

HMS HOLDINGS CORP

FORM 10-Q (Quarterly Report)

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Address 5615 HIGH POINT DRIVE
IRVING, TX 75038
Telephone 214-453-3000
CIK 0001196501
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**

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**



(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

11-3656261

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

5615 High Point Drive, Irving, TX
(Address of principal executive offices)

75038
(Zip Code)

(Registrant's Telephone Number, Including Area Code)
(214) 453-3000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of November 4, 2016, there were approximately 84,658,861 shares of the registrant's common stock (par value \$0.01 per share) outstanding.

HMS HOLDINGS CORP. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016
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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q of HMS Holdings Corp. (together with its subsidiaries “HMS,” the “Company,” “we,” “our” or “us”) 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 current 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 “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “intend,” “likely,” “may,” “plan,” “project,” “seek,” “target,” “will,” “would,” “could,” “should,” and similar expressions and references to guidance, although some forward-looking statements may be expressed differently. 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, financial results, and the impact of current, pending and future U.S. healthcare legislation or changes to healthcare spending affecting Medicare, Medicaid or other publicly funded or subsidized health programs.

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. These risks and uncertainties include, among other things, changes in the U.S. healthcare environment or healthcare financing system; negative or reduced growth rate of spending on Medicaid/Medicare; our ability to retain customers or the loss of one or more major customers; the unexpected reduction in scope or termination of a significant contract; customer dissatisfaction or our non-compliance with contractual provisions or regulatory requirements; our failure to meet performance standards triggering significant costs or liabilities under our contracts; emergence of new competitors or competitors’ introduction of new or superior products or services; intellectual property rights, confidential and proprietary information; the cancellation or delay of procurements or contract implementation due to protests or challenges to government awards; regulatory, budgetary or political actions that affect procurement practices; our ability to continue to secure contracts or favorable contract terms through the competitive bidding process; our ability to execute our business plans or growth strategy; variations in our results of operations; development and implementation of new product solutions or new process improvements; the risk that guidance may not be achieved; our ability to maintain effective information and technology systems and networks, and to protect them from damage, interruption or breach, including cyber-security breaches and other disruptions; our failure to comply with applicable laws and regulations governing the conduct of certain electronic health transactions and the confidentiality of individually identifiable health information or to protect such information from theft and misuse; the nature of investment and acquisition opportunities we are pursuing, and the successful execution of such investments and acquisitions; our ability to successfully integrate acquired businesses; the failure to realize the full value of goodwill or intangible assets from acquisitions; negative results of government or customer reviews, audits or investigations; state or federal limitations related to the outsourcing of certain government programs or functions; our reliance on subcontractors, vendors or other third party providers and sources to perform services; pending or threatened litigation; unfavorable outcomes in legal proceedings; restrictions on bidding or performing certain work due to perceived conflicts of interests; our ability to attract and retain qualified employees and key personnel and to manage leadership transitions effectively; our cash flows from operations, available cash and ability to generate sufficient cash to cover our interest and principal payments under our credit facility or to borrow or use credit; unanticipated changes in our effective tax rates; unanticipated increases in the number or amount of claims for which we are self-insured; the market price of our common stock and lack of dividend payments; risks related to internal control over financial reporting; and anti-takeover provisions in our corporate governance documents. These and other risks are discussed under the headings “Part I, Item 1. Business,” “Part I, Item 1A, Risk Factors” and “Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the year ended December 31, 2015 and in other documents we file with the Securities and Exchange Commission.

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

Market and Industry Data

This Quarterly Report on Form 10-Q contains market, industry and government data and forecasts that have been obtained from publicly available information, various industry publications and other published industry sources. We have not independently verified the information and cannot make any representation as to the accuracy or completeness of such information. None of the reports and other materials of third party sources referred to in this Quarterly Report on Form 10-Q were prepared for use in, or in connection with, this Quarterly Report.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016	December 31, 2015
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 171,519	\$ 145,610
Accounts receivable, net of allowance for doubtful accounts of \$3,017 and \$4,849, and estimated allowance for appeals of \$7,035 and \$6,614, at September 30, 2016 and December 31, 2015, respectively	161,499	169,146
Prepaid expenses	13,205	11,261
Net deferred tax assets	7,532	7,460
Income tax receivable	11,494	-
Other current assets	716	3,051
Total current assets	365,965	336,528
Property and equipment, net	91,532	96,551
Goodwill	378,575	361,468
Intangible assets, net	42,628	54,308
Deferred financing costs, net	3,310	4,873
Other assets	2,920	4,329
Total assets	\$ 884,930	\$ 858,057
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 43,923	\$ 51,661
Estimated liability for appeals	30,182	33,078
Income taxes payable	-	3,873
Total current liabilities	74,105	88,612
Long-term liabilities:		
Revolving credit facility	197,796	197,796
Net deferred tax liabilities	32,546	38,421
Deferred rent	5,667	6,006
Other liabilities	9,903	2,520
Total long-term liabilities	245,912	244,743
Total liabilities	320,017	333,355
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock -- \$0.01 par value; 5,000,000 shares authorized; none issued	-	-
Common stock -- \$0.01 par value; 175,000,000 shares authorized; 95,928,520 shares issued and 84,654,774 shares outstanding at September 30, 2016; 95,263,461 shares issued and 83,989,715 shares outstanding at December 31, 2015	959	952
Capital in excess of par value	343,861	330,290
Retained earnings	315,107	288,474
Treasury stock, at cost -- 11,273,746 shares at September 30, 2016 and December 31, 2015	(95,014)	(95,014)
Total shareholders' equity	564,913	524,702
Total liabilities and shareholders' equity	\$ 884,930	\$ 858,057

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 124,604	\$ 118,444	\$ 367,916	\$ 345,702
Cost of services:				
Compensation	48,298	43,628	142,042	131,578
Data processing	9,541	10,023	28,269	30,506
Occupancy	3,388	4,188	10,647	12,001
Direct project expenses	10,997	12,702	36,952	36,752
Other operating expenses	8,465	6,551	20,649	20,442
Amortization of acquisition related software and intangible assets	6,390	7,041	20,416	21,135
Total cost of services	87,079	84,133	258,975	252,414
Selling, general and administrative expenses	24,875	21,295	70,033	60,539
Total operating expenses	111,954	105,428	329,008	312,953
Operating income	12,650	13,016	38,908	32,749
Interest expense	(2,121)	(1,948)	(6,313)	(5,842)
Interest income	105	11	215	34
Income before income taxes	10,634	11,079	32,810	26,941
Income tax (benefit) expense	(2,874)	4,217	6,177	11,139
Net income	\$ 13,508	\$ 6,862	\$ 26,633	\$ 15,802
Basic income per common share:				
Net income per common share -- basic	\$ 0.16	\$ 0.08	\$ 0.32	\$ 0.18
Diluted income per common share:				
Net income per common share -- diluted	\$ 0.16	\$ 0.08	\$ 0.31	\$ 0.18
Weighted average shares:				
Basic	84,101	87,299	84,338	88,019
Diluted	84,853	87,792	85,993	88,451

See accompanying notes to unaudited consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	<u>Common Stock</u>			Capital in Excess of Par Value	Retained Earnings	<u>Treasury Stock</u>		Total Shareholders' Equity
	# of Shares Issued	Par Value				# of Shares	Amount	
Balance at December 31, 2015	95,263,461	\$ 952	\$ 330,290	\$ 288,474	11,273,746	\$ (95,014)	\$ 524,702	
Net income	-	-	-	26,633	-	-	26,633	
Stock-based compensation expense	-	-	10,747	-	-	-	10,747	
Exercise of stock options	510,466	5	3,591	-	-	-	3,596	
Vesting of restricted stock units, net of shares withheld for employee tax	154,593	2	(1,092)	-	-	-	(1,090)	
Net exercises	-	-	(656)	-	-	-	(656)	
Excess tax benefit from exercise of stock options	-	-	1,851	-	-	-	1,851	
Tax shortfall due to exercise of stock options and vesting of restricted stock units	-	-	(496)	-	-	-	(496)	
Deferred tax asset reversal for unexercised stock options	-	-	(374)	-	-	-	(374)	
Balance at September 30, 2016	95,928,520	\$ 959	\$ 343,861	\$ 315,107	11,273,746	\$ (95,014)	\$ 564,913	

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Operating activities:		
Net income	\$ 26,633	\$ 15,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	18,875	23,228
Amortization of intangible assets	15,101	15,226
Amortization of deferred financing costs	1,563	1,563
Stock-based compensation expense	10,747	10,208
Excess tax benefit from exercised stock options	(1,851)	(1,477)
Deferred income taxes	(5,902)	(8,925)
(Gain) / loss on disposal of assets	(970)	40
Changes in operating assets and liabilities:		
Accounts receivable	8,534	(17,051)
Prepaid expenses	(1,905)	1,186
Prepaid income taxes	-	6,619
Other current assets	2,579	162
Other assets	(37)	(229)
Income taxes (receivable) payable	(13,516)	4,182
Accounts payable, accrued expenses and other liabilities	(2,584)	(8,174)
Estimated liability for appeals	(2,896)	(1,907)
Net cash provided by operating activities	54,371	40,453
Investing activities:		
Acquisition of a business, net of cash acquired	(20,910)	-
Proceeds from sale of cost basis investment	2,496	-
Purchases of land, property and equipment	(8,796)	(5,903)
Investment in capitalized software	(4,910)	(1,985)
Net cash used in investing activities	(32,120)	(7,888)
Financing activities:		
Purchase of treasury stock	-	(25,000)
Proceeds from exercise of stock options	2,940	4,188
Excess tax benefit from exercised stock options	1,851	1,477
Payments of tax withholdings on behalf of employees for net-share settlement for stock-based compensation	(1,090)	(635)
Payments on capital lease obligations	(43)	(907)
Net cash provided by (used in) financing activities	3,658	(20,877)
Net increase in cash and cash equivalents	25,909	11,688
Cash and Cash Equivalents		
Cash and cash equivalents at beginning of year	145,610	133,116
Cash and cash equivalents at end of period	\$ 171,519	\$ 144,804
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 19,478	\$ 13,619
Cash paid for interest	\$ 4,597	\$ 5,295
Supplemental disclosure of non-cash activities:		
Change in balance of accrued property and equipment purchases	\$ (176)	\$ 392

See accompanying notes to the unaudited consolidated financial statements.

HMS HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2016 and 2015
(unaudited)

1. Basis of Presentation

HMS Holdings Corp., through its subsidiaries (collectively, the “Company” or “HMS”) provides coordination of benefits services to government and private healthcare payers and sponsors to ensure that the responsible party pays healthcare claims. Additionally, the Company’s payment integrity services ensure that healthcare claims billed are accurate and appropriate. The Company’s care management technology helps risk-bearing organizations manage the care delivered to their members. Together these various services help customers recover amounts from liable third parties; prevent future improper payments; reduce fraud, waste and abuse; ensure regulatory compliance; and improve outcomes.

The consolidated financial statements and notes herein are unaudited. Accordingly, they do not include all of the information and notes required by United States Generally Accepted Accounting Principles (“U.S. GAAP”) for complete financial statements. These statements include all adjustments (consisting of normal recurring accruals) that management considers necessary to present a fair statement of the Company’s results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. It is suggested that these consolidated financial statements be read in conjunction with the Company’s consolidated financial statements as of and for the year ended December 31, 2015 which were filed with the U.S. Securities and Exchange Commission (“SEC”) on February 29, 2016 as part of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”). The consolidated balance sheet as of December 31, 2015 included herein was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

The preparation of the Company’s unaudited consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, primarily accounts receivable, intangible assets, fixed assets, accrued expenses, estimated allowance for appeals, estimated liability for appeals, the disclosure of contingent liabilities at the date of the unaudited consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. The Company’s actual results could differ from those estimates.

These unaudited consolidated financial statements include HMS accounts and transactions and those of the Company’s wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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

HMS is managed and operated as one business, with a single management team that reports to the Chief Executive Officer. HMS does not operate separate lines of business with respect to any of the Company’s product lines.

2. Summary of Significant Accounting Policies

There have been no material changes to the Company’s significant accounting policies that are referenced in the 2015 Form 10-K.

Recently Adopted Accounting Pronouncements

The Company adopted Accounting Standards Update (“ASU”) No. 2015-03, “*Simplifying the Presentation of Debt Issuance Costs*” and ASU 2015-15, “*Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*”. The Company made a policy election to continue recording the deferred costs as an asset, as allowed for revolving credit agreements. As the Company only has a line-of-credit arrangement, the adoption of this ASU did not change in the Company’s accounting for debt issuance costs related to such line of credit and had no impact on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements

In addition to the recently issued accounting pronouncements disclosed in the 2015 Form 10-K, the following guidance has been issued since the annual filing. There have been no changes in the Company’s anticipated adoption of the previously disclosed pronouncements, except as noted above.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (“ASU 2016-08”). ASU 2016-08 requires the Company to recognize revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services it transfers to a customer. It also requires the agent to recognize revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging the specified goods or services to be provided to the customer. ASU 2016-08 is effective for annual reporting periods beginning after December 15, 2017 and for interim reporting periods within such annual periods. The Company is currently evaluating the impact of adopting this guidance.

In March 2016, as part of its Simplification Initiative, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, (“ASU 2016-09”) which finalizes Proposed ASU No. 2015-270 of the same name, and seeks to reduce complexity in accounting standards. The areas for simplification in ASU No. 2016-09, involve several aspects of the accounting for share-based payment transactions, including (1) accounting for income taxes, (2) classification of excess tax benefits on the statement of cash flow, (3) forfeitures, (4) minimum statutory tax withholding requirements, (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes, (6) the practical expedient for estimating the expected term, and (7) intrinsic value. Application is effective for annual periods beginning after December 15, 2016, and for interim periods within those annual periods. The Company is currently evaluating the impact of adopting this guidance.

In March 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”), which finalizes Proposed ASU No. 2015-250 of the same name, and suggests guidance for stakeholders on identifying performance obligations and licenses in customer contracts. The amendments in ASU 2016-10 impact entities with transactions that include contracts with customers to transfer goods or services (that are an output of the entity’s ordinary activities) in exchange for consideration, and they require entities to recognize revenue by following certain steps, including: (1) identifying the contract(s) with a customer; (2) identifying the performance obligations in a contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when, or as, the entity satisfies a performance obligation. The amendments are effective for annual reporting periods beginning after December 15, 2017, and for interim periods within those annual periods. The Company is currently evaluating the impact of adopting this guidance but does not expect this amendment to have a significant impact on the Company’s consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12 , *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). The amendments clarify the assessment of the likelihood that revenue will be collected from a contract, the guidance for presenting sales taxes and similar taxes, and the timing for measuring customer payments that are not in cash. The amendments provide a practical expedient for recognizing revenue from contracts that have been modified prior to the transition period to the new standard. ASU 2016-12 also states that a contract should be considered complete if all, or substantially all, of its revenue has been collected prior to making the transition to the new standard. In addition, the update clarifies the disclosure requirements for retrospective application of the standard. The amendments are effective for annual reporting periods beginning after December 15, 2017 and for interim reporting periods within such annual periods. The Company is currently evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”) . The amendments clarify where certain cash receipts and cash payments are presented and classified in the statement of cash flows. Current guidance does not include specific guidance on the eight classification issues presented in the amendments, which will reduce diversity in practice with respect to classification and presentation of such cash receipts and payments. The amendments are effective for annual reporting periods beginning after December 15, 2017, and for interim reporting periods within such annual periods. The Company is currently evaluating the impact of adopting this guidance.

