

*Building Success
through Past Performance*

2012 Annual Report



CGSSM

A CELERIAN GROUP COMPANY



1960s



1960s



1970s



1970s



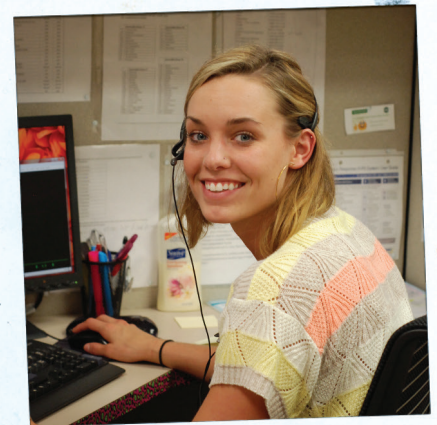
1980s



1990s

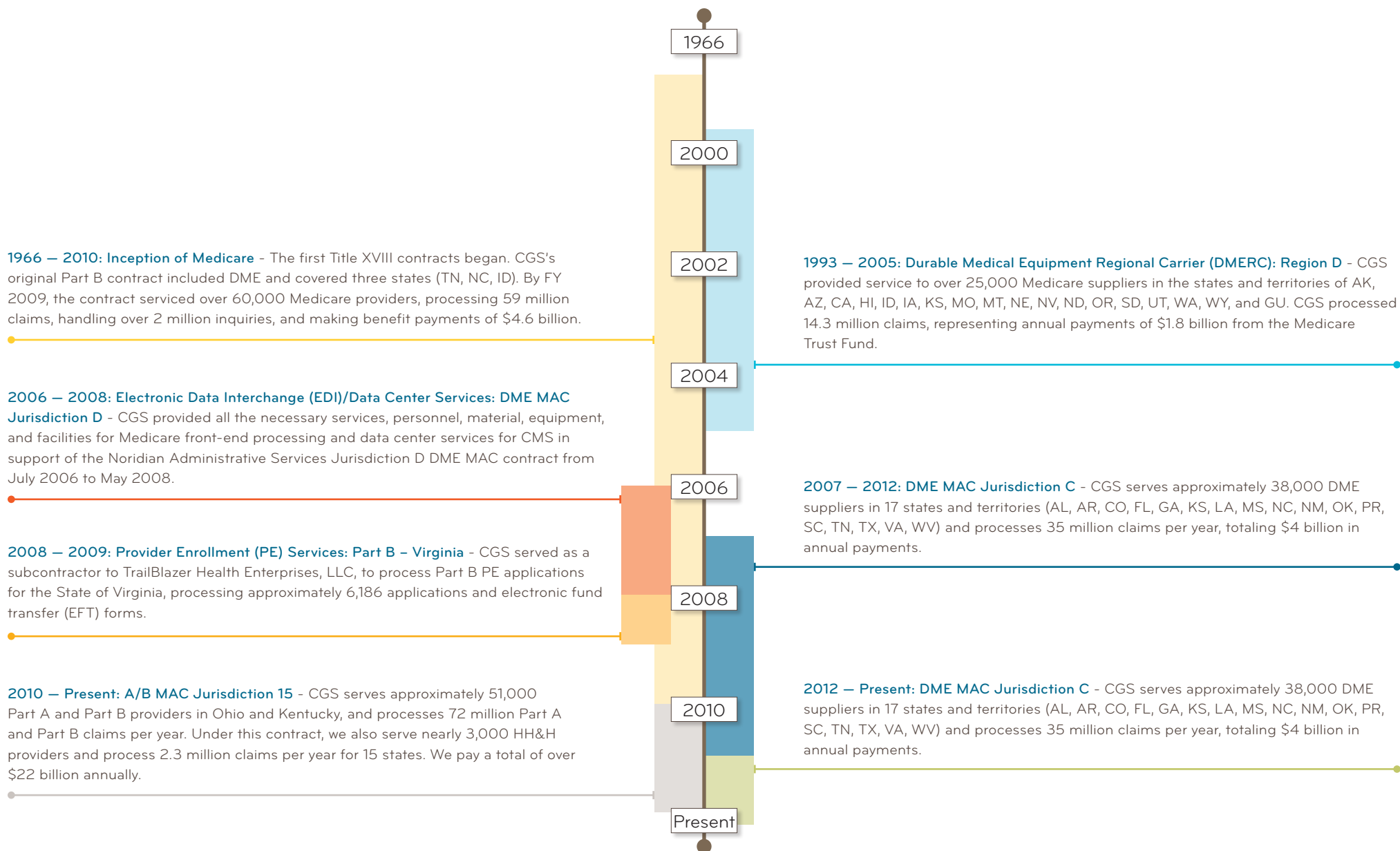


2000s



2012

Building Success through . . . Past Performance



Letter from the President

It is impossible to overstate the importance of a strong foundation. Without it, the beautiful structure above will ultimately crumble and fall. With a firm foundation, the building, house, or company becomes historic. Thanks to the employees of CGS – both past and present – our organization operates on a solid foundation.

The initial foundation for CGS began in 1966 with the start of our Medicare service legacy contract with a relatively small number of employees serving a small portion of the Medicare community. Fast forward 46 years, when in 2012 CGS operated with over \$131 million in revenue and approximately 1,000 employees located in four states, and impacted the lives of over 20 million healthcare recipients and 85,000 healthcare professionals across the United States.

On a daily basis, our employees continue to take our business to higher levels. We are always strengthening that original foundation, as we know the services we provide today become our past performance tomorrow. And our past performance is, without a doubt, the key to future growth and success.

With the right people employed at CGS, we continue to improve our processes and gain efficiencies in our systems. This positions us to grow in a very competitive environment. Our continued focus and passion for excellence allow us to accomplish these objectives, strengthen our foundation, and elevate our company.



Steven B. Smith

President & Chief Operating Officer, CGS



A CELERIAN GROUP COMPANY

Past Performance: Our Story

“ CGS implemented process improvements in their medical review (MR) pre-pay workflow which resulted in an 80% increase in productivity which allowed them to exceed their medical review (MR) strategy without additional cost to government.”

- Contractor Performance
Assessment Report (CPAR)
Jurisdiction C, Option Year 4

