level of benefits that are estimated to be within a reasonable range based on competitive practices with respect to comparable positions. We believe that the benefits provided under these agreements are consistent with the Company's objective of attracting and retaining highly qualified executives and provide reasonable assurance so that our senior executives are not distracted from their duties during the uncertainty that may accompany a possible change in control.

We have provided detailed information about Mr. Lucia's employment agreement and our agreements with the other named executive officers and the benefits provided to Mr. Lucia and the other named executive officers under their respective agreements, along with estimates of the value of such benefits under various circumstances, under the caption "Potential Payments upon Termination of Employment or Change-in-Control" below.

Stock Ownership Guidelines for Executive Officers

With the Board's approval, in October 2014, we adopted stock ownership guidelines for our directors and executive officers to help ensure that they each maintain an equity stake in the Company, and by doing so, appropriately link their interests with those of other stockholders. The guidelines for executive officers are based on a multiple of the executive's base salary.

Title	Value of Shares to be Owned
Chief Executive Officer	5 X Base Salary
Other Executive Officers	2 X Base Salary

Each executive has five years from the date he or she becomes subject to these guidelines to meet his or her target. Shares that satisfy the stock ownership guidelines include stock owned outright, directly or indirectly, restricted stock or restricted stock units, and deferred stock units. Management monitors compliance with these guidelines on an annual basis.

Clawback Policy

In October 2014, the Board adopted a clawback policy that covers each current and former executive officer of the Company and applies to all forms of executive incentive compensation. Our clawback policy provides that the Board (or a Board committee) is authorized to recover from any current or former executive officer any bonus, incentive compensation or equity-based compensation gains resulting from certain misconduct occurring after January 1, 2015 that causes a restatement of our Company's financial statements. The Board is required to review all circumstances and actions causing such restatement and to take action as it deems appropriate. We are monitoring this policy to ensure that it is consistent with applicable laws, and to the extent that the SEC adopts rules for clawback policies, we will revise our policy to reflect any necessary changes.

Prohibition on Hedging and Pledging

Our Insider Trading Policy prohibits our employees and directors from, among many other actions, purchasing our securities on margin, borrowing against our securities held in a margin account, pledging our securities as collateral for a loan and entering into hedging and derivative transactions with respect to our securities.

Tax Considerations

Code Section 162(m) prohibits us from deducting from taxable income any compensation in excess of $1 million paid to our President and Chief Executive Officer and the three other most highly compensated named executive officers employed at the end of the year (other than our Chief Financial Officer), except to the extent that such compensation is paid pursuant to a stockholder approved plan upon the attainment of specified performance objectives. The Compensation Committee believes that tax deductibility is an important factor, but not the sole factor, to be considered in setting executive compensation policy. Accordingly, the Compensation Committee periodically reviews the potential consequences of Section 162(m) and generally intends to take such reasonable steps as are required to avoid the loss of a tax deduction due to Section 162(m). However, the Compensation Committee may, in its judgment, authorize compensation payments or arrangements that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

Summary Compensation Table

The following table sets forth the cash and non-cash compensation awarded to or earned by our named executive officers for the fiscal years ended December 31, 2014, 2013 and 2012. Information for 2013 and 2012 is not provided for Messrs. Sherman and DeFelice because they were not employed by the Company until 2014, and information for 2012 is not provided for Ms. Wagner because she was not employed by the Company until 2013. In accordance with the rules of the SEC, information for 2013 and 2012 is not provided for Mr. Donabauer because he did not serve as an executive officer of the Company during any part of those years.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards[1] ($)	Option Awards[2] ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation[3] ($)	Total Compensation ($)
William C. Lucia	2014	650,000	—	1,412,490	737,497	468,000	10,400	3,278,387
President and Chief	2013	650,000	—	674,988	1,200,000	—	10,200	2,535,188
Executive Officer	2012	650,000	—	—	1,200,000	—	10,000	1,860,000
Jeffrey S. Sherman	2014	136,538[4]	355,000	337,493	1,087,493	—	—	1,916,524
EVP, Chief Financial	2013	—	—	—	—	—	—	—
Officer and Treasurer	2012	—	—	—	—	—	—	—
Eugene V. DeFelice	2014	312,211[5]	50,000	399,990	399,992	198,000	178,189[6]	1,538,382
EVP, General Counsel	2013	—	—	—	—	—	—	—
and Corporate Secretary	2012	—	—	—	—	—	—	—
Cynthia Nustad	2014	421,731	—	649,996	249,994	200,000	10,400	1,532,121
EVP and Chief	2013	378,413	—	524,020	469,327	—	10,200	1,381,960
Information Officer	2012	350,000	—	31,236	93,743	—	—	474,979
Semone Wagner	2014	470,192	—	787,480	287,494	265,000	13,677	1,823,843
EVP, Operations	2013	337,500[7]	50,000	499,981	450,000	—	6,923	1,344,404
	2012	—	—	—	—	—	—	—
Walter D. Hosp	2014	205,962[8]	—	349,997[10]	—	—	234,979[9]	790,938
Former EVP and	2013	445,833	—	499,990	425,000	—	7,337	1,378,160
Chief Financial Officer	2012	425,000	—	—	424,995	—	10,000	859,995
Joseph M. Donabauer	2014	248,025	63,087	194,989	44,994	95,000	10,505	656,600
SVP and Controller and	2013	—	—	—	—	—	—	—
Former Interim Principal Financial Officer and Interim Treasurer	2012	—	—	—	—	—	—	—

(1) The amounts in this column represent the aggregate grant date fair value of the restricted stock unit awards computed in accordance with Financial Accounting Standards Board (FASB) guidance on stock-based compensation. The relevant assumptions made in the valuations may be found in Note 11 of the Notes to the Consolidated Financial Statements in our Annual Report. The grant date fair value of restricted stock units is determined based on the number of units awarded and the fair value of our common stock on the grant date, which is the closing sales price per share of our common stock reported on The NASDAQ Global Select Market on that date.

(2) The amounts in this column represent the aggregate grant date fair value of the stock option awards computed in accordance with FASB guidance on stock-based compensation. The relevant assumptions made in the valuations for the 2014, 2013 and 2012 stock option awards may be found in Note 11 of the Notes to the Consolidated Financial Statements in (i) our 2014 Annual Report on Form 10-K (ii) our 2013 Annual Report on Form 10-K and (iii) our 2012 Annual Report on Form 10-K, respectively. The grant date fair value of stock options is determined based on the number of options awarded and the fair value of the stock option on the grant date, which is the Black Scholes value of closing sales price per share of our common stock reported on The NASDAQ Global Select Market on that date.

(3) The amounts in this column consist of 401(k) Savings Plan employer matching contributions and, as applicable, the other items specified in the footnotes in this column.

(4) The amount reported consists of base salary earned by Mr. Sherman, prorated from his date of employment on September 8, 2014.

(5) The amount reported consists of base salary earned by Mr. DeFelice from his date of employment on March 24, 2014.

(6) The amount reported consists of 401(k) Savings Plan employer matching contributions of $7,192 and relocation expenses of $170,997 reimbursed by the Company pursuant to Mr. DeFelice's employment agreement with the Company.

(7) The amount reported consists of base salary earned by Ms. Wagner from her date of employment on April 1, 2013.

(8) The amount reported consists of base salary earned by Mr. Hosp through his date of termination of employment on June 6, 2014.

(9) The amount reported consists of 401(k) Savings Plan employer matching contributions of $9,979 and severance payments of $225,000 pursuant to the Letter Agreement with Mr. Hosp dated March 10, 2014.

(10) The amount reported represents the value of a stock award granted on March 5, 2014, which was cancelled on June 6, 2014, pursuant to the terms of Mr. Hosp's Letter Agreement with the Company.

Narrative Discussions to Summary Compensation Table and Grants of Plan-Based Awards Table

The following discussion supplements the information provided in the Summary Compensation Table that precedes this discussion and the Grants of Plan Based Awards Table that follows this discussion.

Salary

The amounts reported in the "Salary" column in the Summary Compensation Table consist of base salary earned in the respective fiscal year. Annual base salaries for 2014 for each of the named executive officers other than Ms. Wagner and Mr. Donabauer were as follows: $650,000 for Mr. Lucia; $500,000 for Mr. Sherman; $425,000 for Mr. DeFelice; $425,000 for Ms. Nustad; and $450,000 for Mr. Hosp. In March 2014, Ms. Wagner's annual base salary was increased from $450,000 to $475,000 and Mr. Donabauer's annual base salary was increased from $245,000 to $252,350.

Bonus

The amounts reported in the "Bonus" column in the Summary Compensation Table for 2014 are based on the following factors.

Jeffrey S. Sherman. Mr. Sherman was guaranteed a minimum bonus payment for 2014 of $150,000, pursuant to his employment agreement with the Company. In February 2015, the Compensation Committee awarded Mr. Sherman a bonus for 2014 of $155,000. In addition, Mr. Sherman received a sign-on bonus of $200,000 in 2014, pursuant to the terms of his employment agreement.

Eugene V. DeFelice. Mr. DeFelice received a sign-on bonus of $50,000 in 2014, pursuant to the terms of his employment agreement with the Company.

Joseph M. Donabauer. Mr. Donabauer entered into a Retention Agreement with the Company in April 2014, pursuant to which Mr. Donabauer is entitled to receive, among other things, $126,175 in two equal installments, subject to certain conditions. Mr. Donabauer received the first installment of $63,087 in 2014.

Stock and Option Awards

First Quarter 2014 Awards. On March 5, 2014, the Compensation Committee awarded a grant pursuant to the 2006 Stock Plan to (i) Mr. Lucia 33,399 of restricted stock units, (ii) Mr. Hosp 17,318 of restricted stock units, (iii) Mr. Donabauer 7,422 of restricted stock units, (iv) Ms. Wagner 24,740 of restricted stock units, and (v) Ms. Nustad 19,792 of restricted stock units, based on the closing price of our common stock of $20.21 on the NASDAQ Global Select Market on that date, provided that the Company achieved positive operating income before taxes for the fiscal year ending December 31, 2014. Based on the Company's audited financial statements included in its Annual Report for the fiscal year ending December 31, 2014, the Company achieved the performance condition and, as a result, the restricted stock units will vest in 25% increments, with the first 25% vesting on the first anniversary of the grant date and the remainder vesting ratably on the second, third, and fourth anniversaries of the grant date.

