

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), term software license fees, 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 consulting fees and other revenue. Also included in non-recurring revenue are sales from the licensing of our software for which customers pay a one-time fee to receive a perpetual right to use the software. We use Recurring Revenue and Non-recurring Revenue to provide valuable supplemental information to our investors regarding our operating performance. Recurring Revenue and Non-recurring Revenue are not recognized terms under GAAP and should not be considered in isolation of, or as a substitute for, the information prepared and presented in accordance with GAAP. Because not all companies calculate Recurring Revenue and Non-recurring Revenue identically, our definitions of Recurring Revenue and Non-recurring Revenue may not be comparable to similarly titled measures of other companies. We compensate for these limitations by relying primarily on our GAAP results and using Recurring Revenue and Non-recurring Revenue supplementally.

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," 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 legal settlements, charges for facility closures and asset impairment, stock-based compensation expense, charges for expected future loss on contracts and changes in the fair value of derivative liabilities. 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, future loss on contracts and changes in the fair value of derivative liabilities 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 \$23,000 in 2007 and \$75,000 for the same period in 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. This was offset by a \$132,000 software impairment charge and \$196,000 loss on asset disposal in 2007. In addition, we recorded a \$187,000 loss for facility closure in 2006. 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.

In the third quarter of 2006, we entered into a settlement agreement with McKesson Information Solutions LLC ("McKesson") to settle a lawsuit. As part of the settlement agreement, TriZetto agreed to pay McKesson a one-time royalty fee of \$15 million for a license in a patent that covers past and future use of TriZetto products and services by all existing TriZetto customers. We excluded this one-time charge from Adjusted EBITDA as it was not indicative of our ongoing operations.

Additionally, in 2007, we recorded a change in the fair value of derivative liabilities related to our convertible debt offering, resulting in a net gain to net income of approximately \$403,000. It was determined that upon execution of the combined agreements, we did not have sufficient authorized and unissued shares available to settle all of our commitments that may require the issuance of stock during the maximum period the commitments could remain outstanding. As a result, warrants to purchase approximately 3.0 million shares of TriZetto's common stock did not meet the definition of an equity instrument and were recorded as a derivative financial instrument liability. Such warrants were recorded at fair value upon purchase and were subsequently marked to fair value through earnings in the second quarter of 2007. Subsequently, the Company amended the warrant agreements which eliminated the requirement to classify the warrants as a derivative liability and the fair value of the liability at July 26, 2007 was reclassified to stockholders' equity. Due to the decrease in the underlying fair value of the derivative instruments from July 1, 2007 to July 26, 2007, the Company recorded a gain in the third quarter of 2007.

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 December 31,		Twelve Months Ended December 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue				
Recurring revenue	\$ 60,271	\$45,363	\$ 234,601	\$ 175,505
Non-recurring revenue	<u>56,276</u>	<u>43,109</u>	<u>217,190</u>	<u>172,432</u>
Total revenue	<u>\$ 116,547</u>	<u>\$ 88,472</u>	<u>\$ 451,791</u>	<u>\$ 347,937</u>

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net income	\$ 8,950	\$ 7,546	\$ 28,102	\$ 15,115
Interest expense (income), net	832	(201)	3,845	(481)
Provision for income taxes	6,041	1,646	18,112	2,494
Operating depreciation and amortization	6,158	5,572	24,335	22,237
Amortization of acquired technology	1,421	1,030	5,675	4,120
Amortization of acquired other intangible assets	1,383	213	5,427	867
Stock-based compensation	2,969	1,961	11,313	7,426
Restructuring, impairment and other charges	328	12	305	112
Legal settlement	—	—	—	15,000
Change in fair value of derivative liabilities	—	—	(403)	—
Other income	—	—	—	(180)
Adjusted EBITDA	<u>\$ 28,082</u>	<u>\$ 17,779</u>	<u>\$ 96,711</u>	<u>\$ 66,710</u>

The following schedule provides the calculation of Net Cash provided by Operating Activities per Basic and Diluted Shares Outstanding for the periods indicated (in thousands, except per share data):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net cash provided by operating activities	\$35,458	\$ 14,062	\$ 62,050	\$ 40,154
Weighted average shares outstanding:				
Basic	<u>44,341</u>	<u>42,744</u>	<u>44,392</u>	<u>42,389</u>
Diluted	<u>62,166</u>	<u>46,273</u>	<u>59,366</u>	<u>45,691</u>
Net cash provided by operating activities per share:				
Basic	<u>\$ 0.80</u>	<u>\$ 0.33</u>	<u>\$ 1.40</u>	<u>\$ 0.95</u>
Diluted	<u>\$ 0.57</u>	<u>\$ 0.30</u>	<u>\$ 1.05</u>	<u>\$ 0.88</u>

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

	2008 Guidance	
	<u>Low Range</u>	<u>High Range</u>
Adjusted EBITDA	\$115,000	\$122,000
Operating expenses		
Operating depreciation and amortization	(23,500)	(23,500)
Amortization of acquired technology	(5,600)	(5,600)
Amortization of acquired other intangible assets	(5,400)	(5,400)
Stock-based compensation	(13,500)	(13,500)
Interest and other, net	(3,300)	(3,300)
Income taxes	(25,480)	(25,280)
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Net income	<u>\$38,220</u>	<u>\$42,420</u>

	Q1 2008 Guidance	
	<u>Low Range</u>	<u>High Range</u>
Adjusted EBITDA	\$19,000	\$25,000
Operating expenses		
Operating depreciation and amortization	(6,000)	(6,000)
Amortization of acquired technology	(1,400)	(1,400)
Amortization of acquired other intangible assets	(1,350)	(1,350)
Stock-based compensation	(3,100)	(3,100)
Interest and other, net	(700)	(700)
Income taxes	(2,580)	(4,980)
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Net income	<u>\$3,870</u>	<u>\$7,470</u>