SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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HEALTHCARE RECOVERIES INC

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 26, 1999

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998
	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 0-22585

HEALTHCARE RECOVERIES, INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	61-1141758 (I.R.S. Employer Identification No.)
1400 WATTERSON TOWER LOUISVILLE, KENTUCKY (Address of principal executive offices)	40218 (Zip Code)

(502) 454-1340
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	

Securities registered pursuant to Section 12(g) of the Act:

TITLE OF CLASS
Common Stock, par value $.001 per share
(including rights attached thereto)

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 [X] No [ ].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained, to be the best of the Registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [ ]

As of March 23, 1999, 11,502,987 shares of the registrant's Common Stock, $0.001 par value were outstanding. The aggregate market value of Registrant's Common Stock held by non-affiliates of the Registrant as of March 23, 1999 was approximately $51,763,442 (based on the last sale price of a share of Common Stock as of March 23, 1999 ($4.50)), as reported by The Nasdaq National Market.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 1999 are incorporated herein by reference in Part III.

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THIS FORM 10-K AND OTHER STATEMENTS ISSUED OR MADE FROM TIME TO TIME BY HEALTHCARE RECOVERIES, INC. OR ITS REPRESENTATIVES CONTAIN STATEMENTS WHICH MAY CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, 15 U.S.C.A. SECTIONS 77Z-2 AND 78U-5 (SUPP. 1996). THOSE STATEMENTS INCLUDE STATEMENTS REGARDING THE INTENT, BELIEF OR CURRENT EXPECTATIONS OF HEALTHCARE RECOVERIES, INC. AND MEMBERS OF ITS MANAGEMENT TEAM, AS WELL AS THE ASSUMPTIONS ON WHICH SUCH STATEMENTS ARE BASED. PROSPECTIVE INVESTORS ARE CAUTIONED THAT ANY SUCH FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE RISKS AND UNCERTAINTIES, AND THAT ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTEMPLATED BY SUCH FORWARD-LOOKING STATEMENTS. IMPORTANT FACTORS CURRENTLY KNOWN TO MANAGEMENT THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN FORWARD-LOOKING STATEMENTS ARE SET FORTH IN THE SAFE HARBOR COMPLIANCE STATEMENT FOR FORWARD-LOOKING STATEMENTS INCLUDED AS EXHIBIT 99.1 TO THIS FORM 10-K, AND ARE HEREBY INCORPORATED BY REFERENCE. HEALTHCARE RECOVERIES, INC. UNDERTAKES NO OBLIGATION TO UPDATE OR REVISE FORWARD-LOOKING STATEMENTS TO REFLECT CHANGED ASSUMPTIONS, THE OCCURRENCE OF UNANTICIPATED EVENTS OR CHANGES TO FUTURE OPERATING RESULTS OVER TIME.

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PART I

ITEM 1. BUSINESS

GENERAL

Healthcare Recoveries, Inc. (the "Company" or "HCRI"), a Delaware corporation, believes it is the leading independent provider of health insurance subrogation and related recovery services for private healthcare payors in the United States, based on the Company's experience and assessment of its market. HCRI recovers a portion of the value of accident-related healthcare benefits provided by its clients to insureds when third parties are primarily responsible for providing such healthcare benefits. The Company offers its services on a nationwide basis to health maintenance organizations, indemnity health insurers, self-funded employee health plans, companies that provide claims administration services to self-funded plans (referred to as "third-party administrators"), Blue Cross and Blue Shield organizations and provider organized health plans. Current clients include UnitedHealth Group, Humana Inc., Kaiser Permanente, NYLCare, The Principal Financial Group, Group Health, Inc. and Prudential Healthcare. The Company had 40.5 million lives under contract from its clientele at December 31, 1998, a 5 percent increase from December 31, 1997.

ORGANIZATIONAL STRUCTURE

HCRI was incorporated on June 30, 1988 under the laws of the State of Delaware. The Company was co-founded by its present Chief Executive Officer and was initially funded by two venture capital investors. The Company operated as an independent entity until August 28, 1995, when Medaphis Corporation ("Medaphis"), a Delaware corporation, acquired the Company for approximately $79.1 million in a stock-for-stock exchange accounted for as a pooling of interests. Medaphis sold the Company in an initial public offering in May 1997. The Company is now publicly held and is traded on The Nasdaq National Market under the symbol "HCRI".

For information concerning business acquisitions effected by HCRI in the first quarter of 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

STRATEGY

HCRI intends to pursue a two-fold growth strategy. First, with respect to its existing subrogation recovery business, HCRI will focus on (i) servicing its existing client base, (ii) selling and installing those additional lives covered by contracts with existing clients and (iii) selling and installing new clients and cross-selling other provided services. HCRI will continue to explore opportunities to acquire competitors and to expand its client base to include public sector healthcare payors. Two recent acquisitions have increased the breadth of services provided by HCRI. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

Under the second aspect of its growth strategy, HCRI intends to extend its systems-driven, process-oriented approach, through acquisitions and internal development, to outsourcing opportunities in other service industries. The defining characteristics of HCRI's business model are (i) the ability to automate clerical and administrative tasks, using sophisticated and proprietary computer applications; and (ii) the ability to standardize and scale work using process management and classical work measurement techniques. Using this model, HCRI believes that it can dramatically increase the productivity of the skilled workers who will make up its labor force, and successfully implement pricing strategies that will reward HCRI for those productivity gains.

HCRI believes that future development opportunities are likely to be characterized by outsourcing services that produce predictable and recurring revenue streams; competitive advantages from effective process management, proprietary systems and the provision of knowledge-rich services; development-stage niche markets; value-based pricing; and a focus

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(non-exclusive) on healthcare information services.

INDUSTRY

Outsourcing. The outsourcing of non-core specialized business functions has been increasing in recent years. Outsourcing enables a client to concentrate its resources on its core business. Because of expertise and economies of scale, companies that provide specialized services are often able to deliver the requisite service at lower cost and of similar or higher quality than could be achieved by their clients.

Since the late 1980s, healthcare payors have experienced increasing (i) price competition, (ii) regulatory complexity and related administrative burdens, (iii) costs of healthcare claims, and (iv) average age of the insured population. These factors, which result primarily from the rapid growth of managed care, improvements in medical technology, consumer-oriented political pressure and an aging U.S. population, tend to result in healthcare payors concentrating their resources on their core business. This, in turn, provides on-going opportunities for enterprises, like the Company, which are able to perform non-core business functions on behalf of healthcare payors.

The recovery process is complex and although many healthcare payors operate recovery departments, HCRI believes that these departments are not generally as effective per insured life as the Company's operations. HCRI believes that (i) the relatively small size of recoverable funds as a percentage of claims paid, (ii) the need for healthcare payors to focus on core competencies and (iii) the complexity of the recovery process and economies of scale will continue to provide opportunities for continued growth for the Company.

Recovery Rights of Healthcare Payors. By contract and state law, healthcare payors are generally entitled to certain rights with respect to paid healthcare claims that may be the primary obligation of other insurance carriers. For example, an HMO to which the injured person belongs may pay the hospitalization and related health expenses of a person injured in an automobile accident. However, the responsible party is generally liable to the injured person for the damages arising from the injury, which damages include lost wages, property loss, pain and suffering and medical benefits. The responsible party usually has a liability insurance policy that will pay covered damages, including medical benefits, upon the acceptance of the injured party's claim. The healthcare payor actually providing or paying for the medical benefits conferred on the injured party (in this example, an HMO) may have a variety of rights through which it is entitled to recover the value of such medical benefits from the responsible party and the responsible party's liability insurer.