Fourth Quarter 2014 Awards. On November 12, 2014, the following named executive officers received restricted stock unit awards pursuant to the 2006 Stock Plan as follows: (i) Mr. Lucia was awarded 34,096 restricted stock units, (ii) Mr. Sherman was awarded 15,603 restricted stock units, (iii) Mr. DeFelice was awarded 9,246 restricted stock units, (iv) Ms. Wagner was awarded 13,291 restricted stock units, (v) Ms. Nustad was awarded 11,558 restricted stock units, and (vi) Mr. Donabauer was awarded 2,080 restricted stock units, based on the closing price of our common stock of $21.63 on the NASDAQ Global Select Market on that date. The restricted stock units vest as follows: 50% vests ratably over a three year period beginning on November 12, 2015, and the remaining 50% vests upon the Company's achievement of the following performance condition: the Company's average closing price per share must be at least 25% higher than the closing price on the grant date for a period of 30 consecutive trading days preceding the first, second or third anniversaries of the grant date. If the performance condition is met prior to the first anniversary of the grant date, one-third of the performance RSUs will vest in three equal installments on the first, second and third anniversaries of the grant date; if the performance condition is met after the first anniversary but prior to the second anniversary of the grant date, two-thirds of the performance RSUs will vest on the second anniversary of the grant date and one-third will vest on the third anniversary of the grant date; if the performance condition is met after the second anniversary but prior to the third anniversary of the grant date, 100% of the performance RSUs will vest on the third anniversary of the grant date. If the performance condition is not achieved before the third anniversary of the grant date, the performance RSUs will be forfeited. The named executive officer must remain employed by the Company as of each exercise date.

On November 12, 2014, the following named executive officers received an award of non-qualified stock options to purchase shares of our common stock pursuant to the 2006 Stock Plan as follows: (i) Mr. Lucia was awarded 97,231 non-qualified stock options, (ii) Mr. Sherman was awarded 44,495 non-qualified stock options, (iii) Mr. DeFelice was awarded 26,367 non-qualified stock options, (iv) Ms. Wagner was awarded 37,903 non-qualified stock options, (v) Ms. Nustad was awarded 32,959 non-qualified stock options and (vi) Mr. Donabauer was awarded 5,932 non-qualified stock options. The exercise price for these stock options was $21.63 per share. These stock options are exercisable over seven years and vest as follows: 50% vests ratably over a three-year period beginning on November 12, 2015, and the remaining 50% vests upon the Company's achievement of the following performance condition: the Company's average closing price per share must be at least 25% higher than the exercise price for a period of 30 consecutive trading days preceding the first, second or third anniversaries of the grant date. If the performance condition is achieved prior to the first anniversary of the grant date, the performance option shares become exercisable in three equal installments on the first, second and third anniversaries of the grant date. If the performance condition is achieved after the first anniversary but prior to the second anniversary, two-thirds of the performance option shares vest on the second anniversary of the grant date and the remainder vests on the third anniversary of the grant date. If the performance condition is met after the second anniversary but prior to the third anniversary of the grant date, then 100% of the performance option shares vest on the third anniversary of the grant date. If the performance condition is not achieved before the third anniversary of the grant date, the performance option shares will be forfeited. The named executive officer must remain employed by the Company as of each exercise date.

New Hire Grants

The Compensation Committee approved initial equity grants under the 2006 Stock Plan to Messrs. DeFelice and Sherman upon commencement of their employment, pursuant to their respective employment agreements with the Company. On March 24, 2014, Mr. DeFelice was granted an equity award valued at $400,000 on the date of grant, consisting of 29,078 non-qualified stock options valued at $200,000 on the date of grant and 9,980 restricted stock units valued at $200,000 on the date of grant. On September 8, 2014, Mr. Sherman was granted an equity award consisting of 103,591 non-qualified stock options valued at $750,000 on the date of grant. Assuming continued employment, the options have a seven-year term and the options and RSUs will vest annually over a four year period beginning on the first anniversary of the date of grant.

See "Grants of Plan Based Awards, for the year ended December 31, 2014" for information regarding the stock and option awards granted in 2014 and "Potential Payments upon Employment Termination and Change-in-Control" for additional information regarding matters that could affect the vesting of such stock and option awards.

Non-Equity Incentive Plan Compensation

The amounts set forth in this column reflect the amounts paid to our named executive officers as part of their annual short-term (cash) incentive compensation, as discussed above under the heading "Compensation Discussion and Analysis," which precedes the Summary Compensation Table. Each named executive officer has a targeted annual short-term (cash) incentive award opportunity that is based on a percentage of his/her base salary for the fiscal year and which is earned based on the achievement of pre-determined short-term financial and non-financial goals measured over the year. Mr. DeFelice's annual short-term cash incentive award for 2014 was not pro-rated for a partial year of service, pursuant to the terms of his employment agreement with the Company.

Post-Employment Payments

On March 10, 2014, in connection with accepting Mr. Hosp's resignation, the Company entered into a Letter Agreement with him regarding his transition and separation from the Company (the "Letter Agreement"). The Letter Agreement supersedes Mr. Hosp's employment agreement with the Company, dated April 30, 2012. Under the terms of the Letter Agreement and subject to certain conditions, Mr. Hosp was eligible to receive, among other things: (i) severance of six months of his current base salary of $450,000, to be paid in equal installments over a six month period in accordance with the Company's normal payroll practices, and (ii) a lump sum equal to six months of the difference between the COBRA coverage premium for the same type of medical, dental and vision coverage he is receiving and his employee contribution. Mr. Hosp was paid a severance payment of $225,000 in 2014, pursuant to the Letter Agreement.

Grants of Plan-Based Awards for the Year Ended December 31, 2014

The following table provides information concerning each grant of an award made to our named executive officers in fiscal year 2014 under our AIP, 2014 STIP, and 2006 Stock Plan.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[(1)]			Estimated Future Payouts Under Equity Incentive Plan Awards[(2)]				
Name	Grant Date	Compensation Committee Approval Date	Threshold ($)	Target ($)	Maximum ($)	Target (#)	All Other Stock Awards: Number of Shares of Stock or Units[(3)] (#)	All Other Option Awards: Number of Securities Underlying Options[(4)] (#)	Exercise or Base Price of Options[(5)] ($/Sh)	Grant Date Fair Value of Stock and Option Awards[(6)] ($)
W. Lucia			—	650,000	2,000,000					
	3/5/2014	3/3/2014				33,399				674,994
	11/12/2014	11/3/2014				17,048	17,048			737,496
	11/12/2014	11/3/2014				48,616		48,615	21.63	737,497
J. Sherman			—	325,000	2,000,000					
	9/8/2014	7/29/2014						103,591	20.71	749,999
	11/12/2014	11/3/2014				7,802	7,801			337,493
	11/12/2014	11/3/2014				22,248		22,247	21.63	337,495
C. Nustad			—	276,250	2,000,000					
	3/5/2014	3/3/2014				19,792				399,996
	11/12/2014	11/3/2014				5,779	5,779			250,000
	11/12/2014	11/3/2014				16,480		16,479	21.63	249,994
S. Wagner			—	308,750	2,000,000					
	3/5/2014	3/3/2014				24,740				499,995
	11/12/2014	11/3/2014				6,646	6,645			287,484
	11/12/2014	11/3/2014				18,952		18,951	21.63	287,494
E. DeFelice			—	276,250	2,000,000					
	3/24/2014	3/3/2014						29,078	20.04	199,998
	3/24/2014	3/3/2014					9,980			199,999
	11/12/2014	11/3/2014				4,623	4,623			199,991
	11/12/2014	11/3/2014				13,184		13,183	21.63	199,994
J. Donabauer			—	126,175	—					
	3/5/2014	3/3/2014				7,422				149,999
	11/12/2014	11/3/2014				1,040	1,040			44,990
	11/12/2014	11/3/2014				2,966		2,966	21.63	44,994
W. Hosp			—	292,500	2,000,000					
	3/5/2014	3/3/2014				17,318				349,997[(7)]

(1) Amounts represent the target and maximum short-term (cash) incentive compensation payouts that could be earned by the named executive officers for 2014. The target amount shown is 100% of the individual's target annual award opportunity and assumes that the named executive officer achieves all related predetermined financial and non-financial objectives. The maximum amount shown is the stockholder-approved maximum payout under the AIP, except with respect to Mr. Donabauer, who was not a participant in the AIP. There are no threshold amounts under the 2014 STIP or the AIP. The actual short-term (cash) incentive compensation paid for 2014 is shown in the Summary Compensation Table in the "Non-Equity Incentive Plan Compensation" column. Our 2014 STIP is described in the Compensation Discussion and Analysis, under the heading "Annual Short-Term (Cash) Incentive Compensation." For 2014, Mr. Lucia's target award opportunity was 100% of his base salary. The target award opportunity for Messrs. Sherman, DeFelice and Hosp and Mses. Nustad and Wagner was 65% of his/her base salary. Mr. Donabauer's target award opportunity was 50% of his base salary.

(2) Amounts represent the portion of the grant made to each named executive officer in 2014 that is dependent on certain pre-defined performance conditions. These grants and their vesting schedule are described in the Compensation Discussion and Analysis under the heading "Long Term Incentive Compensation."

(3) Amounts represent the portion of the restricted stock unit grant made to each named executive officer in 2014 that is conditioned on continued service. These restricted stock unit grants and their vesting schedule are described in the Compensation Discussion and Analysis under the heading "Long Term Incentive Compensation."

(4) Amounts represent the portion of the non-qualified stock option grant made to the named executive officers in 2014 that is conditioned on continued service. The vesting schedule for these grants are described in the Compensation Discussion and Analysis under the heading "Long Term Incentive Compensation" and in the Narrative Discussion to the Summary Compensation Table and Grants of Plan-Based Awards Table.

(5) The exercise price equals the closing price of our common stock on the date of the grant.

(6) The amounts in this column represent the grant date fair value of each stock option grant and each restricted stock unit grant computed in accordance with FASB guidance on stock-based compensation, assuming all performance and service conditions are met. The relevant assumptions made in the valuations may be found in Note 11 of the Notes to the Consolidated Financial Statements in our Annual Report.