Past performance is a leading indicator of a company's strength, endurance, and ability to deliver results year-over-year. As CGS President Steve Smith indicated, past performance provides the foundation on which CGS continues to build a prestigious resume of contract successes. This performance is critically important to the government when determining who should be awarded new business. Since inception of the Medicare program in 1966, CGS has held a variety of federal contracts serving all 50 states and U.S. territories. For over 46 years, we've demonstrated that we have the right people, the right processes, and the right systems in place to provide exceptional quality in a cost-effective manner that supports Presidential efforts to reduce costs, waste, and program abuse.

Through a series of audits in 2012, CMS reported, “CGS had strong performance, and exceeded performance in the areas of customer service and claims processing.” That best sums up our commitment and dedication to be the best at what we do. That commitment is reflected in our Mission Statement: We IMPACT Lives. It's short, simple, and to the point. Our mission is clearly indicative of the role we play and the value we bring as a premier administrator of federal healthcare programs.

Our dedication to excellence is demonstrated at every level of our organization. From front-end mailroom operations to post-pay medical review of claims, CGS delivers cost-effective services and technology solutions which drive change and deliver substantive results.



John Kimball, Vice President, Medicare Operations (left)
Steve Smith, President & COO (right)

Company Foundation

Who We Are

CGS is the Jurisdiction 15 A/B MAC, Jurisdiction C DME MAC, and Home Health & Hospice administrative contractor paying Medicare Part A, B, HH&H, and DME claims for the Centers for Medicare & Medicaid Services (CMS). Headquartered in Nashville, TN, with additional offices in IA, NC, SC, and TX, CGS's more than 1,100 experienced employees provide services to over 20 million healthcare recipients and 85,000 healthcare professionals across the United States. With over 46 years of successful business operations in the nation's healthcare system, our experienced staff, proven processes, and efficient systems produce positive results in meeting business objectives and reducing costs.

CGS's services include healthcare claims processing and payment, dedicated call centers, customer service, provider credentialing, enrollment and education, medical necessity, pre- and post-payment review, as well as cost reduction through systems and process improvements.

Mission

We IMPACT Lives!