These recovery rights include:

- (i) the right of subrogation, which allows the healthcare payor to recover accident-related medical claims directly from the responsible party or the responsible party's insurance carrier;

- (ii) the right of reimbursement, which allows the healthcare payor to recover from the injured party any payment received from the responsible party or the responsible party's insurance carrier relating to this injury;

- (iii) the right of reimbursement for medical benefits provided for work-related injuries, which are typically excluded from the healthcare insurer's coverage; and

- (iv) other recovery rights against automobile insurers and other liability insurers arising from coordination of benefits provisions in healthcare and property and casualty insurance coverages.

Based on information contained in the Statistical Abstract of the United States 1997, the Company calculates that there were approximately 150 million

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persons covered by private health insurance under insurance policies or similar agreements in states that allow healthcare payors to exercise subrogation and related recovery rights and estimates that these 150 million insured persons suffered between 20 to 24 million injuries in 1995. Based on its experience with accident-related claims, HCRI estimates that these injuries gave rise to approximately $19 to $23 billion in medical benefits and that approximately $1.0 to $1.4 billion of the total medical benefits resulting from injuries and paid by healthcare payors in 1995 were potentially recoverable through subrogation.

The industry conditions described above have contributed to the growing need for a cost-effective provider of subrogation services. HCRI believes that it is the leading independent provider of subrogation and related recovery services for private healthcare payors in the United States, and that its success is a result of the implementation of its recovery process, its employees, its client base, its approach to sales and marketing, and its proprietary information management system, all described below:

THE RECOVERY PROCESS

HCRI uses proprietary software and various business processes to identify those claims that exceed a client-specific threshold dollar amount and as to which its clients may have a recovery right for the medical benefits provided to an insured. Following the identification and investigation of those claims, HCRI proceeds to recover from the financially responsible party the value of those covered medical benefits provided to the insured. HCRI has automated this complex processing of all raw electronic data and the electronic guidance, follow-up and generation of correspondence. The use of an automated process increases productivity and enables specially trained personnel to focus more intently on matters requiring their professional judgement and expertise. The automated process also allows the Company to pursue claims that would otherwise be deemed too small to pursue economically. HCRI believes that its ability to effectively recover a broader range of claim sizes is an important competitive advantage in the market. In addition to automating the recovery process, HCRI's information management system (the "SubroSystem"), generates significant operations and management information, which enables the Company to employ production and quality standards in the context of providing specialized services.

In order to obtain recoveries, HCRI has to establish whether or not the healthcare payor has a right to recover from another person or entity, determine which medical claims exceed the predetermined dollar threshold resulting from accidents and take the actions needed to effect recovery. These tasks require knowledge of the property and casualty insurance process, knowledge of healthcare payment systems, knowledge of the law of torts, subrogation and related legal doctrines, a skilled labor force, adequate information databases and information systems, investigative and negotiating skills, and careful workflow engineering.

HCRI has refined the recovery process to four major, interrelated steps: (i) automated identification of accident-related claims provided electronically by its clients; (ii) investigation of potentially recoverable claims; (iii) assertion and management of potentially recoverable claims; and (iv) negotiation and settlement of claims.

Automated Identification of Accident-Related Claims. The automated selection, analysis and processing of raw claims data are handled primarily through HCRI's proprietary software, the SubroSystem. Information regarding diagnoses, the costs of treatment, insured demographics (names, addresses and telephone numbers, etc.) and related claims matters are provided to HCRI electronically by the payor. The primary vehicle for the identification of injured insureds is an automated analysis of the clients' claims data. The SubroSystem includes direct connections to HCRI's clients' claims information systems, subject to various security controls to limit access internally. HCRI's trained staff, using the SubroSystem's diagnostic tools, identifies, sorts, vets and organizes raw claims data into usable form, essentially engaging in "data mining." This system identifies accident-related claims and, using client-specific protocols, opens an on-line, electronic file for such claims.

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After files are opened, the SubroSystem automatically tracks the medical expenses on files, so those files are updated as insureds undergo additional treatments related to their injuries. Since its inception, HCRI has automatically opened over 21.0 million of such on-line files.

Investigation of Potentially Recoverable Claims. When a file of claims reaches a value determined by HCRI, the SubroSystem automatically generates a series of inquiry letters that are sent to injured persons. The forms of the inquiry letters are approved in advance by HCRI's clients. HCRI's well-trained and courteous customer service representatives receive incoming phone calls from injured insureds who typically call the Company in response to HCRI's system-generated inquiry letters. HCRI also initiates phone calls if the insured has not responded to the inquiry letters in a reasonable period of time. Based on the Company's historical experience, approximately 90% of the injured insureds ultimately respond to HCRI's inquiries.

During the subsequent telephone call, the customer service representatives ask a series of questions that enable them to determine whether a claim is recoverable, based on carefully-selected investigation criteria and training. Based on the Company's historical experience, approximately 18% of the claims investigated by customer service representatives are classified as recoverable. Once a claim or set of related claims in a file is identified as recoverable, the system updates the backlog and assigns the file to the appropriate examiner who begins the assertion and management of recoverable claims. Since its inception, HCRI has investigated over 4.1 million accidents. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview."

Assertion and Management of Potentially Recoverable Claims. Once a file of claims is classified as recoverable, HCRI staff examiners, who are required to undergo extensive training, proceed to assert the recovery rights of HCRI's clients and track the claims' history and development. The Company requires that within one year of employment, all of its examiners be licensed as insurance adjusters or meet comparable accreditation standards in states where licensure is not available. Examiners contact all necessary parties to inform them of the existence and value of the recovery claim. These parties generally include the liability insurer for a responsible party, the insured, and, the insured's attorney, if any, in conjunction with the injury. Examiners maintain contact with the injured party and responsible party (or insurance carrier) until the matter is settled. Settlement may not occur until several years after the date of the injury. During this phase of the recovery process, approximately 40% of the amounts initially entered into backlog (the dollar amount of potentially recoverable claims that the Company is pursuing) as recoverable are rejected, in which case further activity is terminated and backlog is reduced.

All of the workflow performed by examiners is directed and guided step-by-step by the SubroSystem. The SubroSystem creates a paperless, interconnected record of correspondence and notes taken by the examiner with respect to each on-line file. Examiners annotate the files on-line, as necessary, to document progress, developments and status and otherwise maintain the history of each claim. The SubroSystem provides HCRI's examiners access to a library of more than 100 standardized correspondence packets, which may be generated automatically at the request of the examiner.

Negotiation and Settlement of Claims. The recovery process culminates in the negotiation and settlement of claim files. Within the settlement guidelines established by each client and HCRI's standard operating procedures, examiners close recoverable files and remove them from backlog by making recoveries or by rejecting files and terminating recovery efforts. Once a settlement is made and recorded on the SubroSystem, receipt of cash is anticipated and monitored by the responsible examiner. Cash receipts are checked against settlement screens and posted to the credit of the appropriate client.