3. Accounts Receivable and Allowance for Doubtful Accounts:

The Company’s accounts receivable, net, consisted of the following (*in thousands*) :

	September 30, 2016	December 31, 2015
Accounts receivable	\$ 164,516	\$ 173,995
Allowance for doubtful accounts	(3,017)	(4,849)
Accounts receivable, net	\$ 161,499	\$ 169,146

A summary of the activity in the allowance for doubtful accounts is as follows (*in thousands*) :

	Nine Months Ended September 30,	
	2016	2015
Balance--beginning of period	\$ 4,849	\$ 1,898
Provision--allowance for doubtful accounts	8,674	1,295
Charge-offs	(10,614)	(521)
Recoveries	108	-
Balance--end of period	\$ 3,017	\$ 2,672

4. Intangible Assets and Goodwill

Intangible assets consisted of the following (*in thousands, except for useful life*):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Life (years)
September 30, 2016				
Customer relationships	\$ 102,924	\$ (68,277)	\$ 34,647	5 - 10
Restrictive covenants	16,931	(16,103)	828	3 - 7
Trade name	17,102	(11,985)	5,117	3 - 5
Intellectual property	2,070	(34)	2,036	5
Total	\$ 139,027	\$ (96,399)	\$ 42,628	

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Life (years)
December 31, 2015				
Customer relationships	\$ 101,806	\$ (57,497)	\$ 44,309	5 - 10
Restrictive covenants	16,800	(13,580)	3,220	3 - 7
Trade name	17,000	(10,221)	6,779	3 - 5
Total	\$ 135,606	\$ (81,298)	\$ 54,308	

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

Year ending December 31,

Remainder of 2016	\$ 5,018
2017	17,276
2018	16,655
2019	2,215
2020	761
Thereafter	703

For the three and nine months ended September 30, 2016 amortization expense related to intangible assets was \$5.0 million and \$15.1 million, respectively. For the three and nine months ended September 30, 2015 amortization expense related to intangible assets was \$5.0 million and \$15.2 million, respectively.

On September 2, 2016, the Company acquired the outstanding capital stock of Essette, Inc. (“Essette”), a care management technology company which helps risk-bearing organizations manage the care delivered to their members, for aggregate consideration of \$23.1 million, which is primarily comprised of cash payments of \$21.5 million. To fund the purchase price, the Company utilized cash on hand. The acquisition is subject to adjustment based upon the final amount of adjusted working capital of Essette at closing.

The Company allocated the purchase price, net of cash acquired, a) to, at their acquisition date fair values, the following tangible assets: net deferred tax assets of \$0.9 million and other net assets of \$0.1 million and b) to, at their acquisition date fair values, the following amortizing intangible assets: intellectual property of \$2.1 million, customer relationships of \$1.1 million, restrictive covenants of \$0.1 million, and trade name of \$0.1 million. Goodwill of \$17.1 million represents the excess purchase price over the net identifiable tangible and intangible assets. The intangible assets are valued using various methods which requires several judgements, including growth rates, discount rates, customer attrition rates, and expected levels of revenues, earnings, cash flows and tax rates. The intangible assets are amortized over their estimated useful lives on a straight-line basis and are not expected to be deductible for taxable purposes. The goodwill recognized from the acquisition was a result of expected synergies to be realized from future revenue growth, is not expected to be deductible for tax purposes, has an indefinite useful life and will be included in the Company’s annual impairment testing. Contingent consideration, up to an aggregate maximum \$12.0 million, will be payable in calendar years 2017, 2018, or 2019, respectively, should Essette achieve certain revenue targets as defined in the stock purchase agreement. The amounts shown above, including goodwill and contingent consideration, may change in the near term as management continues to assess the fair value of acquired assets and liabilities.

The acquisition was not significant to the Company’s consolidated financial statements; therefore, pro forma historical results of the immaterial operations related to this business acquisition for the year ended December 31, 2015 have not been presented. The

immaterial results of Essette’s operations since September 2, 2016 have been included in the Company’s consolidated financial statements.

5. Accounts Payable, Accrued Expenses and Other Liabilities

Accounts payable, accrued expenses and other liabilities consisted of the following (*in thousands*) :

	September 30, 2016	December 31, 2015
Accounts payable, trade	\$ 8,518	\$ 7,790
Accrued compensation and other	20,590	21,948
Accrued operating expenses	14,815	21,923
Total accounts payable, accrued expenses and other liabilities	\$ 43,923	\$ 51,661

6. Income Taxes

The Company's effective tax rate decreased to (27.0%) for the three months ended September 30, 2016 from 38.1% for the three months ended September 30, 2015. The Company's effective tax rate decreased to 18.8% for the nine months ended September 30, 2016 from 41.3% for the nine months ended September 30, 2015. The decrease in effective tax rates for the three and nine months ended September 30, 2016 was primarily due to the Company's recognition of a tax benefit in the third quarter of 2016 for the Research and Development tax credits (the "R&D Credits") and the U.S. production activities deduction (the "Section 199 Deduction"), as discussed below. The principal differences between the statutory rate and our effective rate include the R&D Credits, the Section 199 Deduction, other permanent items, interest on unrecognized tax benefits, and changes in state taxes.

As a result of an analysis to determine whether certain activities the Company performs qualify for (i) the R&D Credits provided in Internal Revenue Code ("IRC") Section 41 and (ii) the Section 199 Deduction provided in IRC Section 199, the Company concluded that such activities qualify for the R&D Credits and the Section 199 Deduction. During the third quarter of 2016, the Company determined it was economically viable to claim the R&D Credits and Section 199 Deduction for all open tax years.

During the quarter ended September 30, 2016, the Company recognized a net tax benefit of \$2.1 million for federal and state R&D Credits relating to a) tax years 2012 through 2015 and b) an estimated year-to-date tax benefit for federal and state R&D Credits for the 2016 tax year.

Additionally, the Company recognized a net tax benefit of \$5.2 million for the federal Section 199 Deduction relating to a) tax years 2012 through 2015 and b) an estimated year-to-date tax benefit for the Section 199 Deduction for the 2016 tax year.

During the three and nine months ended September 30, 2016, the Company utilized \$1.3 million and \$4.9 million, respectively, in tax deductions arising from stock-based compensation, which resulted in an excess tax benefit of \$0.5 million and \$1.9 million, respectively, that was recorded to capital in excess of par value and an offsetting reduction to taxes payable.

As of September 30, 2016 and December 31, 2015, the total amount of unrecognized tax benefits was approximately \$7.4 million and \$1.3 million, respectively (net of the federal benefit for state issues) that, if recognized, would favorably affect the Company's future effective tax rate. As of September 30, 2016 and December 31, 2015, the accrued liability for interest expense and penalties related to unrecognized tax benefits was \$0.7 million and \$0.4 million, respectively. HMS includes interest expense and penalties in the provision for income taxes in the unaudited Consolidated Statements of Income. The amount of interest expense (net of federal and state income tax benefits) and penalties in the unaudited Consolidated Statements of Income for the nine months ended September 30, 2016 and 2015 was \$0.3 million and an immaterial amount, respectively. The Company believes it is reasonably possible that the amount of unrecognized tax benefits may decrease by \$1.0 million over the next 12 months, due to the expiration of the statute of limitations in various state jurisdictions.

HMS files income tax returns with the U.S. Federal government and various state and local jurisdictions. HMS is no longer subject to U.S. Federal income tax examinations for years before 2012. HMS operates in a number of state and local jurisdictions, most of which have never audited the Company's records. Accordingly, HMS is subject to state and local income tax examinations based upon the various statutes of limitations in each jurisdiction. HMS is currently being examined by the State of New York.

7. Estimated Liability for Appeals and Estimated Allowance for Appeals

The Company provides services under contracts that contain various fee structures, including contingency fee and fixed fee arrangements. Revenue is recognized when a contract exists, services have been provided to the customer, the fee is fixed and determinable, and collectability is reasonably assured. In addition, the Company has 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 the negotiated fee earned. Revenue on time and materials contracts is recognized based on hours worked and expenses incurred.

Under the Company's Medicare Recovery Audit Contractor ("RAC") contract with the Centers for Medicare & Medicaid Services ("CMS"), held by the Company's wholly owned subsidiary HealthDataInsights, Inc. ("HDI") and certain contracts for commercial health plan customers, HMS recognizes revenue when claims are sent to the customer for offset against future claims payments. Providers and health plan customers have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of the customer. HMS accrues an estimated liability for appeals based on the amount of revenue that is subject to appeals, closures or other adjustments and which HMS estimates are probable of being returned to providers following a successful appeal. The Company's estimates are based on the Company's historical experience with appeals. The estimated liability for appeals represents the Company's estimate of the potential amount of repayments related to appeals of claims, closures and other adjustments for which revenue was previously collected.

A summary of the activity in the estimated liability for appeals and estimated allowance for appeals is as follows (*in thousands*) :

	Nine Months Ended September 30,	
	2016	2015
Balance--beginning of period	\$ 39,692	\$ 41,623
Provision	3,855	5,333
Appeals found in providers favor	(6,330)	(6,999)
Balance--end of period	\$ 37,217	\$ 39,957

8. Credit Agreement

In May 2013, HMS entered into a \$500 million five-year, amended and restated revolving credit agreement (the “Credit Agreement”) with certain financial institutions and Citibank, N.A. as Administrative Agent (“Citibank”). The Credit Agreement is guaranteed by the Company’s material 100% owned subsidiaries as designated by the Company from time to time or as required under the Credit Agreement (the “Guarantors”). No principal payments were made against the Company’s revolving credit facility during the nine months ended September 30, 2016 and 2015. The \$197.8 million principal balance of the Company’s revolving credit facility is due in May 2018.

The 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 the Company’s 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 amount available to borrow is based on certain borrowing base calculations found in the Credit Agreement. The Credit Agreement is collateralized by all or substantially all of the Company’s and the Guarantors’ personal property assets.

The Credit Agreement contains certain customary representations and warranties, affirmative and negative covenants and events of default. The Credit Agreement requires HMS to comply, on a quarterly basis, with certain principal financial covenants, including a maximum consolidated leverage ratio of 3.25:1.00 and a minimum interest coverage ratio of 3.00:1.00. As of September 30, 2016, HMS was in compliance with all of the terms of the Credit Agreement.

The interest rates applicable to the revolving credit facility are, at the Company’s option, either (i) the LIBOR multiplied by the statutory reserve rate plus an interest margin ranging from 1.50% to 2.25% based on HMS’s consolidated leverage ratio, or (ii) 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 (iii) the one-month LIBOR plus 1.00% plus an interest margin ranging from 0.50% to 1.25% based on the Company’s consolidated leverage ratio). The applicable interest rate was 2.38% at September 30, 2016. HMS pays an unused commitment fee on the revolving credit facility during the term of the Credit Agreement ranging from 0.375% to 0.50% per annum based on the Company’s consolidated leverage ratio.

The obligations of the Company and the Guarantors under the 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, failures 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.

The interest expense and the commitment fees on the unused portion of the Company’s revolving credit facility were as follows (*in thousands*) :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest expense	\$ 1,204	\$ 1,027	\$ 3,572	\$ 3,067
Commitment fees	\$ 382	\$ 382	\$ 1,138	\$ 1,131

As of September 30, 2016 and December 31, 2015, the unamortized balance of deferred origination fees and debt issuance costs were \$3.3 million and \$4.9 million, respectively, recorded in other assets on the Consolidated Balance Sheets. For both the three month periods ended September 30, 2016 and 2015, HMS amortized \$0.5 million of interest expense related to the Company's deferred origination fees and debt issue costs. For both the nine month periods ended September 30, 2016 and 2015, HMS amortized \$1.5 million of interest expense related to the Company's deferred origination fees and debt issue costs.

Although HMS expects that operating cash flows will continue to be a primary source of liquidity for the Company's operating needs, the revolving credit facility may be used for general corporate purposes, including acquisitions, if necessary.

As part of the Company's contractual agreement with a customer, HMS has an outstanding irrevocable letter of credit for \$3.0 million, which HMS established against the revolving credit facility. The expiration date of the letter of credit is June 30, 2017.

9. Earnings Per Share

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

The following table reconciles the basic to diluted weighted average common shares outstanding using the treasury stock method (*in thousands, except per share amounts*) :

	Three Months Ended September 30,	
	2016	2015
Net income	\$ 13,508	\$ 6,862
Weighted average common shares outstanding-basic	84,101	87,299
Plus: net effect of dilutive stock options	371	94
Plus: net effect of dilutive restricted stock units	381	399
Weighted average common shares outstanding-diluted	84,853	87,792
Net income per common share-basic	\$ 0.16	\$ 0.08
Net income per common share-diluted	\$ 0.16	\$ 0.08

For the three months ended September 30, 2016 and 2015, 1,801,989 and 3,708,228 stock options, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive. For the three months ended September 30, 2016 and 2015, 35,738 and 71,581 restricted stock units, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive.

The following table reconciles the basic to diluted weighted average common shares outstanding using the treasury stock method (*in thousands, except per share amounts*) :

	Nine Months Ended September 30,	
	2016	2015
Net income	\$ 26,633	\$ 15,802
Weighted average common shares outstanding-basic	84,338	88,019
Plus: net effect of dilutive stock options	1,121	157
Plus: net effect of dilutive restricted stock units	534	275
Weighted average common shares outstanding-diluted	85,993	88,451
Net income per common share-basic	\$ 0.32	\$ 0.18
Net income per common share-diluted	\$ 0.31	\$ 0.18

For the nine months ended September 30, 2016 and 2015, 2,577,286 and 3,490,887 stock options, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive. For the nine months ended September 30, 2016 and 2015, 25,036 and 169,682 restricted stock units, respectively, were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive.

10. Stock-Based Compensation

Long-Term Incentive Award Plans

The Company grants equity-based compensation awards, including options to purchase HMS common stock and restricted stock units, to HMS employees and non-employee directors under the 2016 Omnibus Incentive Plan (the "2016 Omnibus Plan"), which was approved by the Company's shareholders on June 23, 2016. The 2016 Omnibus Plan replaced and superseded the Company's Fourth Amended and Restated 2006 Stock Plan, as amended, and the HDI Holdings, Inc. Amended 2011 Stock Option and Stock Issuance Plan.

