

**The TriZetto Group, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Backlog**

Total backlog is defined as revenue we expect to generate in future periods from existing customer contracts. Our 12-month backlog is defined as the revenue we expect to generate from existing customer contracts over the next 12 months. Most of the revenue in our backlog is derived from multi-year recurring revenue contracts (including software hosting, business process outsourcing, IT outsourcing, and software maintenance). For purposes of calculating our backlog and based upon our previous experience, we assume software maintenance contracts will be renewed for a period of up to seven years. We classify revenue from software license and consulting contracts as non-recurring. Consulting revenue is included in the backlog when the revenue from such consulting contract will be recognized over a period exceeding 12 months.

**Non-GAAP Financial Measures**

In this press release and our other public statements in connection with this press release, we use the non-GAAP financial measure, "Adjusted EBITDA," as originally defined in our press release dated October 25, 2005. We define Adjusted EBITDA as net income, excluding the impact of interest expense, income taxes, depreciation and amortization, charges for facility closures and asset impairment, stock-based compensation expense and charges for expected future loss on contracts. We use Adjusted EBITDA to provide meaningful supplemental information regarding our operating performance and profitability by excluding certain expenses and expenditures that may not be indicative of our core business operating results. Because our capital structure, effective income tax rates, capitalized asset values and equity-based compensation levels are different than those of other companies, we believe that Adjusted EBITDA facilitates comparisons of our results of operations with those of other companies. Further, we believe that Adjusted EBITDA, which excludes certain factors which are not indicative of ongoing operations such as charges for facility closures, asset impairment and future loss on contracts, can assist management and investors in assessing the financial operating performance and underlying strength of our core business. We use Adjusted EBITDA in our cash bonus program to evaluate management's performance for compensation purposes, and we have agreed with our lender to maintain levels of an adjusted form of EBITDA as specified in financial covenants to our secured debt facility.

During the fourth quarter of 2003, we decided to wind-down our outsourcing services to physician group customers. In the second quarter of 2005, we executed termination agreements with our two remaining physician group customers. This resulted in the reversal of the remaining balance in our loss on contracts accrual of \$2.9 million. This amount was excluded from Adjusted EBITDA as it is not indicative of ongoing operations.

We also excluded from Adjusted EBITDA losses for facility closures of approximately \$79,000 in the first six months of 2006 and approximately \$1.1 million in the same period of 2005. The charges reflected our remaining payment obligations under lease agreements for closed facilities. Because the facilities were non-performing, we excluded the charges from Adjusted EBITDA as they were not indicative of our ongoing operations.

Additionally, during the first six months of 2006, we recognized gains of \$75,000 from the sale of our credentialing and verification business and \$180,000 from the sale of a domain name, which were eliminated from Adjusted EBITDA. We excluded these gains from Adjusted EBITDA as they related to a business we had decided to exit and a one-time sale of an asset and therefore are not indicative of our ongoing operations.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 123R, "Share-Based Payment." This statement requires that the cost

resulting from all share-based payment transactions be recognized in the financial statements. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified prospective method. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. Consistent with our definition noted above to exclude stock-based compensation expense, Adjusted EBITDA excludes the impact of the equity expense of SFAS 123R and other stock-based compensation expenses.

Adjusted EBITDA is not a recognized term under GAAP and should not be considered in isolation of, or as a substitute for, the information prepared and presented in accordance with GAAP. In addition, Adjusted EBITDA should not be considered as a measure of liquidity or free cash flow for management's discretionary use, as it excludes certain cash requirements such as interest expense, income taxes, costs to replace depreciated or amortized assets, costs arising from certain facility closures and losses on contracts. Because not all companies calculate Adjusted EBITDA identically, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. We compensate for these limitations by relying primarily on our GAAP results and use Adjusted EBITDA supplementally.

### Reconciliation of Non-GAAP Financial Measures

The following schedule provides a reconciliation of GAAP Net income to Adjusted EBITDA for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income	\$ 6,414	\$ 4,979	\$ 13,252	\$ 9,277
Interest (income) expense, net	(110)	(4)	(168)	166
Provision for income taxes	356	361	951	636
Operating depreciation and amortization	5,501	5,913	11,064	11,501
Amortization of other intangible assets	1,068	857	2,576	1,740
Stock-based compensation	2,016	293	3,544	544
Loss on contracts	—	(2,877)	—	(2,877)
Restructuring, impairment and other charges	79	550	4	1,111
Other income	—	—	(180)	—
Adjusted EBITDA	<u>\$ 15,324</u>	<u>\$ 10,072</u>	<u>\$ 31,043</u>	<u>\$ 22,098</u>

The following schedules provide a reconciliation of non-GAAP financial guidance for the periods indicated (in thousands, except per share amounts):

	Q3 2006 Guidance	
	<u>Low Range</u>	<u>High Range</u>
Adjusted EBITDA	\$ 15,500	\$ 18,000
Operating expenses		
Operating depreciation and amortization	(5,250)	(6,000)
Amortization of other intangible assets	(1,250)	(1,250)
Stock-based compensation	(1,750)	(2,000)
Interest and other income, net	—	(250)
Income taxes	(750)	(1,000)
	<u>(9,000)</u>	<u>(10,500)</u>
Net income	<u>\$ 6,500</u>	<u>\$ 7,500</u>
Net income per share:		
Diluted	\$ 0.14	\$ 0.16
Weighted average shares outstanding:		
Diluted	46,000	46,000

	2006 Guidance	
	<u>Low Range</u>	<u>High Range</u>
Adjusted EBITDA	\$ 63,000	\$ 67,000
Operating expenses		
Operating depreciation and amortization	(22,000)	(23,250)
Amortization of other intangible assets	(5,250)	(5,250)
Stock-based compensation	(7,250)	(7,250)
Interest and other income, net	(500)	(750)
Income taxes	<u>(2,500)</u>	<u>(3,000)</u>
	(37,500)	(39,500)
Net income	<u>\$ 25,500</u>	<u>\$ 27,500</u>
Net income per share:		
Diluted	\$ 0.55	\$ 0.60
Weighted average shares outstanding:		
Diluted	46,000	46,000