Claims remain the property of HCRI's clients and litigation is commenced solely at their written direction; similarly, clients may terminate litigation or other recovery efforts at any time for any reason. Few files require extensive attorney involvement. HCRI customarily bears the cost of legal

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services as part of the services to its clients. HCRI has established what it believes are cost-effective relationships with providers of legal services, including its relationship with Sharps & Associates, PSC, a law firm solely owned by Douglas R. Sharps, HCRI's Corporate Executive Vice President -- Finance and Administration, Chief Financial Officer and Secretary. This law firm employs sixteen attorneys and six paralegals at its offices in Louisville, Kentucky; Oakland, California; Chicago, Illinois; and Dallas, Texas. However, Mr. Sharps receives no personal benefit from his ownership of the firm. See Note 6 in Item 8. "Financial Statements and Supplementary Data."

Although some recoveries will be made during the first year of service, the average time to make a recovery is 18 to 24 months from installation, with substantially all recoveries made by the sixth year. The timing of recoveries is driven by the payment cycle of property and casualty claims (which is the source of recoveries made by the Company) and circumstances specific to each claim (e.g., identification of responsible party, responsiveness of responsible party, cooperation of parties involved, factual complexity and litigation). The amount of subrogation recoveries made by the Company on behalf of a client is generally less than the amount of backlog generated on behalf of such client. This is for a number of reasons, including (i) the inadequacy of insurance coverage or other available source of funds to pay the claim; (ii) the absence of third-

party liability; or (iii) the settlement of the claim for less than full value in accordance with HCRI's established policies.

Historically, approximately 67% of HCRI's recoveries on behalf of clients involve automobile liability insurance, 15% involve premises liability insurance, 10% involve workers' compensation insurance and 8% involve product liability or other insurance.

MARKETING, SALES AND CLIENT SERVICE

HCRI primarily markets to and contracts with healthcare payors, including HMOs, other types of managed healthcare plans, indemnity health insurers, self-funded employee health plans, insured healthcare plans, third-party administrators, Blue Cross and Blue Shield organizations and provider organized health plans. HCRI employs a staff of sales managers, a marketing manager and client services managers. Sales are made directly through contacts with prospective clients, trade show presentations and employer seminars. Additional business is also generated from existing clients, who have expanded their business by growth or acquisitions or who have business segments not already under contract with HCRI.

Due to the nature of the business, the sales process is lengthy and involves demonstrating to prospective clients that HCRI's economies of scale, proprietary processes and value-added services allow (i) HCRI to generate and return to the clients a greater dollar amount of recoveries than the clients' in-house recovery department and (ii) the clients to focus greater resources on core business functions. New customer relationships are often established through pilot programs, which have typically lasted 12 to 18 months.

Complementing the technical aspects of the recovery process, the client support function is primarily responsible for communications with clients and problem resolution. To facilitate strong working relationships, individual members of the client services staff are assigned to specific clients. HCRI believes that its investment in resources to resolve a wide variety of business issues with clients is an important factor in obtaining customers and maintaining good business relationships. During the last three years, HCRI has lost eleven clients representing approximately 4.3 million lives. Terminations occurred due to consolidations (Healthsource of 662,000 lives; Blue Shield of California of 900,000 lives) and where another existing vendor was chosen by Oxford Health Plans (1.98 million lives). However, subsequent to December 31, 1998, the Company has re-signed Oxford Health Plans as a client (1.5 million lives).

CLIENT BASE

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The Company provides services to healthcare plans that as of December 31, 1998 covered approximately 40.5 million lives. HCRI's clients are national and regional healthcare payors, large third-party administrators or self-insured corporations.

Major clients include the following:

Coventry Healthcare	Kaiser Permanente
FIRST HEALTH	NYLCare
General American Life Insurance	The Principal Financial Group
Group Health, Inc.	Prudential HealthCare
Humana Inc.	UnitedHealth Group

HCRI's largest clients are UnitedHealth Group, Kaiser Permanente and Humana. During 1998 and 1997, UnitedHealth Group, Kaiser Permanente and Humana generated 28%, 8%, and 7%, and 31%, 9% and 9%, respectively, of HCRI's revenues. The loss of one or more of these accounts could have a material adverse effect on HCRI's business, results of operations and financial condition. However, HCRI's contracts provide that in the event of termination, HCRI is generally entitled to complete the recovery process on the backlog for that client. On December 31, 1998, HCRI had backlog of $770.7 million.

HCRI's revenues are earned under written contracts with its clients that generally provide for contingency fees from recoveries under a variety of pricing regimes. The pricing arrangements offered by HCRI to its clients include a fixed fee percentage, a fee percentage that declines as the number of lives

covered by the client and subject to HCRI's service increases and a fee percentage that varies with HCRI's recovery performance.

HCRI performs its services on a reasonable efforts basis and does not obligate itself to deliver any specific result. Contracts with its customers are generally terminable on 60 to 180 days' notice by either party, although in a few cases the contracts extend over a period of years. Pursuant to the terms of its client contracts, HCRI is generally entitled to continue to make recoveries for the client and earn its fees on the backlog existing at the time of termination.

COMPETITION

HCRI competes primarily with the internal recovery departments of potential customers and other subrogation recovery service vendors. To the Company's knowledge, there are two smaller, but significant, independent providers of subrogation recovery services in addition to HCRI. Both independent competitors preceded HCRI's entry into the recovery industry, and no major competitors have entered the market since that time. HCRI believes that it has competitive advantages in the bulk of its market, including process expertise, capital requirements necessitated by the unusually long revenue cycle in the recovery industry, assembling and training a qualified and productive employee base possessing appropriate industry expertise, and an information processing system designed to aid investigators and examiners engaged in the recovery process. However, there are participants in the healthcare, insurance and transaction processing industries that possess sufficient capital, and managerial and technical expertise to develop competitive services.

EMPLOYEES

HCRI employs, and facilitates the development of, skilled knowledge-workers. HCRI maintains an extensive, in-house training program, which it believes is attractive to employees and essential in developing the necessary industry-specific skills. All HCRI employees participate in one of four incentive compensation plans, depending upon the responsibilities of each employee. The Company believes the tight labor market in Louisville, Kentucky could have an impact on future hiring. HCRI employed approximately 495 persons

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as of December 31, 1998.

HCRI requires all employees to enter into confidentiality and nondisclosure agreements, which generally prohibit them from divulging confidential information and trade secrets after they terminate employment. Employees are also required to enter into non-compete agreements, preventing them from working for a competitor during the first year after they terminate employment. In addition, the Company's customers generally agree not to employ HCRI employees during the client's contract term plus a specified period.

A union does not represent HCRI's employees. HCRI believes its relations with its employees are good.

THE SUBROSYSTEM AND PLATFORM

General. HCRI's SubroSystem consists of inter-related proprietary software programs that function as an automated data and process management system. HCRI holds a copyright registration from the United States Copyright Office on the software.

The SubroSystem software is a character-based application that was originally run on Intel-based personal computers in an MS-DOS operating environment. The personal computers were arranged in local area networks ("LANs"), representing logical units of work. Typically one LAN serviced one to four clients and up to 25 HCRI employees.

System Upgrade. Although the SubroSystem, a key component of HCRI's recovery process, historically served the Company's operational and management information needs, HCRI developed a plan (the "System Upgrade") under which it would, over a 24-month to 36-month period, migrate the SubroSystem to a modern network operating system and database architecture. The System Upgrade includes a detailed process for the comprehensive testing of all key elements prior to implementation of each step of the upgrade.