Stock-Based Compensation Expense

Total stock-based compensation expense in the Company's unaudited Consolidated Statements of Income related to the Company's long-term incentive award plans was as follows (*in thousands*) :

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of services-compensation	\$ 399	\$ 1,298	\$ 3,540	\$ 4,220
Selling, general and administrative	1,703	1,842	7,207	5,988
Total	\$ 2,102	\$ 3,140	\$ 10,747	\$ 10,208

Stock Options

The Company's stock option activity for the nine months ended September 30, 2016 was as follows (in thousands, except for weighted average exercise price and weighted average remaining contractual term) :

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at December 31, 2015	5,030	\$ 17.37		
Granted	1,045	14.00		
Exercised	(510)	7.04		
Forfeitures	(68)	17.70		
Expired	(118)	24.57		
Outstanding at September 30, 2016	5,379	17.53	5.17	27,484
Expected to vest at September 30, 2016	3,752	15.75	5.74	24,108
Exercisable at September 30, 2016	1,540	\$ 21.96	3.75	\$ 2,855

For awards subject to service-based vesting conditions, HMS recognizes 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-based and service-based vesting conditions, HMS recognizes stock-based compensation expense using the straight-line recognition method when it is probable that the performance condition will be achieved. Forfeitures are 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 a Black-Scholes option-pricing valuation model. The awards subject to performance-based vesting conditions granted in 2016 and 2015 are market condition awards as attainment is based on the performance of the Company's 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 the Company's 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 stock options represents the period of time that options granted are expected to be outstanding. The expected terms of stock options granted are based on the Company's historical experience for similar types of stock option awards. The risk-free interest rate is based on U.S. Treasury Notes. The weighted average grant-date fair value per share of the stock options granted during the nine months ended September 30, 2016 and 2015 was \$5.49 and \$5.45, respectively. HMS estimated the fair value of each stock option grant on the date of grant using a Black-Scholes option-pricing model and the weighted-average assumptions set forth in the following table:

	Nine Months Ended September 30,	
	2016	2015
Expected dividend yield	0%	0%
Risk-free interest rate	1.20%	1.55%
Expected volatility	43.91%	41.77%
Expected life (years)	4.90	4.90

During the three months ended September 30, 2016 and 2015, HMS issued 211,774 shares and 105,462 shares, respectively, of the Company's common stock upon the exercise of outstanding stock options and received proceeds of \$2.4 million and \$0.8 million, respectively.

For the three months ended September 30, 2016 and 2015, stock-based compensation expense for stock options was \$1.2 million and \$1.4 million, respectively.

Excess tax benefit from the exercise of stock options for the three months ended September 30, 2016 and 2015 was \$0.5 million and \$21,000, respectively.

The total intrinsic value of stock options exercised (the difference in the market price of the Company's common stock on the exercise date and the price paid by the optionees to exercise the options) for the three months ended September 30, 2016 and 2015 was approximately \$2.2 million and \$0.2 million, respectively.

During the nine months ended September 30, 2016 and 2015, HMS issued 510,466 shares and 577,559 shares, respectively, of the Company's common stock upon the exercise of outstanding stock options and received proceeds of \$3.6 million and \$4.2 million, respectively.

For the nine months ended September 30, 2016 and 2015, stock-based compensation expense for stock options was \$5.3 million and \$4.5 million, respectively.

Excess tax benefit from the exercise of stock options for the nine months ended September 30, 2016 and 2015 was \$1.9 million and \$1.5 million, respectively.

The total intrinsic value of stock options exercised (the difference in the market price of the Company's common stock on the exercise date and the price paid by the optionees to exercise the options) for the nine months ended September 30, 2016 and 2015 was approximately \$6.3 million and \$5.9 million, respectively.

As of September 30, 2016, there was approximately \$13.8 million of total unrecognized compensation cost, adjusted for estimated forfeitures, related to stock options outstanding, which is expected to be recognized over a weighted average period of 1.03 years.

Restricted Stock Units

The Company's restricted stock units activity was as follows (in thousands, except for weighted average grant date fair value per unit) :

	Number of Units	Weighted Average Grant Date Fair Value per Unit
Outstanding balance at December 31, 2015	1,154	\$ 18.85
Granted	599	14.09
Vesting of restricted stock units, net of units withheld for taxes	(155)	17.98
Units withheld for taxes	(79)	17.98
Forfeitures	(57)	17.16
Outstanding balance at September 30, 2016	1,462	\$ 16.93

For the three months ended September 30, 2016, HMS granted 8,603 restricted stock units with an aggregate fair market value of \$0.2 million. For the three months ended September 30, 2015, HMS granted 5,462 restricted stock units with an aggregate fair market value of \$49,000.

For the three months ended September 30, 2016 and 2015, stock-based compensation expense for restricted stock units was \$0.9 million and \$1.7 million, respectively.

For the nine months ended September 30, 2016, HMS granted 598,531 restricted stock units with an aggregate fair market value of \$8.4 million. For the nine months ended September 30, 2015, HMS granted 665,326 restricted stock units with an aggregate fair market value of \$11.1 million.

For the nine months ended September 30, 2016 and 2015, stock-based compensation expense for restricted stock units was \$5.4 million and \$5.7 million, respectively.

As of September 30, 2016, 1,292,253 restricted stock units remained unvested and there was approximately \$14.6 million of unamortized compensation cost related to these restricted stock units, which is expected to be recognized over the remaining weighted-average vesting period of 1.09 years.

11. Commitments and Contingencies

Dennis Demetre and Lori Lewis : In July 2012, Dennis Demetre and Lori Lewis (the "Plaintiffs"), filed an action in the Supreme Court of the State of New York against HMS Holdings Corp., claiming an undetermined amount of damages alleging that various actions by HMS unlawfully deprived the Plaintiffs of the acquisition earn-out portion of the purchase price for Allied Management Group Special Investigation Unit ("AMG") under the applicable Stock Purchase Agreement (the "SPA") and that HMS had breached certain contractual provisions under the SPA. The Plaintiffs filed a second amended complaint with two causes of action for breach of contract and one cause of action for breach of implied covenant of good faith and fair dealing. HMS asserted a counterclaim for breach of contract arising out of the Plaintiffs' failure to indemnify the Company for costs, including attorneys' fees arising out of the Company's defense of AMG in *Kern Health Systems v. AMG, Dennis Demetre and Lori Lewis*. As previously reported by the Company, on June 29, 2016, Kern Health Systems and AMG entered into a settlement agreement resolving all claims in the matter. In January 2016, HMS moved for summary judgment on (i) its remaining counterclaim for breach of contract against the Plaintiffs and (ii) the Plaintiffs' breach of contract causes of action against HMS. The motions were argued on June 22, 2016. A decision on the motions has not yet been issued by the court and a trial date has not been set. HMS believes that the Plaintiffs' claims are without merit and will continue to vigorously defend against them.

From time to time, HMS may be subject to investigations, legal proceedings and other disputes arising in the ordinary course of the Company's business, including but not limited to regulatory audits, billing and contractual disputes, employment-related matters and post-closing disputes related to acquisitions. Due to the Company's contractual relationships, including those with federal and state government entities, HMS's operations, billing and business practices are subject to scrutiny and audit by those entities and other multiple agencies and levels of government, as well as to frequent transitions and changes in the personnel responsible for oversight of the Company's contractual performance. HMS may have contractual disputes with its customers arising from differing interpretations of contractual provisions that define the Company's 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 HMS accept some amount of loss or liability in order to avoid customer abrasion, negative marketplace perceptions and other disadvantageous results that could affect the Company's business, financial condition, results of operations and cash flows.

HMS records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, 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, HMS does not establish an accrued liability.

12. Subsequent Events

In connection with the preparation of these unaudited Consolidated Financial Statements, an evaluation of subsequent events was performed through the date of issuance and there were no other events that have occurred that would require adjustments to the financial statements or disclosure.

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the other sections of this Quarterly Report on Form 10-Q and with our 2015 Form 10-K. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, including under “Cautionary Statement Regarding Forward-Looking Statements,” and in Part I, Item 1A. “Risk Factors” and Part II, Item 7A. “Quantitative and Qualitative Disclosures about Market Risk” of our 2015 Form 10-K.

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 are billed accurately and appropriately. Our care management technology helps risk-bearing organizations manage the care delivered to their members. Together, these various services help customers recover improper payments, including those from liable third parties; prevent future improper payments; reduce fraud, waste and abuse; ensure regulatory compliance; and improve outcomes.

Our customers are state and federal healthcare agencies, including state Medicaid agencies, health plans, including Medicaid managed care, Medicare Advantage and group and individual health lines of business; government and private employers; and other healthcare payers and sponsors. As of September 30, 2016, we served 46 state Medicaid programs and the District of Columbia; federal government health agencies, including CMS and the Veterans Health Administration; and approximately 250 health plans. We additionally served as a subcontractor to certain business outsourcing and technology firms.

The Company has grown both organically and through targeted asset and stock acquisitions. Initially, the Company provided coordination of benefits services to state Medicaid agencies, then expanded its business by providing similar services to managed care organizations when Medicaid began delegating members to those plans. After launching payment integrity services in 2007, HMS grew its product suite and expanded its reach in the marketplace by acquiring IntegriGuard, LLC (2009), Verify Solutions, Inc. (2009), Chapman Kelly, Inc. (2010), HDI (2011), MedRecovery Management, LLC (2012), and Essette, Inc. (2016).

Healthcare Environment

The Patient Protection and Affordable Care Act (the “ACA”) was signed into law in 2010. This legislation touched almost every sector of the healthcare system, and affords HMS a range of growth opportunities across a number of services. We are focused on three critical areas related to this legislation:

- Medicaid Expansion;
- Payment Integrity; and
- Employer-Sponsored Health Coverage.

Medicaid Expansion: States that expand their Medicaid programs in accordance with the ACA receive federal funding for the total cost of the expansion for a period of three years, and reduced funding thereafter. As of early 2016, approximately two-thirds of the states opted to expand their Medicaid programs as provided under the ACA. According to the CMS National Health Expenditures (“NHE”) Projections, the number of individuals enrolled in Medicaid and the Children’s Health Insurance Program (“CHIP”) is expected to increase from 76.6 million in 2016 to 85.2 million in 2025, with expenditures over the same period expected to increase from \$593.3 billion to \$999.5 billion. As a result, we currently anticipate continued demand for our cost containment services by states and the managed care organizations with whom they contract with. We believe that our strong history of successful contracting with Medicaid agencies and Medicaid managed care organizations will enable us to continue providing value-added services to help control the escalating costs for this expanded population.

Payment Integrity: The ACA contained 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 the Medicare RAC Program administered by CMS, (ii) expanding the 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. The ACA further required that each state establish a Medicaid RAC program by January 1, 2012. In addition, the ACA allowed for significant increases in funding for these and other fraud, waste and abuse efforts. We continue to seek opportunities to expand our current partnerships with CMS, states and health plans and to provide innovative ideas to support their 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) are penalized starting in 2016 if (i) they do not offer coverage (or if they offer coverage that does not meet certain requirements) and (ii) 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 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.

Customers

We provide products and services under contracts (or sub-contracts) that contain various revenue structures, including contingent revenue and fixed fee arrangements. Most of our state government 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 reprocurments. 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, awarded to other parties, or renewed, and, if renewed, that the fee structures will be equal to those currently in effect.

For example, our third party liability (“TPL”) services contract with the New Jersey Department of Human Services was originally awarded in January 2008. In July 2015, we received notice from the State of New Jersey Division of Purchase and Property (the “Division”) of its intent to award the new TPL contract to another bidder following a competitive reprocurement. In February 2016, we filed a protest challenging the award. The bidder withdrew its bid in May 2016. On September 1, 2016, the Division awarded the new TPL contract to our wholly owned subsidiary, Health Management Systems, Inc. The new contract has an initial term of four years through September 20, 2020, with an option to extend the term for two additional one-year periods.

We are also involved in the procurement process for the new Medicare RAC contract awards. In November 2015, CMS released a new RFP for recovery audit services that replaces the procurement activities begun in February 2013. After a delay in the procurement of the new Medicare RAC contract awards, CMS resumed the procurement in April 2016 and we submitted a proposal. On October 31, 2016, CMS announced the award of RAC Region 4 to our wholly owned subsidiary HMS Federal Solutions. The timeline to finalize the new Medicare RAC contracts and their implementation remains uncertain. Our current Medicare RAC contract requires we provide support services in connection with the appeal process through January 31, 2018.

In addition, in August 2014, CMS announced it would settle with hospitals willing to withdraw inpatient status claims currently pending in the RAC appeals process by offering to pay hospitals 68% for all eligible claims they had billed to Medicare. In June 2015, CMS notified HDI that based on the initial lists of finalized settlements, HDI owed CMS approximately \$28.6 million due to adjustments in contingency fees pursuant to HDI's Medicare RAC contract with CMS. HDI previously advised CMS that it disagrees with CMS' interpretation of the contract and that CMS does not have the contractual right, among other things, to require repayment of fees already paid. In response to the inaccurate and incomplete data in certain backup documentation initially provided by CMS regarding settled claims, HDI provided CMS with data which it believes more accurately reflects the number of claims which were apparently settled. The amount ultimately payable to CMS by HDI remains uncertain as HDI continues to evaluate additional data provided by CMS in connection with its completion of the settlement process. A portion of our reserve for estimated liability for appeals recorded as of September 30, 2016 may apply to this population, and there could be a material negative impact on our future revenue in future periods to the extent that (i) any final determination of amounts owed by HDI to CMS under the current Medicare RAC contract materially exceeds our accrued reserves for such appeals, (ii) HDI is required to return certain fees which have been paid or (iii) HDI's ability to collect fees for audits already performed is affected.

Critical Accounting Policies

Since the date of our 2015 Form 10-K for the year ended December 31, 2015, there have been no material changes to our critical accounting policies. Refer to the items disclosed as our Critical Accounting Policies in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2015 Form 10-K.

SUMMARY OF OPERATING RESULTS

Selected Operating Performance and Other Significant Items for the Three Months Ended September 30, 2016

- Revenue increased \$6.2 million, or 5.2% from the same quarter in 2015.
- Operating income decreased \$0.4 million, or 2.8% from the same quarter in 2015.
- Net income increased \$6.6 million, or 96.9% from the same quarter in 2015.
- Diluted earnings per share increased \$0.08 or 103.7% from the same quarter in 2015.
- Shareholders' equity increased \$17.8 million since June 30, 2016.
- Third quarter 2016 cash flow from operations was \$8.6 million.

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

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

	Three Months Ended September 30,	
	2016	2015
Revenue	100%	100%
Cost of services:		
Compensation	38.8	36.8
Data processing	7.7	8.5
Occupancy	2.7	3.5
Direct project expenses	8.8	10.7
Other operating expenses	6.8	5.5
Amortization of acquisition related software and intangible assets	5.1	5.9
Total cost of services	69.9	70.9
Selling, general and administrative expenses	20.0	18.0
Total operating expenses	89.9	88.9
Operating income	10.1	11.1
Interest expense	(1.7)	(1.6)
Interest income	0.1	0.0
Income before income taxes	8.5	9.5
Income tax (benefit) expense	(2.3)	3.6
Net income	10.8%	5.9%

Revenue

During the three months ended September 30, 2016, revenue was \$124.6 million, an increase of \$6.2 million, or 5.2% compared to \$118.4 million for the three months ended September 30, 2015. This increase was primarily due to commercial health plan growth of \$7.2 million or 13.9% and higher Medicare RAC revenue of \$1.3 million or 28.9% partially offset by a decrease in state government revenue of \$1.6 million or 2.9%.