Vision

To IMPACT the future of our communities and nation
by being the premier administrator of government healthcare programs.



Core Values

Integrity:

We are ethical, responsible, honest, and reliable. We promote an environment of openness and trust.

Making a Difference:

We are empowered to make change for the better in our business, our communities, and our lives. We inspire each other.

Passion for Excellence:

Our goal is to be the best at all we do. We are optimistic and expect to succeed.

Always Improving:

We continuously improve and we never stop learning.

Customer Focused:

Our customer is our priority. We understand our customer's needs and surpass expectations.

Taking Risks:

We are courageous and embrace change. We see challenges as opportunities.

CGS RETAINS MAJOR MEDICARE CONTRACT

NASHVILLE, Tenn., Sept. 11, 2012 -- CGS Administrators LLC (CGS) has won a contract to continue as the Durable Medical Equipment Medicare Administrative Contractor (DME MAC) for Medicare's Jurisdiction C.

The contract, which includes a base year starting September 1, 2012 and four option years, is valued at more than \$170 million. CGS employs more than 900 people at its Nashville headquarters and more than 120 in offices in Des Moines, Iowa, and High Point, N.C. The new contract means current staffing levels will be maintained and there will be some new positions filled in the near future.

"This award reflects CMS confidence in our experienced and talented associates' commitment to serving Medicare beneficiaries, suppliers, physicians and other health care providers," said CGS President Steve Smith. "We take our responsibility seriously and consider it an honor to continue in this critical role that we know impacts lives every day."

The largest of four DME MAC jurisdictions in the United States, Jurisdiction C represents more than 13 million Medicare beneficiaries and more than 37,000 Medicare suppliers. The jurisdiction includes Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, U.S. Virgin Islands, Virginia and West Virginia.

A fact sheet concerning the contract award was posted to the CMS.gov website on August 31 and may be viewed at <http://www.cms.gov/Medicare/Medicare-Contracting/MedicareContractingReform/Spotlight.html>.

CGS has operated as a Medicare contractor since inception of the Medicare program in 1966.

In addition to Jurisdiction C, CGS has one other CMS contract. CGS is the Medicare Administrative Contractor for Medicare Part A (institutional) and Medicare Part B (professional services) for Jurisdiction 15 (Kentucky and Ohio) and provides Medicare Home Health and Hospice administrative services in Colorado, Delaware, District of Columbia, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, North Dakota, South Dakota, Pennsylvania, Utah, Virginia, West Virginia and Wyoming.

About CGS Administrators, LLC

CGS Administrators, LLC (www.cgsmedicare.com), provides a variety of services, under contracts with the Centers for Medicare and Medicaid Services, for beneficiaries, health care providers, and medical equipment suppliers in 33 states, supporting the needs of more than 20 million Medicare beneficiaries nationwide. The company's expertise includes information systems technology, claims processing, customer service, and payment safeguard functions. Headquartered in Nashville, Tenn., CGS also has offices in Des Moines, Iowa, and High Point, North Carolina.

Operational Excellence

Among our many successes in 2012 was the award of a \$170 million contract to continue as the Jurisdiction C DME MAC – the largest of four DME MACs awarded by CMS. CGS retained the contract based on our successful achievement of CMS performance standards, competitive pricing, and innovative technical solutions.

Throughout CGS' administration of the Jurisdiction C contract, CGS has provided technical solutions that influenced the government's approach to operational improvements across the country. Most recently, CGS developed a solution which significantly enhanced the production of system-generated letters. Enhancing a government-owned system, CGS created CLiO (Creating Letters in OnBase). CLiO leveraged the strengths of our TITAN electronic workflow platform, improving writing efficiency and reducing workloads that were negatively impacting productivity. Combined with an aggressive workload reduction plan, CGS, with support from CLiO, eliminated the backlog and restored productivity – achieving CMS performance standards. CGS' deployment of CLiO again demonstrated to CMS that CGS can quickly create and implement technology and operational solutions that benefit the government and reduce costs.

DME MAC operations also finalized development of myCGS – an online beneficiary eligibility and claims portal for Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS). While not the first DME MAC to deploy a provider self-service portal, the myCGS tool employs operational and security designs that influenced requirements for similar contractor-developed tools in the future. Launched in May 2013, myCGS provides our customers with instant access to claims and other Medicare information that was previously available only through an Interactive Voice Response (IVR) system or through frequent calls with the Provider Contact Center.

