

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

Backlog

Total backlog is defined as the 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 service revenue contracts (including software hosting, business process outsourcing, IT outsourcing, and software maintenance with periods up to seven years) and consulting contracts. Consulting revenue is included in the backlog when the revenue from such consulting contract is expected to be recognized over a period exceeding 12 months.

Non-GAAP Financial Measures

Recurring and Non-recurring Revenue

In this press release and our other public statements in connection with this press release, we use the non-GAAP financial measures, "Recurring" and "Non-recurring" revenue. Recurring revenue includes the provision of outsourcing services, such as software hosting and other business services, and the sale of maintenance and support for our software products. Also included in recurring revenue are sales from the licensing of our software for which customers do not receive a perpetual right to use the software. Non-recurring revenue includes sales from the licensing of our software for which customers pay a one-time fee to receive a perpetual right to use the software. Non-recurring revenue also includes consulting fees and other revenue.

Adjusted EBITDA

In this press release and our other public statements in connection with this press release, we use the non-GAAP financial measure, "Adjusted EBITDA." We define Adjusted EBITDA as net income, excluding the impact of interest expense, income taxes, depreciation and amortization, charges for legal settlements, 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 legal settlements, 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.

We also excluded from Adjusted EBITDA a gain from the sale of our credentialing and verification business of \$11,000 in the first quarter of 2007 and \$75,000 in the same period of 2006. We excluded this gain from Adjusted EBITDA as it related to a business we had decided to exit and therefore is not indicative of our ongoing operations.

Additionally, in the first quarter of 2006, we recognized a gain of \$180,000 from the sale of a domain name, which was eliminated from Adjusted EBITDA. We excluded this gain from Adjusted EBITDA as it related to a one-time sale of an asset and therefore is 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 revenue information as it would be reported if we were to use the terms Recurring and Non-recurring revenue for the periods indicated (in thousands):

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Revenue		
Recurring revenue	\$ 57,224	\$ 43,710
Non-recurring revenue	<u>56,279</u>	<u>41,608</u>
Total revenue	<u>\$ 113,503</u>	<u>\$ 85,318</u>

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

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Net income	\$ 5,896	\$ 6,838
Interest expense (income), net	1,888	(58)
Provision for income taxes	4,363	595
Operating depreciation and amortization	5,732	5,563
Amortization of acquired technology	1,710	1,215
Amortization of acquired other intangible assets	1,301	293
Stock-based compensation	2,912	1,528
Restructuring, impairment and other charges	(11)	(75)
Other income	<u>—</u>	<u>(180)</u>
Adjusted EBITDA	<u>\$ 23,791</u>	<u>\$ 15,719</u>

The following schedule provides, for the periods indicated, a reconciliation of gross margin to gross margin excluding amortization of acquired technology and intangibles (in thousands):

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Total revenue	\$ 113,503	\$ 85,318
Gross profit	\$ 55,188	\$ 38,989
Amortization of acquired technology	1,710	1,215
Amortization of acquired other intangible assets	<u>1,301</u>	<u>293</u>
Gross profit, excluding amortization of acquired technology and intangibles	<u>\$ 58,199</u>	<u>\$ 40,497</u>
Gross margin	<u>48.6%</u>	<u>45.7%</u>
Gross margin, excluding amortization of acquired technology and intangibles	<u>51.3%</u>	<u>47.5%</u>

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

	2007 Guidance	
	<u>Low Range</u>	<u>High Range</u>
Adjusted EBITDA	\$88,000	\$98,000
Operating expenses		
Operating depreciation and amortization	(\$25,000)	(\$24,000)
Amortization of acquired technology	(\$5,500)	(\$5,500)
Amortization of acquired other intangible assets	(\$7,000)	(\$7,000)
Stock-based compensation	(\$11,000)	(\$12,000)
Interest and other, net	(\$3,500)	(\$3,000)
Income taxes	<u>(\$14,500)</u>	<u>(\$18,500)</u>
	(\$66,500)	(\$70,000)
Net income	<u>\$21,500</u>	<u>\$28,000</u>

	Q2 2007 Guidance	
	<u>Low Range</u>	<u>High Range</u>
Adjusted EBITDA	\$21,000	\$25,000
Operating expenses		
Operating depreciation and amortization	(\$6,750)	(\$6,500)
Amortization of acquired technology	(\$1,700)	(\$1,700)
Amortization of acquired other intangible assets	(\$1,300)	(\$1,300)
Stock-based compensation	(\$3,000)	(\$3,000)
Interest and other, net	(\$750)	(\$500)
Income taxes	<u>(\$3,000)</u>	<u>(\$4,750)</u>
	(\$16,500)	(\$17,750)
Net income	<u>\$4,500</u>	<u>\$7,250</u>