Cost of Services

During the three months ended September 30, 2016, total cost of services as a percentage of revenue was 69.9% compared to 70.9% for the three months ended September 30, 2015. Total cost of services for the three months ended September 30, 2016 was \$87.1 million, an increase of \$2.9 million compared to \$84.1 million for the three months ended September 30, 2015. This change resulted primarily from increases in certain compensation expense which includes fringe benefits, salaries and temporary work. These increases were partially offset by a decrease in direct project costs, which includes, subcontractor and chart fees, as well as a decrease in stock compensation expense.

Selling, General and Administrative Expense (“SG&A”)

During the three months ended September 30, 2016, SG&A expense as a percentage of revenue was 20.0% compared to 18.0% for the three months ended September 30, 2015. SG&A expense for the three months ended September 30, 2016 was \$24.9 million, an increase of \$3.6 million, or 16.8% compared to \$21.3 million for the three months ended September 30, 2015. This change resulted from a \$3.0 million increase in compensation related expenses. The increase was also attributable to a \$0.4 million increase in the provision for bad debt expense.

Operating Income

During the three months ended September 30, 2016 operating income was \$12.7 million, a decrease of \$0.4 million, or 2.8%, compared to operating income of \$13.0 million for the three months ended September 30, 2015.

Interest Expense

During the three months ended September 30, 2016, interest expense was \$2.1 million, an increase of \$0.2 million, compared to \$1.9 million for the three months ended September 30, 2015. Interest expense represents borrowings under our revolving credit facility, interest on debt, commitment fees, letter of credit fees and amortization of deferred financing costs.

Income Taxes

We recorded an income tax benefit of \$2.9 million for the three months ended September 30, 2016, compared to income tax expense of \$4.2 million for the three months ended September 30, 2015, a decrease of \$7.1 million. Income before taxes decreased \$0.4 million for the current quarter over income before taxes in the same period in the prior year, which contributed to the decrease in our tax expense. The decrease in tax expense is primarily due to our recognition during the third quarter of 2016 of a tax benefit for the Research and Development tax credits (the "R&D Credits") and the U.S. production activities deduction (the "Section 199 Deduction") as discussed in Note 6 of the unaudited Consolidated Financial Statements. Additionally, our effective tax rate decreased to 27% for the three months ended September 30, 2016 compared to 38.1% for the three months ended September 30, 2015 primarily due to our recognition during the third quarter of 2016 of a tax benefit for the R&D Credits and the Section 199 Deduction. The principal differences between the statutory rate and our effective rate include the R&D Credits, the Section 199 Deduction, other permanent items, interest on unrecognized tax benefits, and changes in state taxes.

Net Income

During the three months ended September 30, 2016, net income was \$13.5 million which represents an increase of \$6.6 million compared to net income for the three months ended September 30, 2015 of \$6.9 million.

SUMMARY OF OPERATING RESULTS

Selected Operating Performance and Other Significant Items for the Nine Months Ended September 30, 2016

- Revenue increased \$22.2 million, or 6.4% compared to the first nine months of 2015.
- Operating income increased \$6.2 million, or 18.8% compared to the first nine months of 2015.
- Net income increased \$10.8 million, or 68.5% compared to the first nine months of 2015.
- Diluted earnings per share increased \$0.13 or 73.3% compared to the first nine months of 2015.
- Shareholders' equity increased \$40.2 million since December 31, 2015.
- Cash flow from operations was \$54.4 million.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

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

	Nine Months Ended September 30,	
	2016	2015
Revenue	100%	100%
Cost of services:		
Compensation	38.6	38.1
Data processing	7.7	8.8
Occupancy	2.9	3.5
Direct project expenses	10.0	10.6
Other operating expenses	5.6	5.9
Amortization of acquisition related software and intangible assets	5.5	6.1
Total cost of services	70.3	73.0
Selling, general and administrative expenses	19.0	17.5
Total operating expenses	89.3	90.5
Operating income	10.7	9.5
Interest expense	(1.7)	(1.7)
Interest income	0.1	0.0
Income before income taxes	9.1	7.8
Income tax expense	1.7	3.2
Net income	7.4%	4.6%

Revenue

During the nine months ended September 30, 2016, revenue was \$367.9 million, an increase of \$22.2 million, or 6.4% compared to \$345.7 million for the nine months ended September 30, 2015. This increase was primarily due to commercial health plan growth of \$25.8 million or 17.9% and higher Medicare RAC revenue of \$7.5 million or 70.0%, partially offset by a decrease in state government revenue of \$10.3 million or 6.0%.

Cost of Services

During the nine months ended September 30, 2016, total cost of services as a percentage of revenue was 70.3% compared to 73.0% for the nine months ended September 30, 2015. Total cost of services for the nine months ended September 30, 2016 was \$259.0 million, an increase of \$6.6 million, or 2.6% compared to \$252.4 million for the nine months ended September 30, 2015. This change resulted primarily from increases in certain compensation expense which includes fringe benefits, salaries and temporary work. These increases were partially offset by a decrease in data processing costs and occupancy costs which includes depreciation and rental expense as well as a decrease in stock based compensation.

Selling, General and Administrative Expense (“SG&A”)

During the nine months ended September 30, 2016, SG&A expense as a percentage of revenue was 19.0% compared to 17.5% for the nine months ended September 30, 2015. SG&A expense for the nine months ended September 30, 2016 was \$70.0 million, an increase of \$9.5 million, or 15.7% compared to \$60.5 million for the nine months ended September 30, 2015. This change resulted from a \$2.0 million increase in compensation related expenses. SG&A expense also increased \$7.0 million due to an increase in the provision for bad debt expense.

Operating Income

During the nine months ended September 30, 2016, operating income was \$38.9 million, an increase of \$6.2 million, or 18.8%, compared to operating income of \$32.7 million for the nine months ended September 30, 2015.

Interest Expense

During the nine months ended September 30, 2016, interest expense was \$6.3 million, a decrease of \$0.5 million, compared to \$5.8 million for the nine months ended September 30, 2015. Interest expense represents borrowings under our revolving credit facility, interest on debt, commitment fees, letter of credit fees and amortization of deferred financing costs.

Income Taxes

We recorded income tax expense of \$6.2 million for the nine months ended September 30, 2016, compared to income tax expense of \$11.1 million for the nine months ended September 30, 2015, a decrease of \$4.9 million. Income before taxes increased \$5.9 million for the nine months ended September 30, 2016 over income before taxes in the same period in the prior year, but tax expense decreased primarily due to our recognition during the third quarter of 2016 of a tax benefit for the R&D Credits and the Section 199 Deduction as discussed in Note 6 of the unaudited Consolidated Financial Statements. Additionally, our effective tax rate decreased to 18.8% for the nine months ended September 30, 2016 compared to 41.3% for the nine months ended September 30, 2015 primarily due to our recognition during the third quarter of 2016 of a tax benefit for the R&D Credits and the Section 199 Deduction. The principal differences between the statutory rate and our effective rate include R&D Credits, the Section 199 Deduction, other permanent items, interest on unrecognized tax benefits, and changes in state taxes.

Net Income

During the nine months ended September 30, 2016, net income was \$26.6 million which represents an increase of \$10.8 million compared to net income for the nine months ended September 30, 2015 of \$15.8 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Liquidity and Capital Resources

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. The near-term outlook for our business remains strong, and we currently expect to generate substantial cash flows from operations throughout the remainder of 2016. We believe that expected cash flows from operations, available cash and cash equivalents and funds available under our revolving credit facility under the Credit Agreement will be sufficient to meet our financial commitments for the next year, which include:

- the working capital requirements of our operations;
- investments in our business;
- repurchases of treasury stock; and
- business development activities.

We may need to access debt and equity markets in the future if unforeseen costs or opportunities arise, to fund acquisitions or to repay indebtedness under the Credit Agreement, which matures in May 2018. If we need to obtain new debt or equity financing in the future, the terms and availability of such financing may be impacted by economic and financial market conditions as well as our financial condition and results of operations at the time we seek additional financing.

Our cash and cash equivalents, working capital and available borrowings under our credit facility (based upon the borrowing base and financial covenants in our Credit Agreement) were as follows:

(In thousands)	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 171,519	\$ 145,610
Working capital	\$ 291,860	\$ 247,916
Available borrowings under credit facility	\$ 180,134	\$ 121,204

A summary of our cash flows is as follows:

(In thousands)	Nine Months Ended September 30,	
	2016	2015
Net cash provided by operating activities	\$ 54,371	\$ 40,453
Net cash used in investing activities	(32,120)	(7,888)
Net cash provided by (used in) financing activities	3,658	(20,877)
Net increase in cash and cash equivalents	\$ 25,909	\$ 11,688

Cash Flows from Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2016 was \$54.4 million, an increase of \$13.9 million as compared to net cash provided by operating activities of \$40.5 million for the nine months ended September 30, 2015. The increase in operating cash flow is primarily attributable to collections of accounts receivable offset primarily by the change in income tax receivable/payable. Additionally, the number of Days Sales Outstanding decreased from the prior year period by 16 days from 132 days for the nine months ended September 30, 2015 to 117 days for the nine months ended September 30, 2016 as a result of stronger cash collections.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2016 was \$32.1 million, a \$24.2 million increase compared to net cash used in investing activities of \$7.9 million for the nine months ended September 30, 2015. The increase primarily related to a \$20.9 million increase due to the Essette acquisition and an increase in purchases of property and equipment and investment in capitalized software, partially offset by receipt of proceeds from the sale of a cost basis investment of approximately \$2.5 million.

Cash Flows from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2016 was \$3.7 million, a \$24.5 million increase compared to net cash used in financing activities of \$20.9 million for the nine months ended September 30, 2015. This decrease was primarily attributable to the purchase of treasury stock for \$25.0 million during same period in the prior year.

Contractual Obligations

There have been no material changes in our contractual obligations as presented in our 2015 Form 10-K.

Recently Issued Accounting Pronouncements

See “Recently Issued Accounting Pronouncements” in Note 2 of the unaudited Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the market risks discussed in Item 7A to Part II of our Form 10-K for the fiscal year ended December 31, 2015.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act 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 our 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.

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 September 30, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that their objectives were met as of the end of the period covered by this Quarterly Report on Form 10-Q.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation of our controls performed during the three months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the caption “Commitments and Contingencies” in Note 11 included in Item 1. Notes to the Consolidated Financial Statements is incorporated by reference.

Item 1A. Risk Factors

In addition to the information set forth in this Quarterly Report on Form 10-Q, the risks that are discussed in the Company’s 2015 Form 10-K, under the headings “Part I, Item 1. Business,” “Part I, Item 1A. Risk Factors” and “Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk,” should be carefully considered as such risks could materially affect the Company’s business, financial conditions or future results. There has been no material change in the Company’s risk factors from those described in the 2015 Form 10-K.

These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may have a material adverse effect on the Company’s business, financial condition or future results.

Item 6. Exhibits

Exhibit Number	Description
3.1	Conformed copy of Certificate of Incorporation of the Company, as amended through July 9, 2015 (incorporated by reference to Exhibit 3.1 to Company's Quarterly Report on Form 10-Q (File No. 000-50194) as filed with the SEC on August 10, 2015)
3.2	Amended and Restated Bylaws of the Company dated May 4, 2016 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 000- 50194) as filed with the SEC on May 5, 2016)
10.1†*	Form of 2016 Non-Qualified Stock Option Award Agreement for Employees under the HMS Holdings Corp. 2016 Omnibus Incentive Plan
10.2†*	Form of 2016 Restricted Stock Unit Award Agreement for Employees under the HMS Holdings Corp. 2016 Omnibus Incentive Plan
10.3†*	Form of 2016 Non-Qualified Stock Option Award Agreement for Non-Employee Directors under the HMS Holdings Corp. 2016 Omnibus Incentive Plan
10.4†*	Form of 2016 Restricted Stock Unit Award Agreement for Non-Employee Directors under the HMS Holdings Corp. 2016 Omnibus Incentive Plan
31.1*	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer of HMS Holdings Corp., as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2*	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer of HMS Holdings Corp., as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32.1‡	Section 1350 Certification of the Principal Executive Officer of HMS Holdings Corp., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2‡	Section 1350 Certification of the Principal Financial Officer of HMS Holdings Corp., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

* Filed herewith

‡ Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2016

HMS HOLDINGS CORP.

By: /s/ WILLIAM C. LUCIA

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

By: /s/ JEFFREY S. SHERMAN

Jeffrey S. Sherman
Executive Vice President, Chief Financial Officer and
Treasurer
(Principal Financial Officer)

HMS Holdings Corp. and Subsidiaries
Exhibit Index

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101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

*Filed herewith

‡Furnished herewith

NONQUALIFIED STOCK OPTION AWARD NOTICE

HMS Holdings Corp.
2016 Omnibus Incentive Plan

Dear <Participant Name> ,

Congratulations, HMS Holdings Corp. (the “*Company*”) has granted you a stock option award under the Company’s 2016 Omnibus Incentive Plan, as it may be amended from time to time (the “*Plan*”). A stock option gives you the right to purchase a specific number of shares of the Company’s common stock at a fixed price, assuming that you satisfy the terms and conditions of the Plan and the attached implementing Nonqualified Stock Option Award Agreement (the “*Award Agreement*”). We would like you to have an opportunity to share in the success of the Company through this stock option award under the Plan. The following represents a brief description of your individual award.

Stock Option Award Summary:

Date of Grant	<Date>
Option Shares	<Number of Shares Covered by the Option Granted>
Option Exercise Price per Share	\$ _____
Exercisability	[One-sixth/one-fourth/one-third] of the Option Shares shall vest and become exercisable on each of the first, second and third anniversaries of the Date of Grant [, with the remainder vesting and becoming exercisable in accordance with the applicable schedule for the Performance Option set forth in <u>Appendix B</u> to the Award Agreement] . Each of those dates is an “ <i>Exercisability Date</i> .”
Option Expiration Date	<Date of tenth anniversary of the Date of Grant>
Participant Management-Level	<Management level of Participant at Date of Grant>

- You have been granted a nonqualified stock option (the “**Option**”) to purchase shares of the Company’s common stock (“**Shares**”). The total number of Shares covered by the Option granted to you is in the chart above under “**Option Shares**” and the price per share is under “**Option Exercise Price per Share** .”
 - The potential value of your stock option award increases if the price of the Company’s stock increases, but you also have to continue to provide services to the Company (except as the Award Agreement provides) to actually receive such value. Of course, the value of the stock may go up and down over time.
 - You cannot exercise the Option (actually purchase Shares) until it becomes exercisable. Your stock option becomes exercisable as provided in the chart above under “**Exercisability** ,” assuming you remain an employee or a member of the Board of Directors of the Company through each Exercisability Date and subject to the terms in the Award Agreement.
 - Additional details regarding your stock option award are provided in the Plan and the Award Agreement.
 - Whether or not you decide to exercise your stock option and purchase the Shares is your decision, and you have until the stock option expires (which will be no later than the *tenth* anniversary of the “**Date of Grant**” but can end earlier in various situations) to make that decision.
 - Once you have purchased the Shares, you will own them and may decide whether to hold the stock, sell the stock or give the stock to someone as a gift.
-

*You can access the Merrill Lynch website, including updates and additional information at:
<https://www29.benefits.ml.com/login/login.aspx>. Please email EquityAdministration@hms.com with any questions regarding the Merrill Lynch website.*

**NONQUALIFIED STOCK OPTION AWARD AGREEMENT
FOR EMPLOYEES**

**HMS Holdings Corp.
2016 Omnibus Incentive Plan**

HMS Holdings Corp. (the “*Company*”) has granted you, the individual named in the attached Nonqualified Stock Option Award Notice (the “*Award Notice*”), an option (the “*Option*”) to purchase from the Company a specific number of shares of the Company’s common stock (“*Shares*”) at a specified price per Share (the “*Option Exercise Price*”) under the HMS Holdings Corp. 2016 Omnibus Incentive Plan (as it may be amended from time to time) (the “*Plan*”), the terms of which are incorporated by reference herein in their entirety. The Option is subject in all respects to the applicable provisions of the Plan, the Award Notice and this Nonqualified Stock Option Award Agreement (the “*Award Agreement*”). Any term used in this Award Agreement that is not specifically defined herein or in the Award Notice shall have the meaning specified in the Plan.