(7) The amount reported represents the grant date fair value of a restricted stock unit award granted on March 5, 2014, which was cancelled on June 6, 2014, pursuant to the terms of Mr. Hosp's Letter Agreement with the Company.

Outstanding Equity Awards at December 31, 2014

	Option Awards					Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested[1] ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market of Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
W. Lucia	23,990	—		3.15	5/4/2016	27,393[2]	579,088		
	289,005	—		3.66	6/26/2016	23,486[3]	496,494		
	60,000	—		12.61	10/1/2016	33,399[4]	706,055		
	30,000	—		19.77	9/30/2017	17,048[5]	360,395	17,048[5]	360,395
	71,628	—	—	22.95	9/30/2018				
	42,733	21,367[6]	—	27.79	10/4/2019				
	28,694	57,389[7]	86,083[7]	21.36	11/14/2020				
	—	48,615[8]	48,616[8]	21.63	11/11/2021				
J. Sherman	—	103,591[9]	—	20.71	9/8/2021	7,801[5]	164,913	7,802[5]	164,934
	—	22,247[8]	22,248[8]	21.63	11/11/2021				
E. DeFelice	—	29,078[11]	—	20.04	3/23/2021	9,980[10]	210,977		
	—	13,183[8]	13,184[8]	21.63	11/11/2021	4,623[5]	97,730	4,623[5]	97,730
S. Wagner	10,760	21,521[7]	32,281[7]	21.36	11/14/2020	13,651[12]	288,582		
	—	18,951[8]	18,952[8]	21.63	11/11/2021	24,740[4]	523,004		
						6,645[5]	140,475	6,646[5]	140,496
C. Nustad	8,435	2,812[15]	—	22.47	2/8/2018	375[13]	7,928		
	22,384	—	—	22.95	9/30/2018	17,397[3]	367,773		
	6,676	3,339[6]	—	27.79	10/4/2019	375[14]	7,928		
	6,678	3,338[7]	—	27.79	10/4/2019	19,792[4]	418,403		
	9,564	19,130[7]	28,694[7]	21.36	11/14/2020	5,779[5]	122,168	5,779[5]	122,168
	—	16,479[8]	16,480[8]	21.63	11/11/2021				
W. Hosp[16]	180,000	—	—	6.37	3/1/2015	18,263[2]	386,080		
	75,000	—	—	8.00	5/30/2015	17,397[3]	367,773		
	48,000	—	—	12.61	5/30/2015				
	24,000	—	—	19.77	5/30/2015				
	25,369	—	—	22.95	5/30/2015				
	15,134	7,568[6]	—	27.79	5/30/2015				
	10,162	20,325[7]	30,488[7]	21.36	5/30/2015				
J. Donabauer . . .	1,322	—	—	19.77	9/30/2017	375	7,928		
	5,596	—	—	22.95	9/30/2018	1,856[3]	39,236		
	6,676	3,339[6]	—	27.79	10/4/2019	1,170[14]	24,734		
	5,380	10,760[7]	—[7]	21.36	11/14/2020	7,422[4]	156,901		
	—	2,966[8]	2,966[8]	21.63	11/11/2021	1,040[5]	21,986	1,040[5]	21,986

(1) Market value of shares or units of stock that have not vested is calculated by multiplying the closing sales price per share of our common stock on The NASDAQ Global Select Market on December 31, 2014 ($21.14) by the number of shares of stock that have not vested.

(2) Represents restricted stock units granted on February 18, 2011, which vested in one quarter increments on the second and third anniversaries of the grant date. The remaining quarters will vest ratably on the fourth and fifth anniversaries of the grant date, subject to the named executive officer's continued employment.

(3) Represents restricted stock units granted on February 27, 2013, of which one quarter will vest on the second anniversary of the grant date. The remaining three quarters will vest ratably on the third, fourth and fifth anniversaries of the grant date, subject to the named executive officer's continued employment.

(4) Represents restricted stock units granted on March 5, 2014, of which one quarter will vest on the first anniversary of the grant date. The remaining three quarters will vest ratably on the second, third and fourth anniversaries of the grant date, subject to the named executive officer's continued employment.

(5) Represents restricted stock units granted on November 12, 2014, with the following vesting schedule: 50% vests in one-third increments on November 12, 2015, 2016 and 2017 and 50% vests ratably on November 12, 2015, 2016 and 2017 to the extent that certain pre-defined performance and service conditions are satisfied.

(6) Represents stock options granted on October 5, 2012, of which one-third increments vested on both December 31, 2013 and December 31, 2014. Subject to the named executive officer's continued employment, the remainder will vest ratably on December 31, 2015.

(7) Represents stock options granted on November 15, 2013, with the following vesting schedule: 50% vests in one-third increments on November 15, 2014, 2015 and 2016 and 50% vests ratably on November 15, 2014, 2015 and 2016 to the extent that certain pre-defined performance and service conditions are satisfied. One-third (related to the service condition) vested on November 15, 2014.

(8) Represents stock options granted on November 12, 2014, with the following vesting schedule: 50% vests in one-third increments on November 12, 2015, 2016 and 2017 and 50% vests ratably on November 12, 2015, 2016 and 2017 to the extent that certain pre-defined performance and service conditions are satisfied.

(9) Represents stock options granted on September 8, 2014, which will vest in one quarter increments on the first, second, third and fourth anniversary of the grant date, subject to Mr. Sherman's continued employment.

(10) Represents stock options granted on March 24, 2014, which vest in one quarter increments on the first, second, third and fourth anniversary of the grant date, subject to Mr. DeFelice's continued employment.

(11) Represents restricted stock units granted on March 24, 2014, which vest in one quarter increments on the first, second, third and fourth anniversary of the grant date, subject to Mr. DeFelice's continued employment.

(12) Represents restricted stock units granted on April 1, 2013, one quarter of which vested on the first anniversary of the grant date, and subject to Ms. Wagner's continued employment, the remainder will vest ratably on the second, third and fourth anniversaries of the grant date.

(13) Represents restricted stock units granted on October 5, 2012, of which one third vested on December 31, 2013 and December 31, 2014. Subject to the named executive officer's continued employment, the remainder will vest ratably on December 31, 2015.

(14) Represents restricted stock units granted on November 15, 2013, of which one third vested on December 31, 2014. Subject to the named executive officer's continued employment, the remainder will vest ratably on December 31, 2015.

(15) Represents stock options granted on February 9, 2011, which vested in one quarter increments on the first, second and third anniversary of the grant date. The remaining quarter will vest ratably on the fourth anniversary of the grant date, subject to the named executive officer's continued employment.

(16) Pursuant to the Letter Agreement between the Company and Mr. Hosp dated March 10, 2014, any outstanding, but not fully vested options and restricted stock units granted to Mr. Hosp prior to January 1, 2014, continued to vest through February 28, 2015, and his then-vested options will remain exercisable through May 29, 2015. The restricted stock unit award granted to Mr. Hosp on March 5, 2014 was canceled on June 6, 2014, pursuant to the Letter Agreement.

2014 Option Exercises and Stock Vested

The following table sets forth certain information concerning the stock options exercised and stock awards that vested for our named executive officers during the year ended December 31, 2014.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise[1] ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting[2] ($)**
W. Lucia	94,668	1,721,411	37,682	821,907
J. Sherman	—	—	—	—
C. Nustad	—	—	1,658	35,050
S. Wagner	—	—	4,550	87,406
E. DeFelice	—	—	—	—
J. Donabauer	—	—	2,114	44,221
W. Hosp	—	—	28,319	616,464

(1) The value realized on the exercise of stock options is based on the difference between the exercise price and the market price (used for tax purposes) of our common stock on the date of exercise.

(2) The value realized on vesting represents the number of shares acquired on vesting multiplied by the market value of the shares of our common stock on the vesting date, which is the closing price of our common stock on: (i) February 18, 2014 of $22.48 (for Messrs. Lucia (13,697 shares) and Hosp (9,131 shares)), (ii) February 19, 2014 of $21.43 (for Mr. Lucia (23,985 shares) and Mr. Hosp (19,188)), (iii) February 27, 2014 of $20.47 for Mr. Donabauer (927 shares), (iv) April 1, 2014 of $19.21 for Ms. Wagner (4,550 shares), (v) November 15, 2014 of $21.40 for Mr. Donabauer (585 shares), and (vi) December 31, 2014 of $21.14 (for Ms. Nustad (1,658) and Mr. Donabauer (602)).

Potential Payments Upon Termination of Employment or Change in Control

The following information and table set forth the additional amounts payable to each of our named executive officers in the event of a termination of employment as a result of involuntary termination, resignation for Good Reason (as defined below), resignation for Good Reason following a Change in Control (as defined below) and involuntary termination following a Change in Control. Given that Mr. Hosp, our former Executive Vice President and Chief Financial and Administrative Officer, resigned effective June 6, 2014, he is not included in the table.

Assumptions and General Principles

Set forth below are the assumptions and general principles used to calculate the amounts payable to each named executive officer in each circumstance set forth in the table. The actual amounts to be paid to the named executive officer can only be determined at the time the named executive officer's employment terminates or upon a Change in Control.

- The amounts shown in the table are based on the assumption that each named executive officer was terminated on December 31, 2014. Accordingly, the table reflects amounts earned as of December 31, 2014 and includes estimates of amounts that would be paid to the named executive officer upon the occurrence of a termination or Change in Control. The table also reflects the targeted annual short-term (cash) incentive award that the named executive officers would have been entitled to receive for 2014 and not the amount that the Compensation Committee determined to pay (as set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table).

- Regardless of the manner in which the named executive officer's employment is terminated, a named executive officer is entitled to receive any earned but unpaid salary and accrued but unused paid time off through the date of termination. In addition, each named executive officer, with the exception of Mr. Donabauer, is entitled to receive any earned bonus for the calendar year preceding the calendar year in which his/her employment ends if the named executive officer's employment is terminated, unless such termination is for Cause (as described below). Amounts due for unused paid time off for 2014 are not shown in the table.
- Under the terms of our 2006 Stock Plan, upon a named executive officer's termination of employment (for any reason other than gross misconduct, which causes the options to immediately expire), stock option exercises will be limited to the portions of the stock options that were immediately exercisable at the date of such termination. The amounts shown in the table do not include the value of such immediately exercisable stock options.