Francis Burgess, IS Security Analyst



“ CGS implemented two innovations during the year that improved the quality of its operations during the period of performance.”

- CMS CPAR Presentation



“ CMS recognizes that CGS’ efforts reflect a best-effort commitment to improving provider/supplier compliance with CMS claim submission policies.”

- CMS CPAR Presentation

“ CGS quickly improved their relationship with State provider associations during the contract year.”

- CMS CPAR Presentation

Jurisdiction C also leads the way for expanded contractor collaboration – critical to CMS’ ability to synchronize key administrative tasks across all Medicare contractors. Currently, CGS leads the DME MAC CERT Education Task Force – the first multi-contractor collaboration since implementation of competitive bidding. We also lead or participate in collaborative initiatives for Appeals, Medical Review, and Medicare Secondary Payer (MSP), and other operational-level efforts.

For the past five years, we have provided exceptional service to the more than 116 million residents in the 17 states we serve.

Operational and technological enhancements were the primary drivers of our Jurisdiction 15 A/B MAC and Home Health and Hospice successes in 2012. Recognizing opportunity to strengthen customer education and outreach opportunities, J15 leadership significantly expanded the Provider Outreach and Education (POE) unit and realigned the operation to increase learning opportunities for our customers. The addition of a POE Manager with oversight of education provided from our Columbia, SC, Des Moines, IA, and Nashville, TN, offices led to development of consistent educational messages and expansion of workshops, webinars, and face-to-face education throughout our service areas. The end result was increased customer participation, improved customer billing practices, centralized messages, and enhanced customer relations with key associations and members.

Supporting the POE initiative was the development and launch of a myCGS online self-service portal for all Jurisdiction 15 customers. CGS customized an existing tool developed by Palmetto – a sister company under the BlueCross BlueShield of South Carolina Celerian Group division. The Palmetto product exceeded federal security and information protection guidelines and provided the perfect platform for a CGS-specific online tool. Launched in August 2012, myCGS quickly grew to



Emily Sloan, Human Resources Recruiter (left)
Jackie Yarbrough, Compliance Privacy Manager (right)



over 15,000 users who downloaded over 250,000 data elements. Operational management also began planning Phase II and Phase III of myCGS enhancements, which, when launched in 2013, will significantly expand interactive opportunities for customers to submit a variety of claim support information, including secure forms and messages. With this additional functionality, myCGS will provide customers with a tool that will enable them to eliminate paper-based transactions when submitting documentation and requesting reviews and appeals.

Annual performance assessments conducted by CMS recognized Jurisdiction 15 for exceptional performance across a broad range of measured areas – emphasizing our commitment to provide the best possible service to the federal government and the millions of customers who reside in the 18 states we serve.

“ (CGS) has established a competent and accessible core management team that is always available to CMS and addresses any issues in a timely and responsive fashion.”

- CMS CPAR Presentation

“ (CGS) continues to try to maximize the value they are providing to taxpayers by initiating efforts to streamline its processes and implement cost efficiencies in its work.”

- CMS CPAR Presentation

Compliance: Everyone's Responsibility

No company, regardless of how big or how small, can expect to be successful without a strong focus on Compliance and Ethics. At CGS, we recognize that our adherence to government compliance requirements has a direct impact on our past, present, and future performance.

*Liliana Ospina,
Senior Provider Relations Representative*



At their core, both Compliance and Ethics are common sense. Compliance means to demonstrate that you are meeting specific rules or standards. Ethics means “moral correctness,” or doing what’s right. Together, they define how we at CGS do business each and every day.

Compliance is part of our workplace culture. The first letter of our mission, the “I,” stands for Integrity. Our professional integrity is rooted in our dedication to working in a compliant and ethical manner.

Beginning with our new hire intake and training program and continuing through annual refresher training and surveys, CGS promotes and expects all employees to comply with our customer’s expectations and to do so in an ethical manner. In addition to an aggressive educational program, CGS provides employees with options for reporting concerns, including an anonymous hotline, a Web reporting line, drop boxes, and reaching out to a supervisor, manager, or Compliance Officer.