At the end of January 1998, HCRI successfully migrated the SubroSystem to a Windows NT environment, the first step of the System Upgrade. In the course of migration, the Company encountered technical difficulties generally of the type and number management believes are common with conversions of similar size and scope. Following migration, HCRI has continued to maintain an inventory of platform components for redundancy, to store on-line data on redundant devices, and, on a daily basis, to copy all on-line storage systems to magnetic tapes, which are then removed to a security vault off-site. HCRI's systems department handles development and maintenance of the SubroSystem.

Work was completed in late 1998 on the second step of the System Upgrade for the creation of a logical data model to support subrogation and other processes. This work resulted in the initial implementation of a relational database to support data warehousing. Planning for the last step of the System Upgrade, the migration of data and process to the new platform, is presently underway. The Company expects that it will complete the last step of the System Upgrade during the latter part of 2000. As of December 31, 1998, the Company has spent approximately $3.3 million on the System Upgrade.

Quality and Management Controls. The SubroSystem controls, measures and generates reports on the recovery process. From data recorded on the SubroSystem, a series of financial reports are generated for clients that allow clients to monitor HCRI's success in making recoveries and building backlog on their behalf. The data used for financial reports are also used to produce a wide array of accounting and management information used by HCRI to operate its business. HCRI employs a variety of quality control techniques to insure consistently high quality service.

LEGAL AND REGULATORY ENVIRONMENT

The healthcare industry is subject to numerous regulations, which may adversely affect HCRI's business. In addition to laws and regulations affecting healthcare and insurance, changes in federal fair debt collection regulations

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also may adversely affect HCRI's business.

General. From time to time, legislation is introduced in Congress and in various state legislatures which would materially affect the Company's business. The most significant legislation, laws and regulations may, for clarity, be grouped into three categories: (i) legislation that would substantially limit the ability of healthcare insurers to recover from third-parties accident-related medical benefits incurred by injured insureds ("Health Insurance Primacy Laws"); (ii) legislation that would substantially limit the Company's ability to receive and utilize individual claim information from healthcare insurers ("Confidentiality Laws"); and (iii) other federal and state laws. The following identifies specific risks in these three categories:

Health Insurance Primacy Laws

Auto Choice Reform Act. In each of the last two sessions of Congress, legislation known as the Auto Choice Reform Act of 1997 (the "Proposed Act") was introduced, but not enacted. Proponents of these bills have expressed intent to introduce a similar bill in 1999. Under this Proposed Act, in those states not opting out of its provisions, individual drivers may choose to be covered by an auto insurance system in which healthcare insurers, with some exceptions, could be made primarily responsible for healthcare costs incurred by those injured in automobile accidents. Consequently, even if the insured's injuries were caused by the negligence of another driver, the healthcare insurer might have no rights of recovery against the negligent party or that party's liability insurer. Revenue generated from recoveries against automobile liability insurers represented approximately 67% of the Company's 1998 revenues. Should this or similar legislation be enacted, it could have a material adverse effect on the Company's business, results of operations and financial condition.

Proponents of the Proposed Act assert that (i) the costs of operating a motor vehicle are excessive due to legal and administrative costs associated with the processing of claims under the fault-based liability system; and (ii) the costly fault-based liability insurance system often fails to provide compensation commensurate with loss and takes too long to pay benefits. Even if the Proposed Act is ultimately abandoned, these policy reasons may result in future legislation designed to significantly alter the fault-based liability system used in

most states, eliminate recovery rights of healthcare insurers and materially adversely affect the Company's business.

Certain No Fault Insurance Systems. Certain states have adopted versions of automobile "no fault" insurance systems in which the injured party's health insurance carrier or provider is primarily responsible for healthcare related expenses (and not the responsible party and his or her insurer or the injured insured's automobile liability insurer). In 1996, California voters rejected a no-fault automobile insurance measure, Proposition 200, which would have required drivers with bodily injuries to be compensated by their healthcare insurers. Although Proposition 200 was rejected by the voters, there can be no assurance that similar measures will not again be presented in a ballot initiative or as legislation in California or elsewhere in the future. Growth in the number of states adopting similar systems could significantly reduce the amounts otherwise recoverable by the Company in connection with automobile injuries in such states.

Confidentiality Laws

Confidentiality Provisions of the Health Insurance Portability and Accountability Act of 1996. Section 262 of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") (42 U.S.C. sec.1177) prohibits any person from knowingly obtaining or disclosing individually identifiable health information relating to an individual in violation of the standards established by the Secretary of the Department of Health and Human Services (the "Secretary") relating to the electronic transmission of healthcare information in connection with certain categories of transactions described in the statute. Section 264 of the HIPAA requires the Secretary to issue recommendations on

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standards with respect to the privacy of individually identifiable health information. In September 1997, the Secretary submitted such recommendations to Congress. Section 264 of the HIPAA also provides that if legislation governing standards with respect to the privacy of individually identifiable health information is not enacted by August 1999, the Secretary will be required to issue final regulations containing such standards no later than February 2000. During 1998, the Secretary issued several proposed rules that outline security standards for healthcare information that is maintained or transmitted electronically, including standards for electronic signatures; electronic transaction standards, a standard employer identification number and requirements concerning its implementation; and a standard healthcare provider identifier and requirements concerning its implementation. The comment periods for these proposed rules have ended; however, none of the rules have been issued in final form. In addition to rules proposed by the Secretary, several bills containing provisions relating to the privacy of individually identifiable health information were introduced during the 105th Congress. Thus far in the 106th Congress, several managed care bills have been introduced that contain provisions relating to the confidentiality of patient information. It is anticipated that more comprehensive privacy legislation will be introduced later in this Congress. The provisions of future federal legislation and regulations could impair or prevent the acquisition and use by the Company of claims and insurance information necessary to process recovery claims on behalf of its clients. In addition, state laws governing privacy of medical or insurance records and related matters may significantly affect the Company's business.

Other Federal and State Laws

Changes in the regulation of insurance and debt collection could also affect the Company's business. Similarly, changes in law that would bar healthcare subrogation or impair an injured party's ability to collect insured damages (that is, an injured person would be prevented from recovering from the wrongdoer damages for accident-related medical benefits covered by health insurance) could similarly adversely affect the Company's business. Existing debt collection laws also may be amended or interpreted in a manner that could adversely affect the Company's business. Additionally, although the Company does not believe that it engages in the unauthorized practice of law, changes in the law or a judicial or administrative decision defining some of the Company's activities as the practice of law, could have a material adverse effect on the Company's business.

Certain Legal Doctrines

With respect to recoverable claims, the rights of subrogation and reimbursement may be limited in some cases by (i) the "made whole doctrine," which may limit the healthcare provider's ability to recover when the settlement damage award received by the injured party is inadequate to cover the injured party's damages; and (ii) the "common fund doctrine," which permits plaintiff's attorneys to determine their compensation based on the entire amount covered by a damage award and may, in some cases, proportionally diminish the amount recoverable by HCRI on behalf of the healthcare payor out of that damage award.

ITEM 2. PROPERTIES

As of December 31, 1998, the Company leased property at the following three locations: (i) approximately 88,161 square feet of space for its executive offices and main operations in Louisville, Kentucky, under a lease agreement with a five-year term expiring in 2002; (ii) approximately 10,206 square feet at its regional operating office in Pittsburgh, Pennsylvania, under a lease agreement with a five-year term expiring 2001; and (iii) approximately 566 square feet at its Minneapolis, Minnesota location, under a one-year lease subject to annual renewals until 2001.