In addition, we have entered into a Nonsolicitation, Proprietary and Confidential Information and Developments Agreement (the "Restrictive Covenants Agreement") with each of our named executive officers. Under the terms of the Restrictive Covenants Agreements, in Mr. Lucia's case, for the 24 months following the termination of his employment for any reason, and in the case of the other named executive officers, for the 12 months following the termination of his/her employment for any reason, the named executive officer is generally prohibited from: (i) engaging or assisting others in engaging in any business or enterprise in the United States that competes with the Company's business, products or services, (ii) soliciting or diverting or attempting to solicit or divert the business of any of the Company's current or prospective clients, (iii) soliciting, recruiting or inducing or attempting to solicit, recruit or induce any Company employee or independent contractor to leave the Company's employ (or, in some situations, hire), and (iv) disclosing or utilizing for the benefit of any entity other than the Company, any system or product development ideas discussed/explored, even if not implemented, during the named executive officer's employment with the Company. The Restrictive Covenants Agreement also sets forth certain obligations with respect to proprietary and confidential information and developments and inventions.

Definitions from Award Agreements/2006 Stock Plan

- Under our Non-qualified Stock Option Agreements and Restricted Stock Unit Agreements, "cause" is determined by the Compensation Committee or the Board of Directors. Under the 2006 Stock Plan, "cause" is equated with "gross misconduct," as determined by the Compensation Committee or Board of Directors.
- Under the terms of the 2006 Stock Plan, a "Change of Control" shall mean the occurrence of any of the following events: (i) at least a majority of the Board shall cease to consist of directors of the Company who served in such capacity at the time the 2006 Stock Plan was adopted or during each subsequent renewal term or were approved by a then majority of continuing directors for addition to Board; (ii) any "person" or "group" shall have acquired beneficial ownership (as defined in Regulation 13d-3) of shares having 30% or more of the voting power of all outstanding shares, unless such acquisition is preapproved by the Board; (iii) a merger or consolidation occurs in which the outstanding shares are converted into shares of another company, or other securities, or cash or other property and the pre-transaction stockholders cease to hold at least 55% of the post-change voting power, (iv) the sale of all, or substantially all, of the Company's assets occurs; or (v) the Company's stockholders approve a plan of complete liquidation of the Company, with the definition subject to further limitations if necessary to conform to Section 409A of the Code.

Definitions from Employment Agreements

- "Cause" means: (i) fraud with respect to the Company or any of its subsidiaries and affiliates; (ii) material misrepresentation to any regulatory agency, governmental authority, outside or internal auditors, internal or external Company counsel, or the Board concerning the operation or financial status of the Company or of any of its subsidiaries and affiliates; (iii) theft or embezzlement of assets of the Company or any of its subsidiaries or affiliates; (iv) conviction, or plea of guilty or nolo contendere to any felony (or to a felony charge reduced to a misdemeanor), or, with respect to the named executive officer's employment, to any misdemeanor (other than a traffic violation); (v) material failure to follow the Company's conduct and ethics policies that have been provided or made available to the named executive officer; (vi) a material breach of the named executive officer's employment agreement or Restrictive Covenants Agreement; and/or (vii) continued failure to attempt in good faith to perform his/her duties as reasonably assigned by the Board. Certain of the foregoing definitions permit the named executive officer to attempt to cure the grounds for cause.

- "Good Reason" means, the occurrence, without the named executive officer's prior written consent, of any of the following events: (i) a material diminution in his/her authority, duties or responsibilities (in Mr. Lucia's case, other than in connection with a portion of his authority, duties or responsibilities being assigned to or carried out by a President); (ii) a requirement that, in Mr. Lucia's case, he reports to an officer rather than to the Board and in the case of the other named executive officers, that they report to a new supervisor who has materially diminished authority, duties or responsibilities in comparison to his/her previous supervisor (and in the case of Mr. DeFelice, that he report to a new supervisor other than the CEO); (iii) a material reduction in the named executive officer's base salary (and in the case of Mr. DeFelice, a reduction in his base salary or his target bonus percentage); (iv) the Company's requiring, (a) in the case of Messrs. Lucia and Sherman, that they perform their principal services in a geographic area more than 50 miles from the Company's offices in Irving, Texas, or such other place at which they have agreed to provide such services, (b) in Mr. DeFelice's case, that he performs his principal services more than 50 miles from the Company's offices in Dallas, Texas or such other place at which he has agreed to provide such services and (c) in the case of Mses. Nustad and Wagner, that they perform their principal services primarily in a geographic area more than 50 miles from both the Company's offices in Dallas, Texas and its offices in New York, New York or such other place of primary employment at which they have agreed to provide such services; or (v) a material breach by the Company of any material provision of the named executive officer's employment agreement. Good Reason is also subject to certain timing restrictions and our ability to cure the proposed Good Reason.

- "Change in Control" means:

  - the acquisition by an individual, entity or group (a "Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns 50.01% or more of either (x) the then-outstanding shares of Company common stock or (y) the combined voting power of the then-outstanding Company securities entitled to vote in the election of directors; provided, however, that an acquisition from the Company or pursuant to a Business Combination (as defined below) that complies with subclauses (x) and (y) of clause (ii) will not be a Change in Control;

  - the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all (i.e., in excess of 85%), of its assets (a "Business Combination"), unless, immediately thereafter (x) all or substantially all of the beneficial owners immediately prior to such Business Combination beneficially own more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote in the election of directors, respectively, of the resulting or acquiring corporation in substantially the same proportions as their initial ownership and (y) no Person beneficially owns 50.01%, or more, of the then-outstanding shares of common stock of the acquiring corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote in the election of directors (except if such ownership existed prior to the Business Combination); or

- a change in the composition of the Board that results, during any one year period, in the current directors (including directors subsequently elected by at least a majority of the Board, but excluding directors whose initial assumption of office occurred as a result of an actual or threatened election contest or similar circumstance) no longer constituting a majority of the Board, or the Board of a successor corporation.

With the definitions subject to further limitations if necessary to conform to Section 409A of the Code.

Named Executive Officer and Type of Payment	Involuntary Termination	Resignation For Good Reason	Resignation For Good Reason Following a Change in Control	Involuntary Termination Following a Change in Control
W. Lucia, President & Chief Executive Officer(1)(2)				
Cash severance	$1,300,000	$1,300,000	$1,300,000	$1,300,000
Bonus payment	$1,300,000	$1,300,000	$1,300,000	$1,300,000
Continued health insurance coverage(3)	$ 17,497	$ 17,497	$ 17,497	$ 17,497
Restricted Stock(4)	$2,502,426	$2,502,426	$2,502,426	$2,502,426
Stock Options(5)	—	—	—	—
Total	$5,119,923	$5,119,923	$5,119,923	$5,119,923
J. Sherman, EVP, Chief Financial Officer and Treasurer(6)(7)				
Cash severance	$ 500,000	$ 500,000	—	$ 500,000
Continued health insurance coverage(8)	$ 12,069	$ 12,069	—	$ 12,069
Restricted Stock(4)	—	—	$ 329,691	$ 329,691
Stock Options(5)	—	—	$ 44,544	$ 44,544
Total	$ 512,069	$ 512,069	$ 374,235	$ 886,304
E. DeFelice, EVP, General Counsel and Corporate Secretary(6)(7)(9)				
Cash severance	$ 425,000	$ 425,000	$ 425,000	$ 425,000
Continued health insurance coverage(8)	$ 12,837	$ 12,837	$ 12,837	$ 12,837
Restricted Stock(4)	—	—	$ 406,245	$ 406,245
Stock Options(5)	—	—	$ 31,986	$ 31,986
Total	$ 437,837	$ 437,837	$ 876,068	$ 876,068
S. Wagner, EVP, Operations(6)(9)				
Cash severance	$ 475,000	—	$ 475,000	$ 475,000
Continued health insurance coverage(8)	$ 3,691	—	$ 3,691	$ 3,691
Restricted Stock(4)	—	—	$1,092,040	$1,092,040
Stock Options(5)	—	—	—	—
Total	$ 478,691	—	$1,570,731	$1,570,731

Named Executive Officer and Type of Payment	Involuntary Termination	Resignation For Good Reason	Resignation For Good Reason Following a Change in Control	Involuntary Termination Following a Change in Control
C. Nustad, EVP and Chief Information Officer[(6)(9)]				
Cash severance	$ 425,000	—	$ 425,000	$ 425,000
Continued health insurance coverage[(8)]	$ 12,069	—	$ 12,069	$ 12,069
Restricted Stock[(4)]	—	—	$1,045,871	$1,045,871
Stock Options[(5)]	—	—	—	—
Total	$ 437,069	—	$1,482,940	$1,482,940
J. Donabauer, SVP , Controller, Assistance Treasurer and Interim Principal Financial Officer and Interim Treasurer[(6)]				
Cash severance[(10)]	$ 378,525	—	—	—
Continued health insurance coverage[(8)]	$ 12,069	—	—	—
Restricted Stock[(4)]	—	—	$ 272,640	$ 272,640
Stock Options[(5)]	—	—	—	—
Total	$ 390,594	—	$ 272,640	$ 272,640

(1) If we terminate Mr. Lucia's employment without Cause, or if his employment ceases because of his disability or if he terminates his employment with Good Reason, then, provided Mr. Lucia executes a separation agreement and release and complies with certain restrictive covenants (as described under "Executive Employment Agreements") and confidentiality provisions contained in his employment agreement and Restrictive Covenants Agreement, he will be entitled to receive cash severance in an amount equal to (i) 24 times his monthly base salary paid ratably in equal installments over a 24 month period, (ii) twice a bonus component that will vary depending upon whether the bonus for the year of termination is intended to be "performance-based" compensation and the performance is satisfied, in which case it will be paid when bonuses are paid to the Company's executive officers, or whether the bonus is under a different program, in which case it will be his target bonus and will be paid on the same schedule as (i) above, and (iii) continued health coverage for 24 months or until he becomes eligible for health coverage from another employer, whichever is earlier.