Please refer to the attached Award Notice for individualized details regarding your stock Option award, including the Date of Grant, the total number of Shares covered by the Option granted to you (the “*Option Shares*”), the Option Exercise Price per Share, the schedule for Exercisability and applicable Exercisability Dates, and the latest date the Option will expire (the “*Option Expiration Date*”).

The Plan document and the Prospectus for the Plan are available on the Merrill Lynch website. The Company’s Registration Statement on Form S-8, the Company’s Annual Report on Form 10-K, and other filings the Company makes with the Securities and Exchange Commission are available for your review under the Investor Relations tab on the Company’s web site (<http://investor.hms.com/financials.cfm>). You may also obtain paper copies of these documents, without charge, upon request to the Company’s Corporate Secretary, 5615 High Point Drive, Irving, Texas 75038, telephone: 972-916-2380.

Neither the Company nor anyone else is making any representations or promises regarding the duration of your service, exercisability of the Option, the value of the Shares or of this Option, or the Company's prospects. The Company is not providing any advice regarding tax consequences to you or your decisions regarding the Option; you agree to rely only upon your own personal advisors.

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THE OPTION OR THE SECURITIES THAT MAY BE PURCHASED UPON EXERCISING THE OPTION WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO IT THAT SUCH REGISTRATION IS NOT REQUIRED.

In addition to the Plan's terms and restrictions, the following terms and restrictions apply:

Option Exercisability While the Option remains in effect under the **Option Expiration** section below, you may exercise any exercisable portions of the Option (and buy the Option Shares) under the timing rules of this section.

The Option will become vested and exercisable according to the schedule provided in the Award Notice assuming that you remain an employee of the Company or a member of the Company's Board of Directors (the "Board") through each Exercisability Date. For purposes of this Award Agreement, employment with the Company will include employment with any Affiliate whose employees are then eligible to receive awards under the Plan. Unless the Compensation Committee (the "Committee") of the Board determines otherwise, if an entity employing you ceases to be an Affiliate, your employment with the Company will be treated as ended even though you continue to be employed by that entity.

Unless otherwise specified in your employment or separation agreement, if your employment or service ends as a result of your disability or death, the Option will become vested and fully exercisable on your termination of employment. For this purpose, "**disability**" means permanent and total disability as defined by Section 22(e)(3) of the Internal Revenue Code.

If your employment or service ends as a result of Retirement, you will be treated as continuing in service for vesting purposes and the vested portion of the Option shall remain exercisable until (i) the earlier to occur of second anniversary of your Retirement and (ii) the Option Expiration Date (the "Retirement Period"). Unless determined by the Committee otherwise, any portion of the Option outstanding but not yet vested on the last day of the Retirement Period shall be forfeited. "**Retirement**" for the purpose of this Award Agreement means cessation of service on or after attaining age 60 and completing five years of service with the Company.

Change in Control In addition to any terms under your employment or separation agreement, if applicable, in the event a Change in Control occurs, the Option, including any Performance Option, will be treated as provided in Section 11 of the Plan (and, if applicable, your employment or separation agreement) if within 24 months following the Change in Control, your employment or service ends on (i) a termination without Gross Misconduct or (ii) a resignation for good reason as specified under your employment agreement, if applicable, provided also that the Option will remain outstanding for twelve months following such termination but not beyond the Option Expiration Date.

Option Expiration The Option will expire no later than the close of business on the Option Expiration Date. Unless otherwise specified in your employment or separation agreement, this Award Agreement, or the Committee determines otherwise, unexercisable portions of the Option expire immediately when you cease to be employed (unless you are concurrently remaining or becoming a member of the Board, or, for a Board member, concurrently remaining or becoming an employee of the Company). If the Company terminates your employment or service for Gross Misconduct, the Option will immediately expire without regard to whether it is then exercisable. "**Gross Misconduct**" for purposes of this Award Agreement: (i) shall have the same meaning as "cause" in your employment or separation agreement if you have an employment or separation agreement with the Company and cause is defined in such agreement; or (ii) if you do not have an employment or separation agreement or your agreement does not define cause, "gross misconduct" shall mean the occurrence of one of the following events: (A) your conviction or plea of guilty or nolo contendere to any felony (or to a felony charge reduced to a misdemeanor) or with respect to your employment to any misdemeanor (other than a traffic violation), (B) theft or embezzlement of assets of the Company or an Affiliate, or (C) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Plan participant is a party, including the terms of **Appendix A**.

Unless otherwise specified in your employment or separation agreement, exercisable portions of the Option remain exercisable until the first to occur of the following (the “*Final Exercise Date*”), each as defined further in the Plan or this Award Agreement:

- Three months (measured to the corresponding date in the month) after your employment (or directorship) ends if you resign or if the Company terminates your employment or service without Gross Misconduct, except as provided above under the **Change in Control** section ;
- For death or disability, the first anniversary of the date employment or service ends;
- For Retirement, the end of the second year following your date of Retirement; or
- The Option Expiration Date.

The Committee can override the expiration provisions of this Award Agreement as provided in Section 6(b) of the Plan (including without limitation as a result of a legal prohibition on exercise or an applicable “black-out period” or “lock-up” agreement).

Method of Exercise and Payment for Shares

Subject to this Award Agreement and the Plan, you may exercise the Option only by providing a written notice (or notice through another previously approved method, which could include a voice- or web-based, other electronic, or e-mail system) to the Corporate Secretary of the Company or the Corporate Secretary’s designee, received on or before the date the Option expires. Each such notice must satisfy whatever then-current procedures apply to that Option and must contain such representations (statements from you about your situation) as the Company requires. You must, at the same time, pay the Option Exercise Price using one or more of the following methods:

Cash/ Check	by cash or check in the amount of the Option Exercise Price payable to the order of the Company;
Cashless	through an approved cashless exercise method, including directing
Exercise	the Company to send the stock certificates (or other acceptable evidence of ownership) to be issued under the Option to a licensed broker acceptable to the Company as your agent in exchange for the broker’s tendering to the Company cash (or acceptable cash equivalents) equal to the Option Exercise Price and, if you so elect, any required tax withholdings;
Net Exercise	by delivery of a notice of “net exercise” to us or as directed by the Company, as a result of which you will receive (i) the number of Shares underlying the portion of the Option being exercised less (ii) such number of shares as is equal to (x) the aggregate Option Exercise Price for the portion of the Option being exercised divided by (y) the Fair Market Value on the date of exercise;

Stock If permitted by the Committee, by delivery of Shares that you already own having a Fair Market Value equal to the Option Exercise Price on the date of exercise, provided that (i) applicable law then permits such method of payment, (ii) you owned such Shares, if acquired directly from the Company, for such minimum period of time, if any, as the Committee may establish in its discretion, and (iii) the Shares are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar restrictions; or

any combination of the above permitted forms for payment.

Withholding The issuance of the Option Shares is contingent on satisfaction of all obligations with respect to required tax or other required withholdings (for example, in the United States, any applicable Federal, state, and local taxes). The Company may take any action permitted under Section 14(c) of the Plan to satisfy such obligation, including, as permitted by the Committee, satisfying the tax obligations by (i) reducing the number of Option Shares to be issued to you in connection with any exercise of such Option by the number of Option Shares (valued at their Fair Market Value on the date of exercise) that would equal all taxes required to be withheld (at their minimum withholding levels, except as otherwise permitted by the Committee or the Board), (ii) accepting payment of the withholdings directly from you or from a broker in connection with a Cashless Exercise of the Option (as set forth above under **Cashless Exercise**), or (iii) taking any other action under Section 14(c) of the Plan.

Compliance with Law You may not exercise the Option if the Company's issuing stock upon such exercise would violate any applicable Federal or state securities laws or other laws or regulations. You may not sell or otherwise dispose of the Option Shares in violation of applicable law. As part of this prohibition, you may not use the Cashless Exercise methods if the Company's insider trading policy then prohibits you from selling to the market.

Additional Conditions to Exercise The Company may postpone issuing and delivering any Option Shares for so long as the Company determines to be advisable to satisfy the following:

its completing or amending any securities registration or qualification of the Option Shares *or* its or your satisfying any exemption from registration under any Federal or state law, rule, or regulation;

its receiving proof it considers satisfactory that a person seeking to exercise the Option after your death is entitled to do so;

your complying with any requests for representations under the Plan; and/or

your complying with any Federal, state, or local tax withholding obligations.

Additional Representations from You If you exercise the Option at a time when the Company does not have a current registration statement (generally on Form S-8) under the Securities Act of 1933 (the "*Act*") that covers issuances of shares to you, you must comply with the following before the Company will issue the Option Shares to you. You must —

represent to the Company, in a manner satisfactory to the Company's counsel, that you are acquiring the Option Shares for your own account and not with a view to reselling or distributing the Option Shares; and

agree that you will not sell, transfer, or otherwise dispose of the Option Shares unless:

a registration statement under the Act is effective at the time of disposition with respect to the Option Shares you propose to sell, transfer, or otherwise dispose of; or

the Company has received an opinion of counsel or other information and representations it considers satisfactory to the effect that, because of Rule 144 under the Act or otherwise, no registration under the Act is required.

No Effect on Employment or Other Relationship

Nothing in this Award Agreement restricts the Company's rights or those of any of its Affiliates to terminate your employment or other relationship at any time and for any or no reason. The termination of employment or other relationship, whether by the Company or any of its Affiliates or otherwise, and regardless of the reason for such termination, has the consequences provided for under the Plan and any applicable employment or severance agreement or plan.

Not a Shareholder

You understand and agree that the Company will not consider you a shareholder for any purpose with respect to any of the Option Shares until you have exercised the Option, paid for the shares, and received evidence of ownership.

No Effect on Running Business

You understand and agree that the existence of the Option will not affect in any way the right or power of the Company or its shareholders to make or authorize any adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stock, with preference ahead of or convertible into, or otherwise affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether or not of a similar character to those described above.

Governing Law

The laws of the State of Delaware will govern all matters relating to the Option, without regard to the principles of conflict of laws, except as otherwise specified herein or in an appendix attached hereto.

Clawbacks

The Committee may cancel this Option if you have engaged in or are engaging in activity that is in conflict with or adverse to the interest of the Company while employed by or providing services to the Company or any subsidiary, including fraud or conduct contributing to any financial restatements or irregularities. The Committee may cause you to forfeit any compensation, gain or other value realized thereafter on the vesting or exercise of the Option or the sale of Shares acquired under the Option, and must promptly repay such amounts to the Company. You agree that the Committee may require you to promptly repay to the Company any amount in excess of what you should have received under the terms of the Option for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error). Furthermore, to the extent required by applicable law (including, without limitation, Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of NASDAQ or any other securities exchange or inter-dealer quotation service on which the Shares are listed or quoted, or if so required pursuant to a written policy adopted by the Company, the Option shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements.

Restrictive Covenants	Attached to this Award Agreement is <u>Appendix A</u> regarding your applicable “ <i>Restrictive Covenants</i> ” (as defined therein). Your confirmation of receipt of this Option provides your consent to the Restrictive Covenants and to the additional clawback rules set forth in <u>Appendix A</u> .
Notices	Unless the Company specifies another method of transmitting notice, any notice to the Company under this Award Agreement must be sent in writing, by hand or by mail, to the office of the Company’s Corporate Secretary at the Company’s then corporate headquarters. The Company will address any notices to you using its standard electronic communications methods, or to your current office or home address, as reflected in the Company’s personnel or other business records. You and the Company may change the address for notice by like notice to the other, and the Company may also change the address for notice by general announcements to the Plan participants.
Amendment	The Committee may amend the Option without your consent provided that it concludes such amendment is not materially adverse to you, is required for compliance with Section 409A, or is permitted under Section 12 of the Plan.
Plan Governs	Wherever a conflict may arise between the terms of this Award Agreement and the terms of the Plan, the terms of the Plan will control. The Committee may adjust the number of Option Shares, the Option Exercise Price, and other terms of the Option from time to time as the Plan provides.
Electronic Execution of Award Agreement	You, by your electronic execution of this Award Agreement, agree to the terms and conditions contained herein, including the terms set forth in <u>Appendix A</u> [and, if applicable, <u>Appendix B</u>], and further agree to execute any documents requested by the Company required to effect the issuance of stock to you in connection with your exercise of the Option.

Appendix A

Restrictive Covenants

<Insert Applicable Restrictive Covenants>

Appendix B

Performance Option for Executive Vice Presidents and Senior Vice Presidents

<Insert Applicable Vesting Schedule>

2016 RSU Award Notice and Agreement

RESTRICTED STOCK UNIT AWARD NOTICE

HMS Holdings Corp.
2016 Omnibus Incentive Plan

Dear <Participant Name> ,

Congratulations, HMS Holdings Corp. (the “ *Company* ”) has granted you restricted stock units (“ *RSUs* ”) under the Company’s 2016 Omnibus Incentive Plan, as it may be amended from time to time (the “ *Plan* ”). An RSU entitles you to receive a share of the Company’s common stock at a future date, assuming that you satisfy the terms and conditions of the Plan and the attached implementing Restricted Stock Unit Award Agreement (the “ *Award Agreement* ”). We would like you to have an opportunity to share in the success of the Company through this RSU award under the Plan. The following represents a brief description of your individual award.