ITEM 3. LEGAL PROCEEDINGS

On March 15, 1994, a class action complaint ("Complaint") was filed against HCRI in the United States District Court for the Northern District of West Virginia, Michael L. DeGarmo, et al. v. Healthcare Recoveries, Inc. The

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plaintiffs assert that HCRI's subrogation recovery efforts on behalf of its clients violate a number of state and federal laws, including the Fair Debt Collection Practices Act and the Racketeering Influenced and Corrupt Organizations Act ("RICO"). The Complaint also seeks judgment, under the federal Declaratory Judgment Act, that HCRI as the subrogation agent for various healthcare payors be limited, in recovering from persons who caused accidents or from the healthcare payors' injured insureds, to the actual costs of the medical treatment provided to such injured insureds by such healthcare payors, notwithstanding provisions in the applicable healthcare policies or agreements, which generally allow recovery by the healthcare payors of the "reasonable value" of such treatments. The Complaint alleges that HCRI made fraudulent representations to recover sums in excess of those actually expended by the applicable healthcare payor to pay for medical treatment. Plaintiffs, and the putative class, demand compensatory damages, treble damages under RICO, costs and reasonable attorneys' fees. HCRI believes that this case does not satisfy requirements for a class action because the plaintiffs are not adequate representatives of the putative class and potential claims by class members lack the commonality required for class actions due to the number of states whose laws apply to the subrogation provisions of applicable healthcare policies and agreements and the varying language of such subrogation provisions. The DeGarmo case is in discovery, and no class of plaintiffs has been certified.

This lawsuit, if successful, could prevent the Company from recovering the "reasonable value" of medical treatment under discounted fee for service ("DFS") capitation and other payment arrangements. By the end of 1993, at the direction of certain clients, HCRI had ceased the practice of recovering on their behalf the "reasonable value" of medical treatment provided by medical providers under DFS arrangements with those clients. It is the Company's current policy not to recover the "reasonable value" of medical treatment in DFS arrangements. However, HCRI historically and currently recovers the "reasonable value" of medical treatment provided under capitation arrangements and other payment arrangements with medical providers on behalf of those clients that compensate medical providers under these payment mechanisms, to the extent that these benefits are related to treatment of the injuries as to which clients have recovery rights. The Company believes that its clients' contracts, including the contracts that provide for recovery under DFS, capitation and other payment arrangements are enforceable under the laws of the states potentially applicable in this case and that, as a result, this litigation will not have a material adverse effect upon its business, results of operation or financial condition. Nevertheless, if this lawsuit or another lawsuit seeking relief under similar theories were to be successful, it could have a material adverse effect on the Company's business, results of operations and financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders of the Company during the quarter ended December 31, 1998.

SUPPLEMENTARY ITEM. CERTAIN RISK FACTORS

See "Healthcare Recoveries, Inc. Private Securities Litigation Reform Act of 1995 Safe Harbor Compliance Statement For Forward-Looking Statements," included as Exhibit 99.1 to this Form 10-K and incorporated herein by reference.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on The Nasdaq National Market under the symbol "HCRI." Set forth are the high and low closing prices for the Common Stock for the periods indicated as reflected in The Nasdaq National Market.

<TABLE>
<CAPTION>

QUARTER ENDED:	HIGH	LOW

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March 31, 1998	$23.50	$20.25
June 30, 1998	24.13	15.88
September 30, 1998	18.13	9.75
December 31, 1998	17.13	8.56

QUARTER ENDED:	HIGH	LOW
March 31, 1997	N/A	N/A
June 30, 1997	$19.38	$14.00
September 30, 1997	22.50	17.25
December 31, 1997	24.38	17.75

On March 23, 1999, there were approximately 25 holders of record of the Company's Common Stock.

The Company has paid no cash dividends since the sale of the Company by Medaphis Corporation in May 1997. Any future determination to pay cash dividends will be at the discretion of the Board of Directors (the "Board") and will be dependent upon the Company's financial condition, results of operations, credit agreements, capital requirements and other such factors, as the Board deems relevant. The Company's current credit facility limits its ability to pay dividends on its Common Stock. However, HCRI previously paid cash dividends in the aggregate amount of $13.6 million to its parent company, Medaphis, from August 1995 through May 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth historical selected financial data of the Company as of the dates and for the periods indicated, which have been derived from, and are qualified by reference to, the Company's financial statements. The information set forth below should be read in conjunction with the Company's financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

The selected historical financial data as of December 31, 1998 and 1997 and for the years ended December 31, 1998, 1997 and 1996 have been derived from, and are qualified by reference to, the Company's financial statements appearing elsewhere herein, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected historical financial data as of December 31, 1995 and for the years ended December 31, 1995 and 1994 have been derived from, and are qualified by reference to, the Company's financial statements included in the Company's registration statement on Form S-1 (which have been audited by PricewaterhouseCoopers LLP, independent accountants). The selected historical financial data as of December 31, 1994 was derived from the Company's financial statements.

STATEMENTS OF INCOME DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31,				
	1998	1997	1996	1995	1994
Revenues:					
Subrogation	$48,734	$39,277	$30,248	$22,496	$16,941
Other Revenues	--	--	1,171	--	--

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Total Revenues	48,734	39,277	31,419	22,496	16,941
Cost of Services	22,199	18,523	15,026	10,265	7,947
Gross Profit	26,535	20,754	16,393	12,231	8,994
Support Expenses	10,692	8,922	7,215	6,204	5,748
Depreciation & Amortization	2,334	1,181	878	695	318
Non-recurring Compensation Charge(1)	--	2,848	--	--	--
Operating Income	13,509	7,803	8,300	5,332	2,928
Interest Income, net	1,657	1,158	486	580	320
Income Before Income Taxes	15,166	8,961	8,786	5,912	3,248
Provision for Income Taxes	6,266	4,959	3,685	2,486	1,363
Net Income	$ 8,900	$ 4,002	$ 5,101	$ 3,426	$ 1,885
Basic Earnings per Common Share	$ 0.78	$ 0.37	$ 0.52		
Diluted Earnings per Common Share	$ 0.77	$ 0.37	$ 0.52		

</TABLE>

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(1) In connection with the sale of the Company by Medaphis in May 1997, the Company incurred a one-time $2.8 million non-cash compensation charge. This charge was from the issuance by the Company of 200,000 shares of Common Stock to the Company's management group, as a bonus for the successful completion of the sale of the Company by Medaphis. This represents 2% of the shares of Common Stock outstanding after the Company's initial public offering and 1.7% of the shares of Common Stock outstanding following the exercise of the underwriters' over-allotment option.

BALANCE SHEET DATA
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Cash and Cash Equivalents	$31,133	$24,674	$ 53	$ --	$ 5,950
Working Capital	30,898	22,911(1)	1,730	1,675	709
Total Assets	61,003	48,170	23,969	13,390	15,872
Total Indebtedness	--	--	--	--	2
Stockholders' Equity	37,193	27,865	4,110	3,274	9,188

</TABLE>

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(1) The increase in working capital, including cash and cash equivalents, is primarily attributable to the $19.2 million of proceeds received by the Company from the exercise of the underwriters' over-allotment option granted by the Company in connection with the May 1997 initial public offering.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

HCRI provides insurance subrogation and related recovery services to the private healthcare payor industry. HCRI services comprise the complete outsourcing of the identification, investigation and recovery of accident-related medical benefits incurred by its clients on behalf of their

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insureds, but for which other persons or entities have primary responsibility. The rights of HCRI's clients to recover the value of these medical benefits arise by law or contract, are known generally as the right of subrogation and are generally paid from the proceeds of liability or workers' compensation insurance.