(2) If within 24 months following a Change in Control, Mr. Lucia's employment is terminated without Cause or he resigns for Good Reason, provided he executes a separation agreement and release and complies with certain restrictive covenants and confidentiality provisions contained in his employment agreement, he will receive the amounts set forth in (1)(i) and (1)(ii) above in a single lump sum payment, rather than in installments as applies outside of a Change in Control.

(3) If we terminate Mr. Lucia's employment without Cause, or if his employment ceases because of his disability or if he terminates his employment with Good Reason, then provided he executes and does not revoke a severance agreement and release, the Company will provide him with continued health coverage for 24 months or until he becomes eligible for health coverage from another employer, whichever is earlier.

(4) Under the terms of our Restricted Stock Unit Agreements, in the event a named executive officer ceases to be employed by the Company by reason of death, disability or involuntarily by the Company other than for "cause" within 24 months following a Change in Control, all of the restricted stock units held by such named executive officer shall become fully vested. The amounts presented in the table represent the market value of outstanding restricted stock units, which is determined based on the number of shares/units granted and the fair value of our common stock on December 31, 2014,

which is the closing sales price per share of our common stock reported on The NASDAQ Global Select Market on that date ($21.14), less the consideration paid by the recipient for the award ($0.01 per share).

(5) Under the 2006 Stock Plan (assuming no contrary provisions in the award agreements/the 2006 Stock Plan), if a named executive officer ceases to be employed by the Company by reason of involuntary termination without "cause" by the Company during the 24-month period following a Change of Control, the named executive officer's outstanding options, which are not then exercisable and vested, shall become fully vested and exercisable. The numbers included in the table represent the value of the unvested portion of the named executive officer's stock options, assuming accelerated vesting (calculated based on the excess of the closing market price of our common stock on December 31, 2014, over the exercise prices of such options).

(6) If we terminate the named executive officer's employment without Cause, in connection with a Change in Control or otherwise, then provided he/she executes and does not revoke a separation agreement and release and complies with the Restrictive Covenants Agreement, he/she will be entitled to receive cash severance in an amount equal to 12 times his/her monthly base salary paid ratably in equal installments over a 12 month period.

(7) If the named executive officer terminates his employment with Good Reason, then, provided the named executive officer executes a separation agreement and release and complies with certain restrictive covenants and confidentiality provisions contained in their employment agreements and Restrictive Covenants Agreements, the named executive officer will be entitled to receive cash severance in an amount equal to (i) 12 times their monthly base salary paid ratably in equal installments over a 12 month period.

(8) In the event a named executive officer is involuntarily terminated or involuntarily terminated following a Change of Control, provided he/she executes and does not revoke a severance agreement and release, the Company will pay him/her a lump sum amount equal to 12 times the difference between the monthly COBRA coverage premium for the same type of medical and dental coverage (single, family, or other) he/she is receiving as of the date his/her employment ends and his/her then monthly employee contribution.

(9) If within 24 months following a Change in Control, the named executive officer's employment is terminated without Cause or he/she resigns for Good Reason, provided he/she executes a separation agreement and release and complies with the Restrictive Covenant Agreement, he/she will receive the amounts set forth in (6) above in a single lump sum payment, rather than in installments as applies outside of a Change in Control.

(10) Under the terms of Mr. Donabauer's Retention Agreement (as described under "Executive Employment Agreements"), if we eliminate or relocate Mr. Donabauer's position as Vice President/ Controller to the Dallas, Texas area and he is unable to continue in that position due to the relocation, Mr. Donabauer would receive a cash severance in an amount equal to six times his monthly base salary in addition to the amount set forth in (6) above.

Executive Employment Agreements

See "*Potential Payments Upon Termination of Employment or Change in Control*" above for definitions of capitalized terms used below.

Employment Agreement with William C. Lucia—President and Chief Executive Officer

Effective March 1, 2015, we entered into a second amendment to the Executive Employment Agreement (which was first amended on April 30, 2013) with William C. Lucia, our President and Chief Executive Officer on substantially the same terms as his prior agreement which expired on February 28, 2015. Unless earlier terminated, this agreement will terminate on February 28, 2018. Mr. Lucia is eligible to receive bonus compensation from us in respect of each fiscal year (or portion thereof) during the term of his employment, in each case as may be determined by our Compensation Committee in its sole discretion on the basis of performance or such other criteria as may be established from time to time by the Compensation Committee in its sole discretion. Mr. Lucia's annualized base salary remains at $650,000 and his target bonus remains at 100% of his base salary.

If we terminate Mr. Lucia's employment without Cause, in connection with a Change in Control (as defined in the agreement) or otherwise, or if his employment ceases because of his disability or if he terminates his employment with Good Reason (as defined in the agreement), then provided Mr. Lucia executes and does not revoke a separation agreement and release and complies with the Restrictive Covenants Agreement, he will be entitled to receive cash severance in an amount equal to (i) 24 times his monthly base salary paid ratably in equal installments over a 24 month period (unless his termination/ resignation is in connection with a Change in Control, in which case the payment will be in a single lump sum), (ii) twice a bonus component that will vary depending upon whether the bonus for the year of termination is intended to be "performance-based" compensation and the performance is satisfied or whether the bonus is under a different program, in which case it will be his target bonus and will be paid on the same schedule as (i) above (unless his termination/resignation is in connection with a Change in Control, in which case the payment will be in a single lump sum), (iii) continued health coverage for 24 months or until he becomes eligible for health coverage from another employer, whichever is earlier, and (iv) Mr. Lucia will be treated as continuing in service for purposes of the vesting of any equity award until the earliest of: (x) the end of the Noncompetition Period (as defined in Mr. Lucia's Restrictive Covenants Agreement), (y) the last of the applicable vesting dates under such awards, or (z) the termination or violation of the Restrictive Covenants Agreement.

In addition, under the amended terms of Mr. Lucia's agreement, if we terminate Mr. Lucia's employment without Cause or Mr. Lucia resigns for Good Reason, and such termination occurs within a six-month period before a Change in Control, Mr. Lucia will receive a cash payment equal to the excess of the amount he would have received for such equity awards if he were continuing in service as of the date of the Change in Control and terminated immediately thereafter over the amount actually received, paid in a single lump sum payment at the time provided in the agreement. In the event that any payments and benefits, including any benefits provided to Mr. Lucia or for Mr. Lucia's benefit under the agreement or any other Company plan or agreement, become subject to the excise tax under Section 4999 of the Code, such payments and benefits will be "cut-back" to an amount that is less than such amount that would cause the excise tax to the extent that such reduction would result in Mr. Lucia retaining a larger amount on an after-tax basis.

Employment Agreements with Other Named Executive Officers

We have employment agreements that are at-will, subject to certain notice and/or severance provisions, with Messrs. Sherman, DeFelice and Donabauer and Mses. Nustad and Wagner.

On March 10, 2014, Mr. Hosp tendered his resignation as our Executive Vice President, Chief Financial Officer. Mr. Hosp remained in his position through a transition period and the effective date of his resignation was June 6, 2014. We entered into a Letter Agreement with Mr. Hosp in connection with his separation from the Company, which is described in more detail below. The Letter Agreement supersedes Mr. Hosp's employment agreement.

Our employment agreements with the other named executive officer sets forth his/her initial annualized base salary as follows: (i) Mr. Sherman at $500,000, (ii) Mr. DeFelice at $425,000, (iii) Ms. Nustad at $350,000, (iv) Ms. Wagner at $450,000, and (v) Mr. Donabauer at $252,350, subject to increase from time to time by the Board or the Compensation Committee. In addition, under the terms of these agreements, these named executive officers are eligible to receive bonus compensation from us in respect of each fiscal year (or portion thereof) during the term of their employment, in each case as may be determined by our Compensation Committee in its sole discretion on the basis of such performance-based or other criteria as it determines appropriate. For 2014, the targeted annual short-term (cash) incentive award opportunity for Messrs. Sherman and DeFelice and Mses. Nustad and Wagner were 65% of his/her base salary and Mr. Donabauer's target was 50% of his base salary.

If we terminate either Messrs. Sherman's or DeFelice's or Mses. Nustad's or Wagner's employment without Cause, in connection with a Change in Control or otherwise, then provided he/she executes and does not revoke a separation agreement and release and complies with the Restrictive Covenants Agreement, the executive will be entitled to receive (i) cash severance in an amount equal to 12 times his/her monthly base salary paid ratably in equal installments over a 12 month period, (ii) a lump sum amount equal to 12 times the difference between the monthly COBRA coverage premium for the same type of medical and dental coverage the executive is receiving as of the date his/her employment ends and his/her then monthly employee contribution, which amount may be used for any purpose and (iii) any earned but unpaid annual bonus for the calendar year preceding the calendar year in which his/her employment ends. If within 24 months following a Change in Control, Mr. DeFelice's or Mses. Nustad's or Wagner's employment is terminated without Cause or he/she resigns for Good Reason (as defined under the terms of their employment agreements), provided he/she executes a separation agreement and release and complies with the Restrictive Covenants Agreement, he/she will receive the amounts set forth in (i) above in a single lump sum payment, rather than in installments as applies outside of a Change in Control.

Letter Agreement with Walter D. Hosp—Former Executive Vice President and Chief Financial Officer

In connection with Mr. Hosp's resignation, we entered into a Letter Agreement with him dated March 10, 2014. Under the terms of the Letter Agreement and in exchange for remaining an employee through June 6, 2014 and complying with the requirements of the Letter Agreement, including performing certain transition duties and providing a full release of claims, we paid Mr. Hosp: (i) severance of six months of his current base salary of $450,000, to be paid in equal installments over a six month period in accordance with our normal payroll practices, and (ii) a lump sum equal to six months of the difference between the COBRA coverage premium for the same type of medical, dental and vision coverage he is receiving and his employee contribution (collectively, the "Separation Payments"). In addition, based upon our receipt and non-revocation of a release from Mr. Hosp, any outstanding, but not fully vested options and restricted stock units granted to him prior to January 1, 2014, continued to vest through February 28, 2015 and his then-vested options remain exercisable through May 29, 2015.