Restricted Stock Unit Award Summary:

Date of Grant	<Date>
RSU Shares	<Number of Shares Covered by the RSUs Granted>
Vesting	[One-sixth/one-fourth/one-third] of the RSU Shares shall vest on the first, second and third anniversaries of the Date of Grant [, with the remainder vesting in accordance with the applicable schedule for the Performance RSUs set forth in Appendix B to the Award Agreement] . Each of those dates is a “ <i>Vesting Date</i> .”
Participant Management-Level	<Management level of Participant at Date of Grant>

- You have been granted RSUs for shares of the Company’s common stock (“ *Shares* ”) for the total number of Shares specified under “ *RSU Shares* ” in the chart above.
- The potential value of your RSUs increases if the price of the Company’s stock increases, but you also have to continue to provide services to the Company (except as the Award Agreement provides) to actually receive such value. Of course, the value of the stock may go up and down over time.
- You will not receive the Shares represented by the RSUs unless and until the RSUs vest. Your RSUs vest as provided in the chart above under “ *Vesting* ,” assuming you remain an employee or a member of the Board of Directors of the Company and subject to the terms in the Award Agreement.
- Once you have received the Shares, you will own them and may decide whether to hold the stock, sell the stock or give the stock to someone as a gift.
- Additional details regarding your RSU award are provided in the Plan and the Award Agreement.

You can access the Merrill Lynch website, including updates and additional information at:

<https://www29.benefits.ml.com/login/login.aspx> . Please email EquityAdministration@hms.com with any questions regarding the Merrill Lynch website.

**RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR EMPLOYEES**

**HMS Holdings Corp.
2016 Omnibus Incentive Plan**

HMS Holdings Corp. (the “*Company*”) has granted you, the individual named in the attached Restricted Stock Unit Award Notice (the “*Award Notice*”), restricted stock units (the “*RSUs*”) under the HMS Holdings Corp. 2016 Omnibus Incentive Plan (as it may be amended from time to time) (the “*Plan*”), the terms of which are incorporated by reference herein in their entirety. Each RSU lets you receive a share (an “*RSU Share*”) of the Company’s common stock (the “*Shares*”) and is subject in all respects to the applicable provisions of the Plan, the Award Notice and this Restricted Stock Unit Award Agreement (the “*Award Agreement*”). Any term used in this Award Agreement that is not specifically defined herein or in the Award Notice shall have the meaning specified in the Plan.

Please refer to the attached Award Notice for individualized details regarding your RSU award, including the Date of Grant, the total number of RSU Shares granted to you, and the schedule for Vesting and applicable vesting dates (the “*Vesting Dates*”).

The Plan document and the Prospectus for the Plan are available on the Merrill Lynch website. The Company’s Registration Statement on Form S-8, the Company’s Annual Report on Form 10-K, and other filings the Company makes with the Securities and Exchange Commission are available for your review under the Investor Relations tab on the Company’s web site (<http://investor.hms.com/financials.cfm>). You may also obtain paper copies of these documents, without charge, upon request to the Company’s Corporate Secretary, 5615 High Point Drive, Irving, Texas 75038, telephone: 972-916-2380.

Neither the Company nor anyone else is making any representations or promises regarding the duration of your service, vesting of the RSUs, the value of the Shares or of these RSUs, or the Company's prospects. The Company is not providing any advice regarding tax consequences to you or your decisions regarding the RSUs; you agree to rely only upon your own personal advisors.

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THE RSUS OR THE SECURITIES THAT MAY BE RECEIVED UNDER THEM WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO IT THAT SUCH REGISTRATION IS NOT REQUIRED.

In addition to the Plan's terms and restrictions, the following terms and restrictions apply:

Vesting Schedule Your RSUs become nonforfeitable (“*Vested*”) as provided in the Award Notice, assuming that you remain an employee of the Company or a member of the Company's Board of Directors (the “*Board*”) through each Vesting Date. For purposes of this Award Agreement, employment with the Company will include employment with any Affiliate whose employees are then eligible to receive awards under the Plan. Unless the Compensation Committee (the “*Committee*”) of the Board determines otherwise, if an entity employing you ceases to be an Affiliate, your employment with the Company will be treated as ended even though you continue to be employed by that entity.

Unless otherwise specified in your employment or separation agreement, if your employment or service ends as a result of your disability, your RSUs will become fully vested on your termination of employment. For this purpose “*disability*” means permanent and total disability as defined by Section 22(e)(3) of the Internal Revenue Code. Unless otherwise specified in your employment or separation agreement, if your employment ends as a result of your death, your RSUs (including the Performance RSUs) will immediately vest in full upon your death.

If your employment or service ends as a result of Retirement, you will be treated as continuing in service for vesting purposes until the earlier to occur of (i) the second anniversary of your Retirement and (ii) the last of the applicable Vesting Dates (the “*Retirement Period*”). Unless determined by the Committee otherwise, any unvested RSUs on the last day of the Retirement Period shall be forfeited. “*Retirement*” for the purpose of this Award Agreement means cessation of employment or service on or after attaining age 60 and completing five years of service with the Company.

Change in Control In addition to any terms and conditions under your employment or separation agreement, if applicable, in the event a Change in Control occurs, the RSUs, including any Performance RSUs, will be treated as provided in Section 11 of the Plan (and, if applicable, your employment or separation agreement) if within 24 months following the Change in Control, your employment or service ends on (i) a termination without Gross Misconduct, (ii) a resignation for good reason as specified under your employment agreement, if applicable, or (iii) Retirement.

Termination due to Misconduct If the Company terminates your employment or service for Gross Misconduct, the RSUs will immediately terminate without regard to whether they are then Vested in whole or in part. “*Gross Misconduct*” for purposes of this Award Agreement: (i) shall have the same meaning as “cause” in your employment or separation agreement if you have an employment or separation agreement with the Company and cause is defined in such agreement; or (ii) if you do not have an employment or separation agreement or your agreement does not define cause, “gross misconduct” shall mean the occurrence of one of the following events: (A) your conviction or plea of guilty or nolo contendere to any felony (or to a felony charge reduced to a misdemeanor) or with respect to your employment to any misdemeanor (other than a traffic violation), (B) theft or embezzlement of assets of the Company or an Affiliate, or (C) violation of the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Plan participant is a party, including the terms of Appendix A.

Distribution Date Subject to any overriding provisions in the Plan, you will receive a distribution of the shares of common stock of the Company (“*Shares*”) equivalent to your Vested RSU Shares as soon as practicable following the date(s) on which they become Vested (with the actual date being the “*Distribution Date*”) and, in any event, no later than 30 days following an applicable Vesting Date, unless the Committee determines that you may make a timely deferral election to defer distribution to a later date and you have made such an election (in which case the deferred date will be the “*Distribution Date*”).

Vesting that accelerates after a Change in Control will only accelerate the Distribution Date if and to the extent permitted under Section 409A of the Internal Revenue Code (“*Section 409A*”).

Restrictions and Forfeiture You may not sell, assign, pledge, encumber, or otherwise transfer any interest (“*Transfer*”) in the RSUs or RSU Shares until the RSU Shares are distributed to you. Any attempted Transfer that precedes the Distribution Date is invalid.

Unless otherwise specified in your employment or separation agreement, this Award Agreement, or the Committee determines otherwise, if your employment or service with the Company terminates for any reason before your RSUs are Vested, then you will forfeit the unvested RSUs (and the Shares to which they relate) to the extent that the RSUs do not otherwise vest as a result of the termination in accordance with the rules in the **Vesting Schedule** section above. The forfeited RSUs will then immediately revert to the Company. You will receive no payment for the RSUs if you forfeit them.

Taxes and Withholding The RSUs provide tax deferral, meaning that the RSU Shares are not taxable until you actually receive the RSU Shares on or around the Distribution Date. You will then owe taxes at ordinary income tax rates as of the Distribution Date at the Shares' value. As an employee of the Company, you may owe FICA and HI (Social Security and Medicare) taxes *before* the Distribution Date.

The issuance of Shares under the RSUs is contingent on satisfaction of all obligations with respect to required tax or other required withholdings (for example, in the United States, any applicable Federal, state, and local taxes). The Company may take any action permitted under Section 14(c) of the Plan to satisfy such obligation, including, as permitted by the Committee, satisfying the tax obligations by (i) reducing the number of RSU Shares to be issued to you by that number of Shares (valued at their Fair Market Value on the date of distribution) that would equal all taxes required to be withheld (at their minimum withholding levels, except as otherwise permitted by the Committee or the Board), (ii) accepting payment of the withholdings directly from you or from a broker in connection with a sale of the RSU Shares, or (iii) taking any other action under Section 14(c) of the Plan.

Compliance with Law The Company will not issue the RSU Shares if doing so would violate any applicable Federal or state securities laws or other laws or regulations. You may not sell or otherwise dispose of the RSU Shares in violation of applicable law.

**Additional
Conditions to
Receipt**

The Company may postpone issuing and delivering any RSU Shares for so long as the Company determines to be advisable to satisfy the following:

its completing or amending any securities registration or qualification of the RSU Shares *or* its or your satisfying any exemption from registration under any Federal or state law, rule, or regulation;

its receiving proof it considers satisfactory that a person seeking to receive the RSU Shares after your death is entitled to do so;

your complying with any requests for representations under the Plan; and/or

your complying with any Federal, state, or local tax withholding obligations.

**Additional
Representations
from You**

If the vesting provisions of the RSUs are satisfied and you are entitled to receive RSU Shares at a time when the Company does not have a current registration statement (generally on Form S-8) under the Securities Act of 1933 (the “*Act*”) that covers issuances of shares to you, you must comply with the following before the Company will issue the RSU Shares to you. You must —

represent to the Company, in a manner satisfactory to the Company’s counsel, that you are acquiring the RSU Shares for your own account and not with a view to reselling or distributing the RSU Shares; and

agree that you will not sell, transfer, or otherwise dispose of the RSU Shares unless:

a registration statement under the Act is effective at the time of disposition with respect to the RSU Shares you propose to sell, transfer, or otherwise dispose of; or

the Company has received an opinion of counsel or other information and representations it considers satisfactory to the effect that, because of Rule 144 under the Act or otherwise, no registration under the Act is required.

**No Effect on
Employment or
Other
Relationship**

Nothing in this Award Agreement restricts the Company’s rights or those of any of its Affiliates to terminate your employment or other relationship at any time and for any or no reason. The termination of employment or other relationship, whether by the Company or any of its Affiliates or otherwise, and regardless of the reason for such termination, has the consequences provided for under the Plan and any applicable employment or severance agreement or plan.

Limited Status

You understand and agree that the Company will not consider you a shareholder for any purpose with respect to the RSU Shares, unless and until the RSU Shares have been issued to you on the Distribution Date. You will not receive dividends with respect to the RSUs, but the Company will credit additional whole or fractional RSUs to this grant equal to the result of dividing (i) the product of the total number of RSUs credited to you under this grant on the record date for such dividend (and not yet distributed in Shares) and the per share amount of such dividend by (ii) the Fair Market Value of one Share on the date such dividend is paid by the Company to shareholders. The additional RSUs will be or become Vested to the same extent as the RSUs that resulted in the crediting of such additional units and may be paid out in cash or Shares under the timing rules provided in Section 8(e) of the Plan.

Voting	You may not vote the RSUs. You may not vote the RSU Shares unless and until the Shares are distributed to you or for your account.
No Effect on Running Business	You understand and agree that the existence of the RSUs will not affect in any way the right or power of the Company or its shareholders to make or authorize any adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stock, with preference ahead of or convertible into, or otherwise affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether or not of a similar character to those described above.
Section 409A	The RSUs are intended to comply with the requirements of Section 409A and must be construed consistently with that section. Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the RSUs Vest in connection with your "separation from service" within the meaning of Section 409A, as determined by the Company, and if (x) you are then a "specified employee" within the meaning of Section 409A at the time of such separation from service (as determined by the Company, by which determination you agree you are bound) and (y) the distribution of RSU Shares under such RSUs will result in the imposition of additional tax under Section 409A if distributed to you within the six month period following your separation from service, then the distribution under such accelerated RSUs will not be made until the earlier of (i) the date six months and one day following the date of your separation from service or (ii) the 10th day after your date of death. Neither the Company nor you shall have the right to accelerate or defer the delivery of any such RSU Shares or benefits except to the extent specifically permitted or required by Section 409A. In no event may the Company or you defer the delivery of the RSU Shares beyond the date specified in the Distribution Date section, unless such deferral complies in all respects with Treasury Regulation Section 1.409A-2(b) related to subsequent changes in the time or form of payment of nonqualified deferred compensation arrangements, or any successor regulation. <i>In any event, the Company makes no representations or warranty and shall have no liability to you or any other person, if any provisions of or distributions under this Award Agreement are determined to constitute deferred compensation subject to Section 409A but not to satisfy the conditions of that section.</i>
Unsecured Creditor	The RSUs create a contractual obligation on the part of the Company to make a distribution of the RSU Shares at the time provided for in this Award Agreement. Neither you nor any other party claiming an interest in deferred compensation hereunder shall have any interest whatsoever in any specific assets of the Company. Your right to receive distributions hereunder is that of an unsecured general creditor of Company.
Governing Law	The laws of the State of Delaware will govern all matters relating to the RSUs without regard to the principles of conflict of laws, except as otherwise specified herein or in an appendix attached hereto.

Clawbacks	The Committee may cancel these RSUs if you have engaged in or are engaging in activity that is in conflict with or adverse to the interest of the Company while employed by or providing services to the Company or any subsidiary, including fraud or conduct contributing to any financial restatements or irregularities. The Committee may cause you to forfeit any compensation, gain or other value realized thereafter on the vesting or settlement of these RSUs or the sale of Shares acquired in respect of the RSUs, and must promptly repay such amounts to the Company. You agree that the Committee may require you to promptly repay to the Company any amount in excess of what you should have received under the terms of the RSUs for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error). Furthermore, to the extent required by applicable law (including, without limitation, Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of NASDAQ or any other securities exchange or inter-dealer quotation service on which the Shares are listed or quoted, or if so required pursuant to a written policy adopted by the Company, these RSUs shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements.
Restrictive Covenants	Attached to this Award Agreement is <u>Appendix A</u> regarding your applicable “ <i>Restrictive Covenants</i> ” (as defined therein). Your confirmation of receipt of these RSUs provides your consent to the Restrictive Covenants and to the additional clawback rules set forth in <u>Appendix A</u> .
Notices	Unless the Company specifies another method of transmitting notice, any notice to the Company under this Award Agreement must be sent in writing, by hand or by mail, to the office of the Company’s Corporate Secretary at the Company’s then corporate headquarters. The Company will address any notices to you using its standard electronic communications methods, or to your current office or home address, as reflected in the Company’s personnel or other business records. You and the Company may change the address for notice by like notice to the other, and the Company may also change the address for notice by general announcements to the Plan participants.
Amendment	The Committee may amend the RSUs without your consent provided that it concludes such amendment is not materially adverse to you, is required for compliance with Section 409A, or is permitted under Section 12 of the Plan.
Plan Governs	Wherever a conflict may arise between the terms of this Award Agreement and the terms of the Plan, the terms of the Plan will control. The Committee may adjust the number of RSU Shares and other terms of the RSUs from time to time as the Plan provides.
Electronic Execution of Award Agreement	You, by your electronic execution of this Award Agreement, agree to the terms and conditions contained herein, including the terms set forth in <u>Appendix A</u> [and, if applicable, <u>Appendix B</u>], and further agree to execute any documents requested by the Company required to effect the conversion of the RSUs into Shares.