For a typical new client, it takes three to six months from the contract signing (when the lives are "sold") to complete the construction of electronic data interfaces necessary for the Company to begin service. At this point, the new client is considered "installed." During the installation period, the Company must also hire and train quality staff necessary to provide contractual services. After installation, HCRI receives data from the client from which it creates an inventory of backlog.

"Backlog" is the total dollar amount of potentially recoverable claims that the Company is pursuing on behalf of its clients at a given point in time. These claims are gross figures, prior to estimates of claim settlement and rejection. Backlog increases when the Company opens new files of potentially recoverable claims and decreases when files of claims are recovered (or, after further investigation, determined to be nonrecoverable). Historically, subrogation recoveries (the amount actually recovered for its clients prior to the Company's fee) have been produced from the backlog in a generally predictable cycle. This is because any group of potential recoveries that has been sufficiently large in number to display statistically significant characteristics and that originates from a defined time period, tended to produce recovery results that have been comparable to other groups having similar characteristics. Although some recoveries will be made during the first year of service, the average time to make a recovery is 18 to 24 months, with substantially all recoveries made by the sixth year. Backlog for a client will range from newly identified potential recoveries (which will be identified each year) to potential recoveries that are in the late stages of the recovery process. As a result of this cycle, approximately six years from the date of installation, the client's annual amounts of subrogation recoveries as a percent of the client's backlog will be generally constant, except for variations due to the number of installed lives for the client.

For the most part, the Company is paid a contingency fee from the amount of subrogation recoveries it makes from backlog on behalf of its clients. The Company's revenues are a function of subrogation recoveries and effective fee rates. Effective fee rates vary depending on the mix between recovery services provided and client fee schedules. The fee schedules for each client are separately negotiated and reflect the Company's standard fee rates, the services to be provided and anticipated volume of services. The Company grants volume discounts and negotiates a lower fee when it assumes backlog from a client because the client will have already completed some of the recovery work. Since the Company records expenses as costs are incurred and records

revenues only when a file is settled, there is a significant lag between recording of expenses and revenue recognition.

The Company's expenses are determined primarily by the number of employees directly engaged in recovery activities ("cost of services") and by the number of employees engaged in a variety of support activities ("support expenses"). Recovery-related employees must be hired and trained in advance of the realization of recoveries and revenues and, during times of rapid growth, installed lives and cost of service will grow more rapidly than revenue. The number of employees accounted for in support expenses generally grows less rapidly than revenue due to economies of scale.

RESULTS OF OPERATIONS

The following tables present certain key operating indicators and results of operations data for the Company for the periods indicated:

KEY OPERATING INDICATORS

<TABLE>

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<CAPTION>

	DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cumulative Lives Sold, Beginning of Period................	38.5	29.5	24.2
Lives from Existing Client Growth.......................	(3.1)	1.9	0.7
Lives Added from Contracts with Existing Clients...........	2.0	5.9	2.6
Lives Added from Contracts with New Clients................	3.1	1.2	2.0
Cumulative Lives Sold, End of Period......................	40.5	38.5	29.5
Lives Installed..	38.5	36.4	28.9
Backlog(1)...	$770.7	$668.3	$535.0
Subrogation Recoveries(2)..................................	177.7	144.9	112.5
Throughput(3)..	24.7%	24.1%	25.0%
Effective Fee Rate...	27.4	27.1	26.9
Subrogation Revenues.......................................	$ 48.7	$ 39.3	$ 30.2
Employees:			
Direct Operations..	386	399	312
Support..	109	84	71
Total Employees................................	495	483	383

</TABLE>

----

(1) Backlog represents the total dollar amount of potentially recoverable claims that the Company is pursuing on behalf of clients at any point in time.
(2) Excludes approximately $8.2 million of recoveries and $1.2 million of revenues in connection with the breast implant litigation settlement, during 1996.
(3) Throughput equals recoveries for the period divided by the average of backlog at the beginning and end of the period.

STATEMENTS OF INCOME AS A PERCENTAGE OF SUBROGATION REVENUES

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Subrogation Revenues..	100.0%	100.0%	100.0%
Cost of Services..	45.6	47.2	49.7
Support Expenses..	21.9	22.7	23.9
Operating Income..	27.7	19.9	27.4
Income Before Income Taxes..................................	31.1	22.8	29.1
Net Income..	18.3	10.2	16.9

</TABLE>

1998 COMPARED TO 1997

Revenues. Total revenues for the year ended December 31, 1998 increased 24%, to $48.7 million from $39.3 million in 1997. Growth in subrogation revenues occurred primarily because of increased subrogation recoveries, from $144.9 million in 1997 to $177.7 million in 1998. The effective fee rate increased slightly to 27.4% from 27.1%. The increase in total subrogation recoveries was due primarily to growth in backlog, which in turn grew primarily because of an increase in the number of lives installed. Backlog increased 15.3% to $770.7 million at December 31, 1998 from $668.3 million at December 31, 1997. The Company was also able to obtain subrogation recoveries at a rate of approximately 6% of average backlog per quarter during 1998 and 1997. Lives installed grew 5.8% in 1998 to 38.5 million.

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Cost of Services. Cost of services increased in 1998 to $22.2 million from $18.5 million in 1997, which is an increase of 19.8%. As a percentage of subrogation revenues, cost of services decreased to 45.6% in 1998 from 47.2% in 1997. The decrease is a result of lower growth of lives installed and their associated costs in 1998 relative to the growth in revenue for the year and increased efficiencies by the Company.

As a result of the nature of the Company's contingent fee arrangements with its clients, the Company incurs significant current expense in an effort to generate revenue, a significant portion of which will be recorded in future periods. Because relatively little revenue is earned during the first year following the installation of new lives, unless the Company assumes responsibility for the new client's existing backlog, the growth rate for lives installed exceeds the revenue growth rate.

Support Expenses. Support expenses increased 19.8% to $10.7 million for the twelve months ended December 31, 1998, from $8.9 million for the comparable period in 1997 due to hiring of additional support staff for the SubroSystem upgrade project. Support expenses decreased as a percentage of subrogation revenues from 22.7% for the twelve months ended December 31, 1997 to 21.9% for the comparable period in 1998. The decline in support expenses as a percentage of subrogation revenues resulted from improved economies of scale in the support functions and also the capitalization of $564,000 of certain software development costs associated with the upgrade of the SubroSystem for 1998. These costs were capitalized in conjunction with the requirements under Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," adopted January 1, 1998, which were historically expensed.

Depreciation and Amortization. Depreciation and amortization expenses increased 97.6% to $2.3 million for the twelve months ended December 31, 1998 from $1.2 million for the comparable period in 1997. The increase in depreciation expense was mainly attributable to the capital expenditures for the SubroSystem Upgrade.