Retention Agreement with Joseph M. Donabauer—Senior Vice President, Controller, and Former Interim Principal Financial Officer and Interim Treasurer

In light of certain organizational changes to the Finance Department, in April 2014, we entered into a Retention Agreement with Mr. Donabauer in his capacity as Vice President and Controller. We entered into this agreement to secure Mr. Donabauer's employment and to retain his services during the reorganization. Under the terms of the Retention Agreement, Mr. Donabauer received a total retention amount of $126,175. Provided that Mr. Donabauer's employment continued through certain qualifying dates and the Company had not terminated his employment for cause and Mr. Donabauer had not voluntarily resigned his employment, one-half of the retention amount was payable on September 12, 2014 and the remaining one-half was payable on March 13, 2015. In addition, in the event that we eliminate or relocate Mr. Donabauer's position as Vice President/Controller to the Dallas, Texas area and Mr. Donabauer is unable to continue his employment due to the relocation, Mr. Donabauer would receive additional cash severance in an amount equal to six times his monthly base salary, thereby qualifying as a termination without Cause under his employment agreement. The explicit purpose of this Retention Agreement is to identify the conditions of Mr. Donabauer's separation from the Company. As such, all other terms and conditions in Mr. Donabauer's Employment Agreement and Restrictive Covenants Agreement remain the same.

Compensation Committee Report

The Compensation Committee of the Board of Directors (the "Board") of HMS Holdings Corp. (the "Company") has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Amendment and in the Company's Proxy Statement for its 2015 Annual Stockholders' Meeting, as applicable.

By the Compensation Committee of the Board of Directors of HMS Holdings Corp.

Richard H. Stowe, Chair
Craig R. Callen
Daniel N. Mendelson

The information contained in the Compensation Committee Report shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference in such filing.

Director Compensation

The Compensation Committee has the responsibility for recommending to the Board of Directors the form and amount of compensation for directors, which are subject to review and adjustment by the Board of Directors from time to time. Directors who are employed by the Company do not receive compensation for their service on the Board of Directors. Directors who are not our employees (non-employee directors) receive cash and equity-based compensation for their services as a director. All of our directors are reimbursed for reasonable expenses incurred in connection with attendance at meetings of the Board of Directors or its committees.

Standard Compensation Arrangements for Non-Employee Directors

Effective from September 2012 through March 2015, non-employee directors received the following compensation for their service on the Board of Directors.

Cash Compensation

We provided our non-employee directors with the following annual cash compensation:

- Non-employee director cash retainer of $50,000;
- Audit Committee chair additional cash retainer of $20,000;

• Compensation Committee chair additional cash retainer of $15,000;

• Nominating & Governance Committee chair additional cash retainer of $15,000; and

• Compliance Committee chair additional cash retainer of $15,000.

All cash compensation, unless deferred by a director pursuant to the Director Deferred Compensation Plan, is paid in quarterly installments in arrears.

Equity-Based Compensation

We provided our non-employee directors an annual equity award under the 2006 Stock Plan consisting of an equal number of non-qualified stock options and restricted stock units, with an aggregate value of $100,000 on the date of grant. The number of stock options and restricted stock units awarded is calculated based on the grant date fair value as computed in accordance with FASB guidance on stock-based compensation, except that no assumption for forfeitures would be included. Annual equity awards to our non-employee directors are made in the fourth quarter of the fiscal year and vest quarterly in equal installments over a one year period.

Compensation of our Non-Employee Chairman of the Board

Mr. Holster, in his capacity as Chairman of the Board, also received (i) an annual cash retainer of $41,000 and (ii) annual equity compensation consisting of an equal number of non-qualified stock options and restricted stock units with an aggregate value of $94,000 on the date of grant, which vest quarterly in equal installments over a one year period commencing on December 31 of the year of the grant. The number of stock options and restricted stock units awarded is calculated based on the grant date fair value computed in accordance with FASB guidance on stock-based compensation, except that no assumption for forfeitures would be included.

Director Deferred Compensation Plan

Each of our non-employee directors is eligible to participate in our Director Deferred Compensation Plan, under which the non-employee director may elect to defer all or part of his or her cash retainer fees and annual restricted stock unit grants until the termination of his or her service as a member of the Board for any reason. The amount of any cash compensation deferred by a non-employee director is converted into a number of deferred stock units, determined based upon the closing price of our common stock on the NASDAQ Global Select Market on the date such fees would otherwise have been payable, and credited to a deferred compensation account maintained in his or her name. Deferred restricted stock unit grants are converted on a share-for-share basis into deferred stock units on the date such restricted stock units would otherwise have been payable and also credited to the non-employee director's account. The account will be credited with additional deferred stock units, also based on such average market value, upon the payment date for any dividends declared on our common stock. On January 10th of the year following a director's termination of service, the amounts accumulated in the deferred compensation account will be distributed in the form of common stock under the 2006 Stock Plan equal to the number of whole deferred stock units in the account and cash in lieu of any fractional shares.

The following table sets forth the deferred stock units held by our non-employee directors as of December 31, 2014.

Name	Deferred Stock Units
Craig R. Callen	6,952
Robert M. Holster	27,208
Daniel N. Mendelson	2,600
William F. Miller III	4,058
Ellen A. Rudnick	7,534
Bart M. Schwartz	12,473
Richard H. Stowe	26,060
Cora M. Tellez	14,270

April 2015 Non-Employee Director Compensation Changes

In February 2015, the Compensation Committee reviewed the design and competitive positions of non-employee director compensation with the assistance of its independent compensation consultant, F.W. Cook. After reviewing peer company market data supplied by F.W. Cook, the Compensation Committee recommended and the Board approved certain changes to the cash and equity-based compensation for non-employee directors based on competitive and evolving governance practices. Taking into account these changes, our total non-employee director compensation, on a "per director" basis and excluding chair and lead independent director retainers, remains below the median level of our peer group companies. In particular, the Board approved the following changes, effective on April 1, 2015:

- an increase to the amount of the annual equity award to non-employee directors by $30,000 to $130,000 (in the form of non-qualified stock options and restricted stock units on an equal number of options/units basis);
- an additional $2,000 fee for each Board meeting attended in excess of eight Board meetings during the fiscal year;
- an additional $7,000 cash retainer annually for non-chair Audit Committee members and an additional $5,000 cash retainer annually for non-chair members of the Compliance, Compensation and Nominating & Governance Committees; and
- an annual cash retainer of $25,000 for the Lead Independent Director, if applicable.

Stock Ownership Guidelines for Directors

In October 2014, the Board established significant stock ownership guidelines for our directors upon the recommendation of the Compensation Committee's independent compensation consultant, F.W. Cook. The Board believes the guidelines will encourage directors to accumulate a meaningful ownership stake in the Company over time to strengthen alignment of their interests with the long-term interests of stockholders. Non-employee directors are expected to own shares of Company common stock that have a market value of at least five times their annual cash retainer. For purposes of complying with the guidelines, a director's holdings include shares owned outright, directly or indirectly, restricted stock or restricted stock units, and deferred stock units. Each director is required to satisfy the stock ownership guidelines applicable to them by October 30, 2019 or within five years after first becoming subject to the guidelines.

2014 Director Compensation

The following table sets forth compensation earned by each of our non-employee directors for services as a director during 2014.

Name[(1)]	Fees Earned or Paid in Cash[(2)] ($)	Stock Awards[(3)] ($)	Option Awards[(4)] ($)	Total ($)
Craig R. Callen	50,000	74,018	25,956	149,974
Robert M. Holster	91,000	143,602	50,357	284,959
Daniel N. Mendelson	50,000	74,018	25,956	149,974
William F. Miller III	50,000	74,018	25,956	149,974
Ellen A. Rudnick	70,000	74,018	25,956	169,974
Bart M. Schwartz	65,000	74,018	25,956	164,974
Richard H. Stowe	80,000	74,018	25,956	179,974
Cora M. Tellez	50,000	74,018	25,956	149,974

(1) The number of unexercised stock options held by the directors named in the above table as of December 31, 2014 was as follows: Mr. Callen (4,385), Mr. Holster (31,528), Mr. Mendelson (6,985), Mr. Miller (39,354), Ms. Rudnick (59,304), Mr. Schwartz (12,504), Mr. Stowe (104,304), and Ms. Tellez (7,069). The number of restricted stock units outstanding as of December 31, 2014, which includes restricted stock units that the directors have deferred under the Director Deferred Compensation Plan, held by the directors named in the above table was as follows: Mr. Callen (6,952), Mr. Holster (27,208), Mr. Mendelson (5,167), Mr. Miller (6,625), Ms. Rudnick (7,420), Mr. Schwartz (13,757), Mr. Stowe (26,060) and Ms. Tellez (14,270). See footnote 2 for information regarding the deferral of these restricted stock units by some of our directors.

(2) Includes the value of fully vested deferred stock units received under our Director Deferred Compensation Plan in lieu of all or a specified portion of the non-employee director's cash retainer fees based on the fair market value of the underlying shares on the dates the cash retainer fees would otherwise have been paid. For the year ended December 31, 2014, each of Messrs. Schwartz and Stowe and Ms. Tellez elected to defer all or a portion of their cash retainer, and as a result Mr. Schwartz received 1,640 deferred stock units with a value of $32,500, Mr. Stowe received 4,037 deferred stock units with a value of $80,000, and Ms. Tellez received 2,523 deferred stock units with a value of $50,000.

(3) On November 12, 2014, Mr. Holster was granted 6,639 restricted stock units, which he elected to defer under the Director Deferred Compensation Plan. Each of Messrs. Callen, Mendelson, Miller, Schwartz, and Stowe, and Mses. Rudnick and Tellez were granted 3,422 restricted stock units. Ms. Rudnick and Mr. Schwartz each elected to defer 1,711 restricted stock units, and Messrs. Callen and Stowe and Ms. Tellez each elected to defer 3,422 restricted stock units. The restricted stock units vest quarterly, with the first quarter vesting on December 31, 2014. The amounts in this column represent the grant date fair value of the restricted stock units granted on November 12, 2014 computed in accordance with FASB guidance on stock-based compensation. The relevant assumptions made in the valuations may be found in Note 11 of the Notes to the Consolidated Financial Statements in our Annual Report. These amounts do not correspond to the actual value that may be realized by the directors with respect to these awards.