Appendix A

Restrictive Covenants

<Insert Applicable Restrictive Covenants>

Appendix B

Performance RSUs for Executive Vice Presidents and Senior Vice Presidents

<Insert Applicable Vesting Schedule>

2016 NQSO Award Notice and Agreement

NONQUALIFIED STOCK OPTION AWARD NOTICE

HMS Holdings Corp.
2016 Omnibus Incentive Plan

Dear <Participant Name> ,

Congratulations, HMS Holdings Corp. (the “ *Company* ”) has granted you a stock option award under the Company’s 2016 Omnibus Incentive Plan, as it may be amended from time to time (the “ *Plan* ”). A stock option gives you the right to purchase a specific number of shares of the Company’s common stock at a fixed price, assuming that you satisfy the terms and conditions of the Plan and the attached implementing Nonqualified Stock Option Award Agreement (the “ *Award Agreement* ”). We would like you to have an opportunity to share in the success of the Company through this stock option award under the Plan. The following represents a brief description of your individual award.

Stock Option Award Summary:

Date of Grant	<Date>
Option Shares	<Number of Shares Covered by the Option Granted>
Option Exercise Price per Share	\$ _____
Exercisability	_____ . Each of those dates is an “ <i>Exercisability Date</i> .”
Option Expiration Date	<Date of tenth anniversary of the Date of Grant>

- You have been granted a nonqualified stock option (the “ **Option** ”) to purchase shares of the Company’s common stock (“ **Shares** ”). The total number of Shares covered by the Option granted to you is in the chart above under “ **Option Shares** ” and the price per share is under “ **Option Exercise Price per Share** .”
- The potential value of your stock option award increases if the price of the Company’s stock increases, but you also have to continue to provide services to the Company (except as the Award Agreement provides) to actually receive such value. Of course, the value of the stock may go up and down over time.
- You cannot exercise the Option (actually purchase Shares) until it becomes exercisable. Your stock option becomes exercisable as provided in the chart above under “ **Exercisability** ,” assuming you remain a member of the Board of Directors of the Company or an employee of the Company through each Exercisability Date and subject to the terms in the Award Agreement.
- Additional details regarding your stock option award are provided in the Plan and the Award Agreement.
- Whether or not you decide to exercise your stock option and purchase the Shares is your decision, and you have until the stock option expires (which will be no later than the *tenth* anniversary of the “ **Date of Grant** ” but can end earlier in various situations) to make that decision.
- Once you have purchased the Shares, you will own them and may decide whether to hold the stock, sell the stock or give the stock to someone as a gift.

You can access the Merrill Lynch website, including updates and additional information at:

<https://www29.benefits.ml.com/login/login.aspx> . Please email EquityAdministration@hms.com with any questions regarding the Merrill Lynch website.

**NONQUALIFIED STOCK OPTION AWARD AGREEMENT
FOR NON-EMPLOYEE DIRECTORS**

**HMS Holdings Corp.
2016 Omnibus Incentive Plan**

HMS Holdings Corp. (the “*Company*”) has granted you, the individual named in the attached Nonqualified Stock Option Award Notice (the “*Award Notice*”), an option (the “*Option*”) to purchase from the Company a specific number of shares of the Company’s common stock (“*Shares*”) at a specified price per Share (the “*Option Exercise Price*”) under the HMS Holdings Corp. 2016 Omnibus Incentive Plan (as it may be amended from time to time) (the “*Plan*”), the terms of which are incorporated by reference herein in their entirety. The Option is subject in all respects to the applicable provisions of the Plan, the Award Notice and this Nonqualified Stock Option Award Agreement (the “*Award Agreement*”). Any term used in this Award Agreement that is not specifically defined herein or in the Award Notice shall have the meaning specified in the Plan.

Please refer to the attached Award Notice for individualized details regarding your stock Option award, including the Date of Grant, the total number of Shares covered by the Option granted to you (the “*Option Shares*”), the Option Exercise Price per Share, the schedule for Exercisability and applicable Exercisability Dates, and the latest date the Option will expire (the “*Option Expiration Date*”).

The Plan document and the Prospectus for the Plan are available on the Merrill Lynch website. The Company’s Registration Statement on Form S-8, the Company’s Annual Report on Form 10-K, and other filings the Company makes with the Securities and Exchange Commission are available for your review under the Investor Relations tab on the Company’s web site (<http://investor.hms.com/financials.cfm>). You may also obtain paper copies of these documents, without charge, upon request to the Company’s Corporate Secretary, 5615 High Point Drive, Irving, Texas 75038, telephone: 972-916-2380.

Neither the Company nor anyone else is making any representations or promises regarding the duration of your service, exercisability of the Option, the value of the Shares or of this Option, or the Company's prospects. The Company is not providing any advice regarding tax consequences to you or your decisions regarding the Option; you agree to rely only upon your own personal advisors.

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THE OPTION OR THE SECURITIES THAT MAY BE PURCHASED UPON EXERCISING THE OPTION WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO IT THAT SUCH REGISTRATION IS NOT REQUIRED.

In addition to the Plan's terms and restrictions, the following terms and restrictions apply:

Option Exercisability While the Option remains in effect under the **Option Expiration** section below, you may exercise any exercisable portions of the Option (and buy the Option Shares) under the timing rules of this section.

The Option will become vested and exercisable according to the schedule provided in the Award Notice assuming that you remain a member of the Company's Board of Directors (the "**Board**") or an employee of the Company through each Exercisability Date, as designated by the Compensation Committee (the "**Committee**") of the Board.

Unless otherwise determined by the Committee, if your service with the Board ends as a result of your disability or death, the Option will become vested and fully exercisable on your termination of service. For this purpose, "**disability**" means permanent and total disability as defined by Section 22(e)(3) of the Internal Revenue Code.

If your service ends as a result of Retirement, you will be treated as continuing in service for vesting purposes and the portion of the Option that was exercisable on the date of Retirement shall remain exercisable until (i) the earlier to occur of second anniversary of your Retirement and (ii) the Option Expiration Date. "**Retirement**" for the purpose of this Award Agreement means cessation of service on or after attaining age 60 and completing five years of service with the Company.

Change in In the event a Change in Control occurs, the Option will be treated as provided in Section 11 of the Plan if within 24 months following the Change in Control, your service ends on a termination without Gross Misconduct, provided also that the Option will remain outstanding for twelve months following such termination but not beyond the Option Expiration Date.

Option Expiration The Option will expire no later than the close of business on the Option Expiration Date. Unless the Committee determines otherwise, unexercisable portions of the Option expire immediately when you cease to be a Director (unless you are concurrently remaining or becoming an employee, or, for an employee, concurrently remaining or becoming a member of the Board). If the Company terminates your service for Gross Misconduct, the Option will immediately expire without regard to whether it is then exercisable. "**Gross Misconduct**" for purposes of this Award Agreement shall mean the occurrence of one of the following events: (A) your conviction or plea of guilty or nolo contendere to any felony (or to a felony charge reduced to a misdemeanor), (B) theft or embezzlement of assets of the Company or an Affiliate, or (C) violation of the terms of any non-competition, non-disclosure, confidentiality or similar obligation or agreement with respect to the Company or any Affiliate to which the Plan participant is a party.

Exercisable portions of the Option remain exercisable until the first to occur of the following (the "**Final Exercise Date**"), each as defined further in the Plan or this Award Agreement:

- Three months (measured to the corresponding date in the month) after your employment (or directorship) ends if you resign or if the Company terminates your employment or service without Gross Misconduct, except as provided above under the **Change in Control** section ;

- For death or disability, the first anniversary of the date employment or service ends;
- For Retirement, the end of the second year following your date of Retirement; or
- The Option Expiration Date.

The Committee can override the expiration provisions of this Award Agreement as provided in Section 6(b) of the Plan (including without limitation as a result of a legal prohibition on exercise or an applicable “black-out period” or “lock-up” agreement).

Method of Exercise and Payment for Shares

Subject to this Award Agreement and the Plan, you may exercise the Option only by providing a written notice (or notice through another previously approved method, which could include a voice- or web-based, other electronic, or e-mail system) to the Corporate Secretary of the Company or the Corporate Secretary’s designee, received on or before the date the Option expires. Each such notice must satisfy whatever then-current procedures apply to that Option and must contain such representations (statements from you about your situation) as the Company requires. You must, at the same time, pay the Option Exercise Price using one or more of the following methods:

- Cash/ Check** by cash or check in the amount of the Option Exercise Price payable to the order of the Company;
- Cashless Exercise** through an approved cashless exercise method, including directing the Company to send the stock certificates (or other acceptable evidence of ownership) to be issued under the Option to a licensed broker acceptable to the Company as your agent in exchange for the broker’s tendering to the Company cash (or acceptable cash equivalents) equal to the Option Exercise Price and, if you so elect, any required tax withholdings;
- Net Exercise** by delivery of a notice of “net exercise” to us or as directed by the Company, as a result of which you will receive (i) the number of Shares underlying the portion of the Option being exercised less (ii) such number of shares as is equal to (x) the aggregate Option Exercise Price for the portion of the Option being exercised divided by (y) the Fair Market Value on the date of exercise;
- Stock** if permitted by the Committee, by delivery of Shares that you already own having a Fair Market Value equal to the Option Exercise Price on the date of exercise, provided that (i) applicable law then permits such method of payment, (ii) you owned such Shares, if acquired directly from the Company, for such minimum period of time, if any, as the Committee may establish in its discretion, and (iii) the Shares are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar restrictions; or
any combination of the above permitted forms for payment.

Withholding

The issuance of the Option Shares is contingent on satisfaction of all obligations with respect to required tax or other required withholdings (for example, in the United States, any applicable Federal, state, and local taxes). The Company may take any action permitted under Section 14(c) of the Plan to satisfy such obligation, including, as permitted by the Committee, satisfying the tax obligations by (i) reducing the number of Option Shares to be issued to you in connection with any exercise of such Option by the number of Option Shares (valued at their Fair Market Value on the date of exercise) that would equal all taxes required to be withheld (at their minimum withholding levels, except as otherwise permitted by the Committee or the Board), (ii) accepting payment of the withholdings directly from you or from a broker in connection with a Cashless Exercise of the Option (as set forth above under **Cashless Exercise**), or (iii) taking any other action under Section 14(c) of the Plan.

Compliance with Law

You may not exercise the Option if the Company's issuing stock upon such exercise would violate any applicable Federal or state securities laws or other laws or regulations. You may not sell or otherwise dispose of the Option Shares in violation of applicable law. As part of this prohibition, you may not use the Cashless Exercise methods if the Company's insider trading policy then prohibits you from selling to the market.

Additional Conditions to Exercise

The Company may postpone issuing and delivering any Option Shares for so long as the Company determines to be advisable to satisfy the following:

its completing or amending any securities registration or qualification of the Option Shares *or* its or your satisfying any exemption from registration under any Federal or state law, rule, or regulation;

its receiving proof it considers satisfactory that a person seeking to exercise the Option after your death is entitled to do so;

your complying with any requests for representations under the Plan; and/or

your complying with any Federal, state, or local tax withholding obligations.

Additional Representations from You

If you exercise the Option at a time when the Company does not have a current registration statement (generally on Form S-8) under the Securities Act of 1933 (the "*Act*") that covers issuances of shares to you, you must comply with the following before the Company will issue the Option Shares to you. You must —

represent to the Company, in a manner satisfactory to the Company's counsel, that you are acquiring the Option Shares for your own account and not with a view to reselling or distributing the Option Shares; and

agree that you will not sell, transfer, or otherwise dispose of the Option Shares unless:

a registration statement under the Act is effective at the time of disposition with respect to the Option Shares you propose to sell, transfer, or otherwise dispose of; or

the Company has received an opinion of counsel or other information and representations it considers satisfactory to the effect that, because of Rule 144 under the Act or otherwise, no registration under the Act is required.

- No Effect on Employment Other Relationship** Nothing in this Award Agreement restricts the Company's rights or those of any of its Affiliates to terminate your employment or other relationship at any time **or** and for any or no reason. The termination of employment or other relationship, whether by the Company or any of its Affiliates or otherwise, and regardless of the reason for such termination, has the consequences provided for under the Plan and any applicable employment or severance agreement or plan.
- Not a Shareholder** You understand and agree that the Company will not consider you a shareholder for any purpose with respect to any of the Option Shares until you have exercised the Option, paid for the shares, and received evidence of ownership.
- No Effect on Running Business** You understand and agree that the existence of the Option will not affect in any way the right or power of the Company or its shareholders to make or authorize any adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stock, with preference ahead of or convertible into, or otherwise affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether or not of a similar character to those described above.
- Governing Law** The laws of the State of Delaware will govern all matters relating to the Option, without regard to the principles of conflict of laws.
- Clawbacks** The Committee may cancel this Option if you have engaged in or are engaging in activity that is in conflict with or adverse to the interest of the Company while employed by or providing services to the Company or any subsidiary, including fraud or conduct contributing to any financial restatements or irregularities. The Committee may cause you to forfeit any compensation, gain or other value realized thereafter on the vesting or exercise of the Option or the sale of Shares acquired under the Option, and must promptly repay such amounts to the Company. You agree that the Committee may require you to promptly repay to the Company any amount in excess of what you should have received under the terms of the Option for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error). Furthermore, to the extent required by applicable law (including, without limitation, Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of NASDAQ or any other securities exchange or inter-dealer quotation service on which the Shares are listed or quoted, or if so required pursuant to a written policy adopted by the Company, the Option shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements.
- Notices** Unless the Company specifies another method of transmitting notice, any notice to the Company under this Award Agreement must be sent in writing, by hand or by mail, to the office of the Company's Corporate Secretary at the Company's then corporate headquarters. The Company will address any notices to you using its standard electronic communications methods, or to your current office or home address, as reflected in the Company's personnel or other business records. You and the Company may change the address for notice by like notice to the other, and the Company may also change the address for notice by general announcements to the Plan participants.

- Amendment** The Committee may amend the Option without your consent provided that it concludes such amendment is not materially adverse to you, is required for compliance with Section 409A, or is permitted under Section 12 of the Plan.
- Plan Governs** Wherever a conflict may arise between the terms of this Award Agreement and the terms of the Plan, the terms of the Plan will control. The Committee may adjust the number of Option Shares, the Option Exercise Price, and other terms of the Option from time to time as the Plan provides.
- Electronic Execution of Award Agreement** You, by your electronic execution of this Award Agreement, agree to the terms and conditions contained herein and further agree to execute any documents requested by the Company required to effect the issuance of stock to you in connection with your exercise of the Option.

2016 RSU Award Notice and Agreement

RESTRICTED STOCK UNIT AWARD NOTICE

HMS Holdings Corp.
2016 Omnibus Incentive Plan

Dear <Participant Name> ,

Congratulations, HMS Holdings Corp. (the “*Company*”) has granted you restricted stock units (“*RSUs*”) under the Company’s 2016 Omnibus Incentive Plan, as it may be amended from time to time (the “*Plan*”). An RSU entitles you to receive a share of the Company’s common stock at a future date, assuming that you satisfy the terms and conditions of the Plan and the attached implementing Restricted Stock Unit Award Agreement (the “*Award Agreement*”). We would like you to have an opportunity to share in the success of the Company through this RSU award under the Plan. The following represents a brief description of your individual award.