Interest Income. Interest income, net totaled $1.7 million and $1.2 million for the twelve months ended December 31, 1998 and 1997, respectively. The increase in interest income was a result of continued interest income earned on $19.2 million of proceeds from the issuance by the Company of 1,470,000 shares of Common Stock on June 9, 1997 upon the exercise of the underwriters' over-allotment option and on HCRI's cash provided by operating activities.

Compensation Charge. In connection with the sale of the Company by Medaphis in May 1997, the Company incurred a one-time $2.8 million non-cash compensation charge. This charge was from the issuance by the Company of 200,000 shares of Common Stock to the Company's management group, as a bonus for the successful completion of the sale of the Company by Medaphis. This represented 2% of the shares of Common Stock outstanding after the Company's initial public offering and 1.7% of the shares of Common Stock outstanding following the exercise of the underwriters' over-allotment option.

Tax: Provision for income taxes was approximately 41.3% of pre-tax income for the year ended December 31, 1998 and 42% for the year ended December 31, 1997. The effective tax rate exceeded the Federal statutory tax rate as a consequence of state and local taxes and non-deductible expenses.

Net Income. Net income for the year ended December 31, 1998 increased $2.1 million, or 30.8%, to $8.9 million or $0.77 per diluted share, from $6.8 million or $0.63 per diluted share for the year ended

December 31, 1997, excluding the $2.8 million non-cash ($0.26 per diluted share), compensation charge incurred in 1997. Net income as, reported for the twelve months ended December 31, 1997 was $4.0 million, or $0.37 per diluted share, including the non-recurring compensation charge. Net income and earnings per share for the year ended December 31, 1998, excluding $564,000 of certain software development costs associated with the upgrade of the SubroSystem and

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capitalized in conjunction with the requirements under SOP 98-1, would have been $8.57 million and $0.74 per diluted share, respectively. These capitalized costs were historically expensed prior to the Company implementing Statement of Position 98-1 on January 1, 1998.

1997 COMPARED TO 1996

Revenues. Total revenues for the year ended December 31, 1997 increased 25%, to $39.3 million. This increase is primarily attributable to a 30% growth in subrogation revenues, from $30.2 million to $39.3 million. Total revenues for the year ended December 31, 1996 include $1.2 million of non-recurring revenue generated from the breast implant class action settlement services provided on an ad hoc basis by the Company, net of related expenses incurred by the Company. The Company assisted healthcare payors in obtaining a settlement with breast implant manufacturers, other than Dow Corning, by, among other things, calculating their aggregate medical benefit liability. Growth in subrogation revenues occurred primarily because of increased subrogation recoveries, from $112.5 million in 1996 to $144.9 million in 1997. The effective fee rate increased slightly to 27.1% from 26.9%. The increase in total subrogation recoveries was due primarily to growth in backlog, which in turn grew primarily because of an increase in the number of lives installed. Backlog increased 25% to $668.3 million at December 31, 1997 from $535.0 million at December 31, 1996. The Company was also able to obtain subrogation recoveries at a rate of approximately 6% of average backlog per quarter during 1996 and 1997. Lives installed grew 26% in 1997 to 36.4 million.

Cost of Services. Cost of services increased to $18.5 million in 1997 from $15.0 million in 1996, an increase of 23%. As a percentage of subrogation revenues, cost of services decreased to 47.2% in 1997 from 49.7% for 1996. The decrease is a result of lower growth of lives installed and their associated costs in 1997 relative to the growth in revenue for the year and increased efficiencies by the Company.

As a result of the nature of the Company's contingent fee arrangements with its clients, the Company incurs significant current expenses in an effort to generate revenue, a significant portion of which will be recorded in future periods. Because relatively little revenue is earned during the first year following the installation of new lives, unless the Company assumes responsibility for the new client's existing backlog, the growth rate for lives installed exceeds the revenue growth rate.

Support Expenses. Support expenses increased 24%, to $8.9 million for the twelve months ended December 31, 1997, from $7.2 million for the comparable period in 1996 due to hiring of additional support staff for the SubroSystem upgrade project. Support expenses decreased as a percentage of subrogation revenues (i.e., revenues excluding the non-recurring other revenue from the silicone breast implant class action settlement) from 23.9% for the twelve months ended December 31, 1996 to 22.7% for the comparable period in 1997. The decline in support expenses as a percentage of subrogation revenues resulted from improved economies of scale in the support functions.

Depreciation and Amortization. Depreciation and amortization expenses from prior periods were restated separately to conform with current presentation. Depreciation and amortization expenses increased 34.5% to $1.2 million for the twelve months ended December 31, 1997 from $0.9 million for the comparable period in 1996.

Compensation Charge. In connection with the sale of the Company by Medaphis in May 1997, the Company incurred a one-time $2.8 million non-cash compensation charge from the issuance by the Company of 200,000 shares of Common Stock to the Company's management as a bonus for the successful completion of the sale of the Company by Medaphis. These shares represented 2% of the 10,000,000 shares of Common Stock outstanding after the initial public offering that closed on May 28, 1997 and 1.7% of the 11,470,000 shares of Common Stock outstanding after the sale of 1,470,000 shares issued upon exercise of the underwriters' over-allotment option.

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Interest Income. Interest income, net totaled $1.2 million and $0.5 million for the twelve months ended December 31, 1997 and 1996, respectively. The increase in interest income was a result of interest income earned on $19.2 million of proceeds from the issuance by the Company of 1,470,000 shares of Common Stock as of June 9, 1997 upon the exercise of the underwriters' over-allotment option.

Tax. Provision for income taxes was approximately 42% of pre-tax income excluding the non-cash non-recurring compensation charge, for the years ended December 31, 1997 and 1996. The effective tax rate exceeded the Federal statutory tax rate as a consequence of state and local taxes and non-deductible expenses.

Net Income. Net income for the year ended December 31, 1997 increased $2.4 million, or 55%, to $6.8 million, or $0.63 per share, from $4.4 million, or $0.45 per share, in the comparable period of 1996, excluding non-recurring items. These non-recurring items were the $2.8 million ($.26 per share) non-cash, non-recurring compensation charge in 1997 and $680,000 ($.07 per share, net of tax) of net income from the breast implant class action settlement in 1996. Net income as reported for the twelve months ended December 31, 1997 was $4.0 million, or $0.37 per share, compared to $5.1 million, or $0.52 per share, for the comparable period of 1996.

LIQUIDITY AND CAPITAL RESOURCES

The Company's statements of cash flows for the years ended December 31, 1998, 1997 and 1996 are summarized below:

<TABLE>
<CAPTION>

	DECEMBER 31, (IN THOUSANDS)		
	1998	1997	1996
Net Cash Provided by Operations	$ 9,814	$10,764	$ 5,876
Net Cash Used In Investing Activities	(3,783)	(3,096)	(1,558)
Net Cash Provided by (Used In) Financing Activities	428	16,953	(4,265)
Net Increase in Cash and Cash Equivalents	$ 6,459	$24,621	$ 53

</TABLE>

The Company had working capital of $30.9 million at December 31, 1998, including cash and cash equivalents of $31.1 million, compared with working capital of $22.9 million at December 31, 1997. The increase is primarily attributable to $9.8 million of cash provided by operating activities offset by furniture and equipment purchases.

Net cash provided by operations decreased $1.0 million for the year ended December 31, 1998 compared to the year ended December 31, 1997, primarily as a result of timing of recurring cash receipts and disbursements related to accrued expenses and subrogation recoveries.