(4) On November 12, 2014, Mr. Holster was granted a non-qualified stock option to purchase 6,639 shares of common stock. Each of Messrs. Callen, Mendelson, Miller, Schwartz and Stowe, and Mses. Rudnick and Tellez were granted a non-qualified stock option to purchase 3,422 shares of common stock. The stock options vest quarterly, with the first quarter vesting on December 31, 2014. The

amounts in this column represent the grant date fair value of that stock option grant computed in accordance with FASB guidance on stock-based compensation. The relevant assumptions made in the valuations may be found in Note 11 of the Notes to the Consolidated Financial Statements in our Annual Report. These amounts do not correspond to the actual value that may be realized by the directors with respect to these awards.

Compensation Committee Interlocks and Insider Participation

During 2014, the members of our Compensation Committee were Richard H. Stowe, Craig R. Callen and Daniel N. Mendelson. None of Messrs. Stowe, Callen or Mendelson has ever been an officer or employee of the Company. None of the current or prior members of the Compensation Committee had a related person transaction involving the Company during the year ended December 31, 2014. During 2014, none of our executive officers (i) served as a member of the board of directors or compensation committee (or equivalent entity) of any other entity that had one or more of its executive officers serving as a member of our Compensation Committee or (ii) served as a member of the compensation committee (or equivalent entity) of any other entity that had one or more of its executive officers serving as a member of our Board of Directors.

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

Equity Compensation Plan Information

The following table summarizes information about our equity compensation plans as of December 31, 2014. For additional information about our equity compensation plans see Note 11—"Stock-Based Compensation" " in our Notes to the Consolidated Financial Statements in Item 8 of our Annual Report.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders[(1)]	4,599,635	$15.35	5,945,337
Equity compensation plans not approved by stockholders[(2)]	180,000	$ 6.37	—
HDI plans not approved by stockholders[(3)]	230,447	$21.86	251,214
Total	5,010,082		

(1) This includes stock options to purchase common stock granted under our 1999 Plan and the 2006 Stock Plan and restricted stock awards and restricted stock units granted under the 2006 Stock Plan.

(2) Stock options outstanding under plans not approved by the stockholders include 180,000 options granted in July 2007 to Walter D. Hosp, our former Chief Financial Officer, under the terms of his employment agreement.

(3) Includes stock options to purchase common stock granted under the HDI 2011 Stock Plan, which was assumed in connection with our acquisition of HDI.

Security Ownership of Certain Beneficial Owners and Management

The following tables set forth information known to us with respect to the beneficial ownership of our common stock as of April 15, 2015 by (i) each of our directors and nominees for Class II director, (ii) Messrs. Lucia, Sherman, DeFelice, Hosp and Donabauer and Mses. Nustad and Wagner, whom we refer to in this Amendment as our named executive officers, (iii) all of our directors and current executive officers as a group and (iv) each person (or group of affiliated persons) known by us to be the beneficial owner of more than 5% of our common stock.

The tables are based upon information supplied to us by directors, executive officers and principal stockholders and filings under the Exchange Act, as amended. We have based our calculation of the percentage of beneficial ownership on 88,540,272 shares of our common stock outstanding as of April 15, 2015, unless otherwise noted. The beneficial ownership reported in the following tables is determined in accordance with the applicable rules of the SEC and does not necessarily indicate beneficial ownership for any other purpose. For purposes of the following tables, an entity or individual is considered the beneficial owner of shares of common stock if he or she has the right to acquire within 60 days of April 15, 2015, such common stock and directly or indirectly has or shares voting power or investment power, as defined in the rules of the SEC, with respect to such shares.

Unless otherwise noted and subject to applicable community property laws, to our knowledge each stockholder named in the following table possesses sole voting and investment power over the shares listed. The address of each person listed in the table is c/o HMS Holdings Corp., 5615 High Point Drive, Irving, TX 75038. To our knowledge, as of April 15, 2015, none of our officers or directors has pledged any of the shares that they respectively beneficially own as security.

Security Ownership of Management

Name of Beneficial Owner	Number of Outstanding Shares of Common Stock	Number of Shares of Common Stock Acquirable Within 60 Days[1]	Percent of Class
Directors and Nominees for Director (who are not Officers):			
Craig R. Callen	7,000	10,480	*
Robert M. Holster	364,974[2]	57,074	*
Daniel N. Mendelson	5,240	10,440	*
William F. Miller	135,636[3]	44,267	*
Ellen A. Rudnick	15,680	66,836	*
Bart M. Schwartz	11,928	25,501	*
Richard H. Stowe	75,000	85,801	*
Cora M. Tellez	580	21,292	*
Named Executive Officers:			
Eugene V. DeFelice	2,680	7,269	*
Joseph M. Donabauer	3,365	18,974	*
Walter D. Hosp	12,750[4]	74,665	*
William C. Lucia	282,275[5]	527,383	*
Cynthia Nustad	7,611	56,549	*
Jeffrey S. Sherman	0	0	*
Semone Wagner	9,436	10,760	*
All current directors and executive officers as a group (15 persons)[6]	925,874	963,388	2.1%

(*) Less than 1% of outstanding shares

(1) Includes the number of shares that could be purchased by exercise of options exercisable at April 15, 2015 or within 60 days thereafter under the Company's 2006 Stock Plan and the number of shares underlying restricted stock units that are not subject to outstanding performance conditions and vest within 60 days of April 15, 2015, whether or not deferred pursuant to the Company's Director Deferred Compensation Plan. Restricted stock units do not have voting power and are payable solely in shares of Company common stock. The amounts reported in this column are excluded from the amounts reported under the column "Number of Outstanding Shares of Common Stock."

(2) Includes 6,000 shares of common stock held by Mr. Holster's spouse and 175,000 shares held in an irrevocable trust for the benefit of Mr. Holster's children and grandchildren. Mr. Holster's spouse is trustee of the trust. Mr. Holster disclaims beneficial ownership of the shares held by the trust.

(3) Includes 9,000 shares of common stock held in trusts for the benefit of Mr. Miller's family. Mr. Miller disclaims beneficial ownership of the shares of common stock held by the trusts.

(4) Based on information supplied to us by Mr. Hosp as of January 1, 2015. Includes 1,750 shares of common stock held by Mr. Hosp's spouse. Mr. Hosp disclaims beneficial ownership of the shares held by his spouse. Mr. Hosp resigned as our Executive Vice President, Chief Financial Officer and Treasurer, effective as of June 6, 2014.

(5) Includes 282,275 shares of common stock held by the William C. Lucia Family Trust, a revocable trust for which Mr. Lucia serves as trustee.

(6) Includes the named executive officers other than Messrs. Donabauer and Hosp, the current directors and Ms. South and Mr. Williams.

Based on review of filings with the SEC and review of stockholders of record, the following entities hold more than 5% of our outstanding shares of common stock.

Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Number of Outstanding Shares of Common Stock	Percent of Class
BlackRock, Inc.(1)	7,322,870	8.3%
Clifton Park Capital Management, LLC(2)	5,930,000	6.8%
Franklin Resources, Inc.(3)	4,408,663	5.0%
RS Investment Management Co. LLC(4)	6,092,911	6.9%
T. Rowe Price Associates, Inc.(5)	4,903,069	5.5%
The Vanguard Group(6)	5,480,378	6.2%
William Blair & Company, LLC(7)	6,481,059	7.4%

(1) Based solely on a Schedule 13G/A filed with the SEC on January 23, 2015. According to the Schedule 13G/A, BlackRock, Inc., in its capacity as a parent holding company or control person of subsidiaries that acquired the reported securities, has sole voting power over 7,133,650 shares and sole dispositive power over 7,322,870 shares. The Schedule 13G/A was filed on BlackRock's behalf and on behalf of its subsidiaries, BlackRock Advisors (UK) Limited; BlackRock Advisors, LLC; BlackRock Asset Management Canada Limited; BlackRock Asset Management Ireland Limited; BlackRock Fund Advisors; BlackRock Institutional Trust Company, N.A.; BlackRock Investment Management (Australia) Limited; BlackRock Investment Management (UK) Ltd and BlackRock Investment Management, LLC. BlackRock's principal business address is 55 East 52nd Street, New York, NY 10022.

(2) Based solely on a Schedule 13G filed with the SEC on February 13, 2015. According to the Schedule 13G, Clifton Park Capital Management, LLC has shared voting and dispositive power over 5,930,000 shares. Clifton Park's principal business address is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808-1645.

(3) Based solely on a Schedule 13G filed with the SEC on February 9, 2015, by Franklin Resources, Inc. ("FRI"), Charles B. Johnson and Rupert H. Johnson, Jr. (collectively, the "FR Reporting Persons"). According to the Schedule 13G, certain investment management subsidiaries of FRI have sole investment and voting power over the shares, as follows: Franklin Advisers, Inc. ("FAI") has sole voting power over 4,074,607 shares, Fiduciary Trust Company International ("Fiduciary Trust") has sole voting power over 140,700 shares, Franklin Templeton Portfolio Advisors, Inc. ("FT Portfolio") has sole voting power over 128,914 shares and Franklin Templeton Investments (Asia) Ltd. ("FT Investments") has sole voting power over 1,642 shares. Additionally, FAI has sole dispositive power over 4,137,407 shares, Fiduciary Trust has sole dispositive power over 140,700 shares, FT Portfolio has sole dispositive power over 128,914 shares and FT Investments has sole dispositive power over 1,642 shares. Charles B. Johnson and Rupert H. Johnson, Jr. each own in excess of 10% of the outstanding stock of Franklin Resources, Inc. and are the principal stockholders of FRI. The FR Reporting Persons' principal business address is One Franklin Parkway, San Mateo, CA 94403-1906.

(4) Based solely on a Schedule 13G filed with the SEC on February 12, 2015. According to the Schedule 13G, RS Investment Management Co. LLC, a registered investment advisor, has sole voting power over 5,799,945 shares and sole dispositive power over 6,092,911 shares.

According to the Schedule 13G, the clients of RS Investment Management Co., including investment companies registered under the Investment Company Act of 1940 and separately managed accounts, have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the common stock of HMS. To the knowledge of RS Investment Management Co., no individual client has an interest of more than five percent of the class of securities reported. RS Investment Management's principal business address is One Bush Street, Suite 900, San Francisco, CA 94104.