The Compliance department identifies risk by administering our annual Risk Assessment, the results of which are used to develop CGS’ annual audit plan. Auditing and monitoring internal controls is a key

*Amie Hurt,
Senior Provider Relations Representative*





Linda Martin, Certified Compliance Executive, videotaping a training program for employees

component of CGS' Certification Package of Internal Controls, or CPIC. Our CPIC validates our commitment to the protection of the Medicare Trust Fund.

Our compliance program helps ensure that employees follow all laws that concern our business, perform activities in an ethical manner, avoid conflicts of interest, and maintain proper stewardship of property, customer information, and confidential information. In other words: We Do the Right Thing!

Without emphasis on compliance, CGS would not have achieved multi-year certifications with ISO 9001:2008, nor would we have achieved re-award of our DME MAC Jurisdiction C contract. In fact, none of our over 46 years of successes would have been possible without a focus on ensuring a compliant and ethical workforce.

Community

Neighbors helping neighbors. Friends helping friends.

Members of our management and staff are actively involved with local businesses and civic organizations such as the Nashville Chamber of Commerce and Nashville Healthcare Council. Additionally, our 1,100 employees in Nashville, TN; Dallas, TX; Des Moines, IA; and High Point, NC, recognize the importance of volunteerism for improving our communities and supporting programs that positively impact the lives of our neighbors and friends. Whether helping in times of natural disasters or for ongoing community outreach, CGS employees volunteer their time and provide financial support to community programs that benefit all residents.

In 2012, CGS employees donated nearly \$100,000 to numerous programs serving our communities!

United Way

United Way envisions a world where all individuals and families achieve their human potential through education, income stability, and healthy lives. United Way improves lives by mobilizing the caring power of communities around the world to advance the common good.

March of Dimes

When you walk in March for Babies, you give hope to the more than half a million babies born too soon each year. The money you raise supports programs in your community that help moms have healthy, full-term pregnancies. And it funds research to find answers to the problems that threaten our babies. We've been walking since 1970 and have raised an incredible \$2 million to benefit all babies.

FiftyForward

FiftyForward also has a proud tradition of working in partnership with public and private organizations to provide programs that benefit those we serve. Some partnerships provide guidelines and payment for services that we deliver to clients. Others furnish sponsorship support or in-kind contributions for special events or classes.

Each partnership is designed to fulfill the objectives of all parties concerned. FiftyForward, our centers, and programs owe much of our success to our hundreds of community partners.

Second Harvest

Second Harvest Food Bank of Middle Tennessee is one of the largest and most comprehensive of over 200 food banks and food distribution centers nationwide. During the 2011-2012 fiscal year, Second Harvest distributed 19,400,293 pounds of food to over 400 Partner Agencies, providing more than 16 million meals of food to hungry men, women and children throughout our 46-county service area.

Pencil Foundation - Whites Creek High School

CGS assists the faculty and students by messaging the importance of academic achievement and the future. We also detail the importance of choices made right now in high school and how those choices relate to college. We assist with curriculum development and lesson planning by providing opportunities for guest speakers, job shadowing, and real-world experiences in and out of the classroom.

We IMPACT Lives!



CGS Leadership



Steve Smith
President and COO



Jim Doane
Vice President, Business
Development & Shared Services



John Kimball
Vice President, Medicare Operations



Melissa Kirchenbauer
Assistant Vice President,
Medicare Operations Jurisdiction C
DME MAC Program Manager



Melissa Lamb
Assistant Vice President,
Medicare Operations Jurisdiction 15
A/B MAC Program Manager



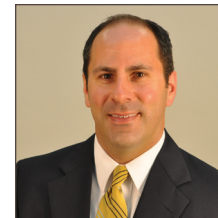
Mike Logan
Vice President,
Chief Financial Officer



Linda Martin
Vice President, Compliance Officer



Robert Stansell
Vice President, Systems & Support

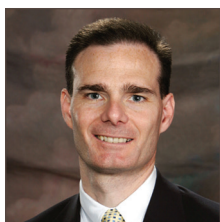


Roc Via
Director, Business Excellence

CGS Board of Directors

An important structural element of our organization is the CGS Board of Directors. Member experiences range from critical leadership roles within the federal Department of Health and Human Services and the Centers for Medicare & Medicaid Services (CMS) to successful leadership of one of the nation's largest commercial healthcare companies.