Restricted Stock Unit Award Summary:

Date of Grant	<Date>
RSU Shares	<Number of Shares Covered by the RSUs Granted>
Vesting	. Each of those dates is a “ <i>Vesting Date</i> .”

- You have been granted RSUs for shares of the Company’s common stock (“*Shares*”) for the total number of Shares specified under “*RSU Shares*” in the chart above.
- The potential value of your RSUs increases if the price of the Company’s stock increases, but you also have to continue to provide services to the Company (except as the Award Agreement provides) to actually receive such value. Of course, the value of the stock may go up and down over time.
- You will not receive the Shares represented by the RSUs unless and until the RSUs vest. Your RSUs vest as provided in the chart above under “*Vesting*,” assuming you remain a member of the Board of Directors of the Company or an employee of the Company through each Vesting Date and subject to the terms in the Award Agreement.
- Once you have received the Shares, you will own them and may decide whether to hold the stock, sell the stock or give the stock to someone as a gift.
- Additional details regarding your RSU award are provided in the Plan and the Award Agreement.

You can access the Merrill Lynch website, including updates and additional information at:

<https://www29.benefits.ml.com/login/login.aspx>. Please email EquityAdministration@hms.com with any questions regarding the Merrill Lynch website.

**RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR NON-EMPLOYEE DIRECTORS**

**HMS Holdings Corp.
2016 Omnibus Incentive Plan**

HMS Holdings Corp. (the “*Company*”) has granted you, the individual named in the attached Restricted Stock Unit Award Notice (the “*Award Notice*”), restricted stock units (the “*RSUs*”) under the HMS Holdings Corp. 2016 Omnibus Incentive Plan (as it may be amended from time to time) (the “*Plan*”), the terms of which are incorporated by reference herein in their entirety. Each RSU lets you receive a share (an “*RSU Share*”) of the Company’s common stock (the “*Shares*”) and is subject in all respects to the applicable provisions of the Plan, the Award Notice and this Restricted Stock Unit Award Agreement (the “*Award Agreement*”). Any term used in this Award Agreement that is not specifically defined herein or in the Award Notice shall have the meaning specified in the Plan.

Please refer to the attached Award Notice for individualized details regarding your RSU award, including the Date of Grant, the total number of RSU Shares granted to you, and the schedule for Vesting and applicable vesting dates (the “*Vesting Dates*”).

The Plan document and the Prospectus for the Plan are available on the Merrill Lynch website. The Company’s Registration Statement on Form S-8, the Company’s Annual Report on Form 10-K, and other filings the Company makes with the Securities and Exchange Commission are available for your review under the Investor Relations tab on the Company’s web site (<http://investor.hms.com/financials.cfm>). You may also obtain paper copies of these documents, without charge, upon request to the Company’s Corporate Secretary, 5615 High Point Drive, Irving, Texas 75038, telephone: 972-916-2380.

Neither the Company nor anyone else is making any representations or promises regarding the duration of your service, vesting of the RSUs, the value of the Shares or of these RSUs, or the Company's prospects. The Company is not providing any advice regarding tax consequences to you or your decisions regarding the RSUs; you agree to rely only upon your own personal advisors.

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THE RSUS OR THE SECURITIES THAT MAY BE RECEIVED UNDER THEM WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO IT THAT SUCH REGISTRATION IS NOT REQUIRED.

In addition to the Plan's terms and restrictions, the following terms and restrictions apply:

- Vesting** Your RSUs become nonforfeitable (“*Vested*”) as provided in the Award Notice, **Schedule** assuming that you remain a member of the Company's Board of Directors (the “*Board*”) or an employee of the Company through each Vesting Date, as designated by the Compensation Committee (the “*Committee*”) of the Board.
- Unless otherwise determined by the Committee, if your service with the Board ends as a result of your disability, your RSUs will become fully vested. For this purpose “*disability*” means permanent and total disability as defined by Section 22(e)(3) of the Internal Revenue Code. Unless otherwise specified by the Committee, if your service ends as a result of your death, your RSUs will immediately vest in full upon your death.
- If your service ends as a result of Retirement, you will be treated as continuing in service for vesting purposes until the earlier to occur of (i) the second anniversary of your Retirement and (ii) the last of the applicable Vesting Dates. “*Retirement*” for the purpose of this Award Agreement means cessation of service on or after attaining age 60 and completing five years of service with the Company.
- Change in Control** In the event a Change in Control occurs, the RSUs will be treated as provided in Section 11 of the Plan if within 24 months following the Change in Control, your service ends on (i) a termination without Gross Misconduct or (ii) Retirement.
- Termination due to Misconduct** If the Company terminates your employment or service for Gross Misconduct, the RSUs will immediately terminate without regard to whether they are then Vested in whole or in part. “*Gross Misconduct*” for purposes of this Award Agreement shall mean the occurrence of one of the following events: (A) your conviction or plea of guilty or nolo contendere to any felony (or to a felony charge reduced to a misdemeanor), (B) theft or embezzlement of assets of the Company or an Affiliate, or (C) violation of the terms of any non-competition, non-disclosure, confidentiality or similar obligation or agreement with respect to the Company or any Affiliate to which the Plan participant is a party.
- Distribution Date** Subject to any overriding provisions in the Plan, you will receive a distribution of the shares of common stock of the Company (“*Shares*”) equivalent to your Vested RSU Shares as soon as practicable following the date(s) on which they become Vested (with the actual date being the “*Distribution Date*”) and, in any event, no later than 30 days following an applicable Vesting Date, unless the Committee determines that you may make a timely deferral election to defer distribution to a later date and you have made such an election (in which case the deferred date will be the “*Distribution Date*”).
- Vesting that accelerates after a Change in Control will only accelerate the Distribution Date if and to the extent permitted under Section 409A of the Internal Revenue Code (“*Section 409A*”).
- Restrictions and Forfeiture** You may not sell, assign, pledge, encumber, or otherwise transfer any interest (“*Transfer*”) in the RSUs or RSU Shares until the RSU Shares are distributed to you. Any attempted Transfer that precedes the Distribution Date is invalid.

Unless otherwise specified in your employment or separation agreement, this Award Agreement, or the Committee determines otherwise, if your employment or service with the Company terminates for any reason before your RSUs are Vested, then you will forfeit the unvested RSUs (and the Shares to which they relate) to the extent that the RSUs do not otherwise vest as a result of the termination in accordance with the rules in the **Vesting Schedule** section above. The forfeited RSUs will then immediately revert to the Company. You will receive no payment for the RSUs if you forfeit them.

Taxes and Withholding

The RSUs provide tax deferral, meaning that the RSU Shares are not taxable until you actually receive the RSU Shares on or around the Distribution Date. You will then owe taxes at ordinary income tax rates as of the Distribution Date at the Shares' value.

The issuance of Shares under the RSUs is contingent on satisfaction of all obligations with respect to required tax or other required withholdings (for example, in the United States, any applicable Federal, state, and local taxes). The Company may take any action permitted under Section 14(c) of the Plan to satisfy such obligation, including, as permitted by the Committee, satisfying the tax obligations by (i) reducing the number of RSU Shares to be issued to you by that number of Shares (valued at their Fair Market Value on the date of distribution) that would equal all taxes required to be withheld (at their minimum withholding levels, except as otherwise permitted by the Committee or the Board), (ii) accepting payment of the withholdings directly from you or from a broker in connection with a sale of the RSU Shares, or (iii) taking any other action under Section 14(c) of the Plan.

Compliance with Law

The Company will not issue the RSU Shares if doing so would violate any applicable Federal or state securities laws or other laws or regulations. You may not sell or otherwise dispose of the RSU Shares in violation of applicable law.

Additional Conditions to Receipt

The Company may postpone issuing and delivering any RSU Shares for so long as the Company determines to be advisable to satisfy the following:

its completing or amending any securities registration or qualification of the RSU Shares *or* its or your satisfying any exemption from registration under any Federal or state law, rule, or regulation;

its receiving proof it considers satisfactory that a person seeking to receive the RSU Shares after your death is entitled to do so;

your complying with any requests for representations under the Plan; and/or

your complying with any Federal, state, or local tax withholding obligations.

Additional Representations from You

If the vesting provisions of the RSUs are satisfied and you are entitled to receive RSU Shares at a time when the Company does not have a current registration statement (generally on Form S-8) under the Securities Act of 1933 (the "*Act*") that covers issuances of shares to you, you must comply with the following before the Company will issue the RSU Shares to you. You must —

represent to the Company, in a manner satisfactory to the Company's counsel, that you are acquiring the RSU Shares for your own account and not with a view to reselling or distributing the RSU Shares; and

agree that you will not sell, transfer, or otherwise dispose of the RSU Shares unless:

a registration statement under the Act is effective at the time of disposition with respect to the RSU Shares you propose to sell, transfer, or otherwise dispose of; or

the Company has received an opinion of counsel or other information and representations it considers satisfactory to the effect that, because of Rule 144 under the Act or otherwise, no registration under the Act is required.

**No Effect on
Employment or
Other
Relationship**

Nothing in this Award Agreement restricts the Company's rights or those of any of its Affiliates to terminate your employment or other relationship at any time and for any or no reason. The termination of employment or other relationship, whether by the Company or any of its Affiliates or otherwise, and regardless of the reason for such termination, has the consequences provided for under the Plan and any applicable employment or severance agreement or plan.

Limited Status

You understand and agree that the Company will not consider you a shareholder for any purpose with respect to the RSU Shares, unless and until the RSU Shares have been issued to you on the Distribution Date. You will not receive dividends with respect to the RSUs, but the Company will credit additional whole or fractional RSUs to this grant equal to the result of dividing (i) the product of the total number of RSUs credited to you under this grant on the record date for such dividend (and not yet distributed in Shares) and the per share amount of such dividend by (ii) the Fair Market Value of one Share on the date such dividend is paid by the Company to shareholders. The additional RSUs will be or become Vested to the same extent as the RSUs that resulted in the crediting of such additional units and may be paid out in cash or Shares under the timing rules provided in Section 8(e) of the Plan.

Voting

You may not vote the RSUs. You may not vote the RSU Shares unless and until the Shares are distributed to you or for your account.

**No Effect on
Running Business**

You understand and agree that the existence of the RSUs will not affect in any way the right or power of the Company or its shareholders to make or authorize any adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stock, with preference ahead of or convertible into, or otherwise affecting the Shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether or not of a similar character to those described above.

Section 409A

The RSUs are intended to comply with the requirements of Section 409A and must be construed consistently with that section. Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the RSUs Vest in connection with your "separation from service" within the meaning of Section 409A, as determined by the Company, and if (x) you are then a "specified employee" within the meaning of Section 409A at the time of such separation from service (as determined by the Company, by which determination you agree you are bound) and (y) the distribution of RSU Shares under such RSUs will result in the imposition of additional tax under Section 409A if distributed to you within the six month period following your separation from service, then the distribution under such accelerated RSUs will not be made until the earlier of (i) the date six months and one day following the date of your separation from service or (ii) the 10th day after your date of death. Neither the Company nor you shall have the right to accelerate or defer the delivery of any such RSU Shares or benefits except to the extent specifically permitted or required by Section 409A. In no event may the Company or you defer the delivery of the RSU Shares beyond the date specified in the **Distribution Date** section, unless such deferral complies in all respects with Treasury Regulation Section 1.409A-2(b) related to subsequent changes in the time or form of payment of nonqualified deferred compensation arrangements, or any successor regulation. *In any event, the Company makes no representations or warranty and shall have no liability to you or any other person, if any provisions of or distributions under this Award Agreement are determined to constitute deferred compensation subject to Section 409A but not to satisfy the conditions of that section.*

Unsecured Creditor	The RSUs create a contractual obligation on the part of the Company to make a distribution of the RSU Shares at the time provided for in this Award Agreement. Neither you nor any other party claiming an interest in deferred compensation hereunder shall have any interest whatsoever in any specific assets of the Company. Your right to receive distributions hereunder is that of an unsecured general creditor of Company.
Governing Law	The laws of the State of Delaware will govern all matters relating to the RSUs without regard to the principles of conflict of laws.
Clawbacks	The Committee may cancel these RSUs if you have engaged in or are engaging in activity that is in conflict with or adverse to the interest of the Company while employed by or providing services to the Company or any subsidiary, including fraud or conduct contributing to any financial restatements or irregularities. The Committee may cause you to forfeit any compensation, gain or other value realized thereafter on the vesting or settlement of these RSUs or the sale of Shares acquired in respect of the RSUs, and must promptly repay such amounts to the Company. You agree that the Committee may require you to promptly repay to the Company any amount in excess of what you should have received under the terms of the RSUs for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error). Furthermore, to the extent required by applicable law (including, without limitation, Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of NASDAQ or any other securities exchange or inter-dealer quotation service on which the Shares are listed or quoted, or if so required pursuant to a written policy adopted by the Company, these RSUs shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements.
Notices	Unless the Company specifies another method of transmitting notice, any notice to the Company under this Award Agreement must be sent in writing, by hand or by mail, to the office of the Company's Corporate Secretary at the Company's then corporate headquarters. The Company will address any notices to you using its standard electronic communications methods, or to your current office or home address, as reflected in the Company's personnel or other business records. You and the Company may change the address for notice by like notice to the other, and the Company may also change the address for notice by general announcements to the Plan participants.

- Amendment** The Committee may amend the RSUs without your consent provided that it concludes such amendment is not materially adverse to you, is required for compliance with Section 409A, or is permitted under Section 12 of the Plan.
- Plan Governs** Wherever a conflict may arise between the terms of this Award Agreement and the terms of the Plan, the terms of the Plan will control. The Committee may adjust the number of RSU Shares and other terms of the RSUs from time to time.
- Electronic Execution of Award Agreement** You, by your electronic execution of this Award Agreement, agree to the terms and conditions contained herein and further agree to execute any documents requested by the Company required to effect to effect the conversion of the RSUs into Shares.

Certification

I, William C. Lucia, certify that:

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

Date: November 9, 2016

/s/ WILLIAM C. LUCIA

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

Certification

I, Jeffrey S. Sherman, certify that:

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

Date: November 9, 2016

/s/ JEFFREY S. SHERMAN
Jeffrey S. Sherman
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of HMS Holdings Corp. (the “*Company*”) on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission (the “*Report*”), I, William C. Lucia, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ WILLIAM C. LUCIA

William C. Lucia

Chief Executive Officer

(Principal Executive Officer)

November 9, 2016

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

In connection with the Quarterly Report of HMS Holdings Corp. (the “*Company*”) on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission (the “*Report*”), I, Jeffrey S. Sherman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ JEFFREY S. SHERMAN

Jeffrey S. Sherman
Chief Financial Officer
(Principal Financial Officer)

November 9, 2016