(5) Based solely on a Schedule 13G/A filed with the SEC on February 13, 2015. According to the Schedule 13G/A, T. Rowe Price Associates, Inc., a registered investment adviser ("Price Associates"), has sole voting power over 582,702 shares and sole dispositive power over 4,903,069 shares. Price Associates does not serve as custodian of the assets of any of its clients; accordingly, in each instance only the client or the client's custodian or trustee bank has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. The ultimate power to direct the receipt of dividends paid with respect to, and the proceeds from the sale of, such securities, is vested in the individual and institutional clients for whom Price Associates serves as investment adviser. Any and all discretionary authority which has been delegated to Price Associates may be revoked in whole or in part at any time. Price Associates' principal business address is 100 E. Pratt Street, Baltimore, Maryland 21202.

(6) Based solely on a Schedule 13G/A filed with the SEC on February 10, 2015. According to the Schedule 13G/A, The Vanguard Group, a registered investment advisor, has sole voting power over 116,537 shares, sole dispositive power over 5,370,241 shares and shared dispositive power over 110,137 shares. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 110,137 shares as a result of its serving as investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 6,400 shares as a result of its serving as investment manager of Australian investment offerings. The Vanguard Group's principal business address is 100 Vanguard Blvd., Malvern, PA 19355.

(7) Based solely on a Schedule 13G/A filed with the SEC on February 4, 2015. According to the Schedule 13G/A, William Blair & Company, LLC has sole voting and dispositive power over 6,481,059 shares. William Blair's principal business address is 222 W. Adams, Chicago, IL 60606.

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

Review, Approval and Ratification of Transactions with Related Persons

The Audit Committee's Charter provides that the Audit Committee shall review all transactions with related persons on an ongoing basis for potential conflict of interest situations and that all such transactions must be approved by the Audit Committee.

Our Board of Directors has adopted a written Related Person Transaction Policy (as amended and approved by the Board in October 2014) to assist the Board in reviewing proposed transactions between the Company and certain individuals deemed to be "related persons." The policy applies to our executive officers, directors, director nominees and 5% stockholders (and their immediate family members), each of whom we refer to as a "related person," and governs the review of any transaction, arrangement or relationship in which we are a participant, the amount involved exceeds $120,000 and a related person has a direct or indirect material interest. We refer to such a transaction, arrangement or relationship as a "related person transaction."

A related person must notify the Corporate Secretary of any plan to enter into, extend or modify any transaction with the Company or its affiliate that could be a related person transaction. The policy calls for the proposed transaction with a related person to be reviewed and, if deemed appropriate, approved by the Audit Committee prior to entry into the transaction. Under the policy, any related person transactions that are ongoing in nature and previously approved by the Audit Committee will be reviewed annually.

A transaction with a related person reviewed under the policy will be considered approved or ratified if it is authorized by the Audit Committee after full disclosure of the related person's interest in the transaction. The Audit Committee will review and consider all relevant information regarding the transaction, including the impact on a director's independence or a Board committee's composition in the event the related person is a director, as it deems appropriate under the circumstances.

The Audit Committee may approve or ratify the transaction only if the Audit Committee determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, the best interests of the Company. In connection with approving a transaction with a related person, the Audit Committee may impose any conditions on the transaction that it deems appropriate. All related person transactions will be disclosed in applicable SEC filings to the extent required by the Securities Act of 1933 and the Exchange Act and related rules and regulations.

Board Determination of Independence

A majority of our Board of Directors must be comprised of "independent directors" in accordance with the NASDAQ Marketplace Rules. Under Rule 5605(a)(2) of the NASDAQ Marketplace Rules, a director will only qualify as an "independent director" if, in the opinion of our Board of Directors, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Based on its review of the applicable independence standards and answers to annual questionnaires completed by the directors, our Board of Directors has determined that each of Messrs. Holster, Callen, Mendelson, Miller, Schwartz and Stowe and Mses. Rudnick and Tellez is an "independent director" as defined under the NASDAQ Marketplace Rules.

Item 14. Principal Accounting Fees and Services.

Fees of Independent Registered Public Accountants during Fiscal Years 2014 and 2013

In addition to retaining KPMG to audit our financial statements, from time to time, we engage KPMG to perform other services. The following table sets forth the aggregate fees billed by KPMG in connection with the services rendered during the past two fiscal years. All fees set forth below were pre-approved by the Audit Committee of the Board of Directors.

Type of Fee	2014	2013
Audit Fees(1)	$ 940,000	$873,667
Tax Fees(2)	$ 118,002	$ 60,594
Total Fees for Services Provided	**$1,058,002**	**$934,261**

(1) Audit fees represent fees for professional services rendered for the audit of our consolidated financial statements, review of interim financial statements and services normally provided by the independent registered public accounting firm in connection with regulatory filings, including registration statements.

(2) Represents fees for tax services, including tax compliance, tax advice and tax planning provided during the ordinary course of operations.

Audit Committee Pre-Approval Policies and Procedures

In accordance with its Charter, the Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm.

Prior to the annual engagement of our independent registered public accounting firm, the Audit Committee pre-approves all services to be provided. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services. In such circumstances, our senior management seeks approval of the non-audit services that it recommends the Audit Committee engage the independent registered public accounting firm to provide for the fiscal year. A budget, estimating the specific non-audit service spending for the fiscal year, is provided to the Audit Committee along with the request. The Audit Committee will be regularly informed of the non-audit services actually provided by the independent auditor pursuant to this pre-approval process.

PART IV

Item 15. Exhibits.

The Exhibits are set forth on the Exhibit Index on page 58 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this Amendment No. 1 to the Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

HMS Holdings Corp.
(Registrant)

By: /s/ WILLIAM C. LUCIA

William C. Lucia
Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

Date: April 30, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 to the Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ WILLIAM C. LUCIA William C. Lucia	President, Chief Executive Officer and Director (Principal Executive Officer)	April 30, 2015
/s/ JEFFREY S. SHERMAN Jeffrey S. Sherman	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	April 30, 2015

HMS Holdings Corp. and Subsidiaries
Exhibit Index

Exhibit Number	Description
10.47†*	Employment Agreement between Cynthia Nustad and HMS Business Services, Inc. dated May 15, 2012.
10.48†*	Employment Agreement between Eugene V. DeFelice and HMS Holdings Corp. dated February 26, 2014.
10.49†*	Employment Agreement between Joseph M. Donabauer and HMS Business Services, Inc. dated April 2, 2014.
10.50†*	Retention Agreement between Joseph M. Donabauer and HMS Holdings Corp. dated April 28, 2014.
31.4*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer of HMS Holdings Corp., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.5*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer of HMS Holdings Corp., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

† Indicates a management contract or compensatory plan, contract or arrangement

* Filed herewith

ANNEX A

HMS HOLDINGS CORP. AND SUBSIDIARIES
(in thousands)
(unaudited)

Reconciliation of Net income to EBITDA and adjusted EBITDA

	Year Ended December 31,	
	2014	2013
Net income	$ 13,947	$ 39,997
Net interest expense	7,874	12,387
Income taxes	12,383	25,593
Depreciation and amortization, net of deferred financing costs, included in net interest expense	53,598	54,991
Earnings before interest, taxes, depreciation and amortization (EBITDA)	87,802	132,968
Stock-based compensation expense	13,356	11,997
Adjusted EBITDA	$101,158	$144,965

Board of Directors:

Craig R. Callen
Senior Advisor
Crestview Partners

Robert M. Holster
Chairman of the Board
HMS Holdings Corp.

William C. Lucia
President and Chief Executive Officer
HMS Holdings Corp.

Daniel N. Mendelson
Chief Executive Officer and Chairman
Avalere Health

William F. Miller III
Healthcare Industry Advisor, KKR Advisors and
former Chairman and CEO, HMS Holdings Corp.

Ellen A. Rudnick
Executive Director and Clinical Professor
Polsky Center for Entrepreneurship
University of Chicago Booth School of Business

Bart M. Schwartz
Chairman and Chief Executive Officer
SolutionPoint International, LLC

Richard H. Stowe
General Partner
Health Enterprise Partners LP

Cora M. Tellez
President and Chief Executive Officer
Sterling HSA

Executive Officers:

Eugene V. DeFelice
Executive Vice President, General Counsel and
Corporate Secretary

William C. Lucia
President and Chief Executive Officer

Cynthia Nustad
Executive Vice President and Chief Information Officer

Jeffrey S. Sherman
Executive Vice President, Chief Financial Officer and
Treasurer

Tracy A. South
Chief Administrative Officer and Executive
Vice President, Human Resources

Semone Wagner
Executive Vice President, Operations

Douglas M. Williams
Division President, Markets

Corporate Headquarters:
5615 High Point Drive
Irving, TX 75038
Phone: 214.453.3000
Fax: 214.453.3023

Other Offices:
Albany, NY
Alhambra, CA
Anchorage, AK
Atlanta, GA
Baltimore, MD
Boise, ID
Buffalo, NY
Charleston, WV
Charlestown, MA
Denver, CO
Hamilton, NJ
Irvine, CA
Irving, TX
Jackson, MS
Jeffersonville, IN
Las Vegas, NV
Miramar, FL
Montgomery, AL
New York, NY
Omaha, NE
Phoenix, AZ
Raleigh, NC
Reno, NV
Richmond, VA
Sacramento, CA
Santa Fe, NM
Topeka, KS
Washington, DC
Westerville, OH
Windsor, CT

Form 10-K Report/Quarterly Reporting
The Company's Form 10-K, as filed with the Securities and Exchange Commission, is included as part of this Annual Report. Copies of the Company's quarterly earnings results and additional copies of the Form 10-K are available on the Internet at http://investor.hms.com/sec.cfm or upon request from our Office of Investor Relations, Email: ir@hms.com.

Stock Registrar and Transfer Agent
Common stock of HMS Holdings Corp. is traded on the NASDAQ Stock Exchange under the symbol HMSY. Questions with regard to registered shares of HMSY should be sent in writing to: Broadridge Corporate Issuer Solutions Inc., P.O. Box 1342, Brentwood, NY 11717. Phone: 855.418.5059. Email: shareholder@broadridge.com.