Members of the CGS Board of Directors provide experience-based counsel that helps us build a solid company framework that supports continued success and business growth.



David Pankau

President & CEO, BlueCross
BlueShield of South Carolina



Bruce Hughes

President, Celerian Group, BlueCross
BlueShield of South Carolina



Steve Smith

President & COO, CGS



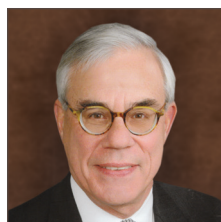
Louis McElveen

Vice President, Corporate Finance
& Controller, BlueCross BlueShield
of South Carolina



Elizabeth Cusick

Independent Consultant, Former
Deputy Director, Center for Medicare
Management, Centers for Medicare &
Medicaid Services



Tom Grissom

Senior Health Policy Specialist, Foley
Hoag LLP, Former Director, Center
for Medicare Management, Centers
for Medicare & Medicaid Services



Harvey Yampolsky

Retired Partner, Arent Fox, Former
Chief Counsel to the Inspector
General at the Department of Health
& Human Services

Finance

Our successes in 2012 were the direct result of our strategic plans to enhance operational efficiencies and to generate positive results. As a business, effective financial management is critical to our ability to reduce costs for our government customer and to generate profit, which keeps us in business.

Balance Sheet (in thousands)

	December 31	2012	2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 8,027	\$ 2,654	
Government contract receivables	25,463	29,282	
Other receivables	-	39	
Current deferred tax asset	332	-	
Prepaid expenses	182	170	
Total current assets	34,004	32,145	
Long term assets:			
Property and equipment, net of accumulated depreciation of \$15,768 and \$14,899 in 2012 and 2011, respectively	1,554	1,951	
Non-current deferred tax asset	163	126	
Total long term assets	1,717	2,077	
Total assets	\$ 35,721	\$ 34,222	
Liabilities & Member's Equity			
Liabilities:			
Current liabilities:			
Accrued expenses and accounts payable		\$ 11,622	
Payable to parent		8,110	
Amounts due to affiliate		1,532	
Current deferred tax liability		-	
Total current liabilities		21,264	
Total liabilities		21,264	
Member's equity:			
Additional paid-in capital	18,709	12,709	
Retained earnings	1,070	249	
Total member's equity	19,779	12,958	
Total Liabilities & Member's Equity	\$ 35,721	\$ 34,222	

INDEPENDENT AUDITOR'S REPORT

Board of Directors
CGS Administrators, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of CGS Administrators, LLC which are comprised of the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in member's equity, and cash flows for the year ended December 31, 2012 and the seven months ended December 31, 2011, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CGS Administrators, LLC at December 31, 2012 and 2011, and the results of its operations and its cash flows for the year ended December 31, 2012, and the seven months ended December 31, 2011, in accordance with accounting principles generally accepted in the United States of America.

Derrick, Stubbs & Stith, L.L.P.

February 25, 2013

Looking Ahead

What can we expect in the future? We will continue our focus on developing effective strategic plans that support our business growth. We can expect to see significant movement in additional new business inside and outside of the government sector. We will continue our operational enhancements to streamline productivity, reduce turnover, increase performance, and reduce costs to our government customers.

In short, CGS will continue building upon the firm foundation that has kept us strong for over 46 years.



Des Moines, IA office



High Point, NC office



Nashville, TN office

Anne Cerasoli, DME Business Analyst II (left)
Mike Nix, Web Business Specialist (right)



Julia Matteson, Document Control Supervisor (left)
Rochelle Hawkins, Records Clerk II (right)



Tina Sullivan,
A/B Business Analyst III



Flora Blocker, RN, DME Medical Reviewer III (left)
Ruth McIver, RN, DME Medical Reviewer III (middle)
Tina Harris, RN, DME Medical Review Team Lead (right)



Yolanda Robinson,
A/B Provider Enrollment Supervisor



Fairy Pickvet, DME Customer Service Claims Supervisor

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