



Q1 FY2009 Investor Call

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Discussion Outline

- Q1 2009 Financial Performance
- Operational Highlights
- Healthcare Environment
- Q&A

Consolidated Statements of Income

(\$ in thousands)

	Three months ended March 31,		Percentage Change
	2009	2008	
Revenue	\$ 49,941	\$ 38,943	28%
Cost of services:			
Compensation	17,531	13,724	28%
Data processing	3,146	2,717	16%
Occupancy	2,734	2,361	16%
Direct project costs	6,325	6,044	5%
Other operating costs	2,998	2,145	40%
Amortization of acquisition related software and intangibles	1,216	1,163	5%
Total cost of services	33,950	28,154	21%
Selling, general & administrative expenses	6,131	5,100	20%
Total operating expenses	40,081	33,254	21%
Operating income	9,860	5,689	73%
Net interest expense	(190)	(218)	-13%
Income before income taxes	9,670	5,471	77%
Income taxes	3,965	2,298	73%
Net income	\$ 5,705	\$ 3,173	80%
Diluted income per share data:			
Net income per diluted share	\$ 0.21	\$ 0.12	75%
Weighted average common shares, diluted	27,205	26,834	1%

Condensed Balance Sheets

(\$ in thousands)

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 53,134	\$ 49,216
Accounts receivable, net of allowance of \$664 at March 31, 2009 and December 31, 2008, respectively	46,547	45,155
Prepaid expenses and other current assets	5,319	5,541
Total current assets	<u>105,000</u>	<u>99,912</u>
Property and equipment, net	17,502	17,757
Other non current assets	<u>103,665</u>	<u>104,844</u>
Total assets	<u>\$ 226,167</u>	<u>\$ 222,513</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 15,718	\$ 22,859
Current portion of long-term debt	6,300	6,300
Total current liabilities	<u>22,018</u>	<u>29,159</u>
Long-term debt	9,450	11,025
Other liabilities	3,830	3,967
Total liabilities	<u>35,298</u>	<u>44,151</u>
Total shareholders' equity	<u>190,869</u>	<u>178,362</u>
Total liabilities and shareholders' equity	<u>\$ 226,167</u>	<u>\$ 222,513</u>

Condensed Statements of Cash Flow

(\$ in thousands)

	Three months ended March 31,	
	2009	2008
Net income	<u>\$ 5,705</u>	<u>\$ 3,173</u>
Net cash provided by (used in) operating activities	4,159	(3,505)
Net cash used in investing activities	(3,360)	(2,224)
Net cash provided by financing activities	<u>3,119</u>	<u>1,158</u>
Net increase (decrease) in cash and cash equivalents	3,918	(4,571)
Cash and cash equivalents at beginning of period	<u>\$ 49,216</u>	<u>\$ 21,275</u>
Cash and cash equivalents at end of period	<u>\$ 53,134</u>	<u>\$ 16,704</u>

EBITDA Reconciliation

(\$ in thousands)

	Three months ended March 31,	
	<u>2009</u>	<u>2008</u>
Net income	\$ 5,705	\$ 3,173
Net interest expense	190	218
Income taxes	3,965	2,298
Depreciation and amortization, net of financing costs, included in net interest expense	<u>3,314</u>	<u>2,860</u>
Earnings before interest, taxes, and amortization (EBITDA)	13,174	8,549
Share-based compensation expense	1,308	798
Adjusted EBITDA	<u>\$ 14,482</u>	<u>\$ 9,347</u>
EBITDA Margin	26%	22%
Adjusted EBITDA Margin	29%	24%

Highlights: Program Integrity

- State

- South Carolina: Overpayment Audit
- Virginia: Mental Health Provider Audit

- Managed Care

- Scan Health Plan: Pharmacy Audit

Highlights: Other Business

- **Managed Care**
 - Community Health Plan of CA (83,000 lives)
 - Health Plan of Michigan (180,000 lives)
 - Fidelis Care, New York (210,000 lives)
- **Veterans Health**
 - Claims Recovery Blanket Purchase Agreement
 - Scope expansions in seven VISNs
- **Key Extensions**
 - NC TPL
 - Univ. Pittsburgh Med. Ctr. Health Plan
 - CareSource

Macro Environment Update

- Unemployment remains high
- Baucus plan highlights:
 - Preservation of employer-sponsored insurance
 - Increase in private insurance coverage and public programs like Medicaid
 - Implementation of a system similar to one in MA
- Administration focused on cost containment

Appendix: EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and adjusted EBITDA represents EBITDA adjusted for share based compensation expense. EBITDA is a measure commonly used by the capital markets to value enterprises. Interest, taxes, depreciation and amortization can vary significantly between companies due in part to differences in accounting policies, tax strategies, levels of indebtedness and interest rates. Excluding these items provides insight into the underlying results of operations and facilitates comparisons between HMSY and other companies. EBITDA is also a useful measure of the company's ability to service debt and is one of the measures used for determining debt covenant compliance. In addition, because of the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation expense from EBITDA enhances the ability of management and investors to compare our core operating results over multiple periods with those of other companies. Management believes EBITDA and adjusted EBITDA information is useful to investors for these reasons. Both EBITDA and adjusted EBITDA are non-GAAP financial measures and should not be viewed as an alternative to GAAP measures of performance. Management believes the most directly comparable GAAP financial measure is net income and has provided a reconciliation of EBITDA and adjusted EBITDA to net income in this presentation. The guidance HMSY has provided in its press release dated [insert] and in this presentation using non-GAAP measures, are reconciled to the corresponding measure based on GAAP in the tables included in this presentation.