Net cash used in investing activities primarily reflects the Company's capital expenditures for ongoing facility expansion and system enhancements, including computer hardware, to meet the requirements of the Company's growing revenue base. Capital expenditures for the year ending December 31, 1998 were approximately $3.8 million for facility expansion, computer hardware and the SubroSystem Upgrade. Over the next 12 months, the Company anticipates capital expenditures approximating the same as 1998 for the upgrade and the integration of the Subro-Audit, Inc. and a related entity, O'Donnell Leasing Co., LLP, acquisition, which closed on January 25, 1999, and for the MedCap Medical Cost Management, Inc. acquisition, which closed on February 15, 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

Net cash provided by financing activities for the year ended December 31, 1998 reflects $0.4 million in cash proceeds received in connection with the exercise of a former employee's stock options. Net cash provided by financing

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activities for the year ended December 31, 1997 reflects $19.2 million in cash proceeds received in connection with the exercise of the underwriters' over-allotment option, offset by a $2.2 million distribution to Medaphis. An amount of $4.3 million representing a distribution to Medaphis is reflected in the 1996 cash used in financing activities.

In February 1998, the Company entered into a $50 million senior secured revolving credit facility (the "Credit Facility") with National City Bank of Kentucky and the lenders named therein, replacing the Company's $10 million line of credit. The principal amount outstanding under the Credit Facility will mature on January 31, 2001 and bears interest at the Company's option, at either: (i) the Prime Rate plus the applicable margin in effect or (ii) the Eurodollar Rate plus the applicable margin in effect. The applicable margin is determined in accordance with a Pricing Grid based on the Company's ratio of consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization. The agreement contains usual and customary covenants including, but not limited to, financial tests for interest coverage, net worth levels and leverage that may limit the Company's ability to pay dividends. The Company's obligations under the Credit Facility are secured by substantially all of the Company's assets, subject to certain permitted exceptions. As of March 25, 1999, the Company was in compliance with the covenants and a total of $12.3 million was drawn under the Credit Facility for two acquisitions the Company recently completed. The Credit Facility was amended in May 1998 and March 1999 to enable the Company to acquire entities that do not maintain audited financials and to use proceeds from the Credit Facility to repurchase up to $10 million of outstanding stock, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

By contract, with respect to its standard recovery services, the Company disburses recoveries to its clients on or before the 15th day of the month following the month in which recoveries are made. At December 31, 1998 and December 31, 1997, the Company reported on its balance sheet, as a current asset, restricted cash of $16.9 million and $14.2 million, respectively, representing subrogation recoveries effected by HCRI for its clients. At December 31, 1998 and December 31, 1997, HCRI reported on its balance sheet, as a current liability, funds due clients of $13.1 million and $11.6 million, respectively, representing recoveries to be distributed to clients, net of the fee earned on such recoveries.

The Company believes that its available cash resources, together with the borrowings available under the Credit Facility, will be sufficient to meet its current operating requirements and acquisitions and internal development initiatives.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting pronouncements which are expected to have a significant impact on the Company, other than those previously disclosed and currently being applied.

RECENT DEVELOPMENTS

Acquisitions

On January 25, 1999, HCRI acquired the assets of Subro-Audit, Inc., a Wisconsin corporation, and a related entity, O'Donnell Leasing Co., LLP, a Wisconsin limited liability partnership (together, "SAI"), for approximately $24.4 million, using available unrestricted cash, and may pay up to $8.5 million over the next two years pursuant to an earn-out arrangement. SAI is based in Wisconsin and has provided recovery services to an installed base of approximately 8 million lives, who are covered by insurers, HMOs and employer-funded plans throughout the United States. The acquisition will be accounted for using the purchase method of accounting and will be operated as a division of HCRI.

On February 15, 1999, HCRI acquired the assets of MedCap Medical Cost

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Management Systems, Inc., a California corporation ("MedCap"), for approximately $10 million, using existing cash and short-term borrowed funds, and may pay up to fifty percent of the gross profits of the MedCap business for each of the twelve month periods ending December 31, 1999 and 2000, pursuant to an earn-out arrangement. MedCap provides a variety of medical cost management services to health insurers and HMOs primarily in California. These services include hospital bill auditing, contract compliance review, identification of certain other payments, and cost management consulting services. The acquisition will be accounted for using the purchase method of accounting and will be operated as a division of HCRI.

Anticipated First Quarter 1999 Results

On March 15, 1999, HCRI announced that based on information available as of that date, the Company expected revenues for the first quarter of 1999 to be in the range of $13.0 million to $14.0 million. The Company further anticipated revenues in this range to result in earnings between $0.12 and $0.14 per share, on a diluted basis.

Stock Repurchase Plan

HCRI also announced that its Board had authorized a stock repurchase plan under which the Company may repurchase up to $10 million of HCRI Common Stock in the open market, from time to time, at prices per share deemed favorable by it. Shares will be repurchased using borrowed funds and will continue until such time as the Company has repurchased $10 million of HCRI Common Stock or until it otherwise determines to terminate the stock repurchase plan.

Adoption of a Rights Plan

On February 12, 1999, the Board of Directors adopted a Stockholder Rights Plan and declared a dividend of one preferred stock purchase right (a "Right") for each outstanding share of Common Stock of the Company. The dividend was payable to stockholders of record on March 1, 1999. The Rights, which will initially trade with the Common Stock, separate and become exercisable only upon the earlier to occur of (i) 10 days after the date (the "Stock Acquisition Date") of a public announcement that a person or group of affiliated persons has acquired 20% or more of the Common Stock (such person or group being hereinafter referred to as an "Acquiring Person") or (ii) 10 days (or such later date as the Board of Directors shall determine) after the commencement of, or announcement of an intention to make, a tender offer or exchange offer that could result in such person or group owning 20% or more of the Common Stock (the earlier of such dates being called the "Distribution Date"). When exercisable, each Right initially entitles the registered holder to purchase from the Company one one-hundredth of a share of a newly created class of preferred stock of the Company at a purchase price of $65 (the "Purchase Price"). The Rights are redeemable for $0.001 per Right at the option of the Board of Directors. The Rights expire on March 1, 2009.

If any person becomes an Acquiring Person, each holder of a Right will thereafter have the right (the "Flip-In Right") to receive, in lieu of shares of preferred stock and upon payment of the Purchase Price, shares of Common Stock having a value equal to two times the Purchase Price of the Right. Also, if at any time on or after the Stock Acquisition Date, (i) the Company is acquired in a transaction in which the holders of all the outstanding shares of Common Stock immediately prior to the consummation of the transaction are not the holders of all of the surviving corporation's voting power, or (ii) more than 50% of the Company's assets, cash flow or earning power is sold or transferred other than in the ordinary course of business, then each holder of a Right shall thereafter have the right (the "Flip-Over Right") to receive, in lieu of shares of preferred stock and upon exercise and payment of the Purchase Price, common shares of the acquiring company having a value equal to two times the Purchase Price. If a transaction would otherwise result in a holder having a Flip-In as well as a Flip-Over Right, then only the Flip-Over Right will be exercisable. If a transaction results in a holder having a Flip-Over Right subsequent to a transaction resulting in the holder having a Flip-In Right, a holder will have a Flip-Over Right only to the extent such holder's Flip-In Rights have not been

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exercised.

Related Party Transaction

On February 12, 1999, the Board of Directors authorized a loan in the amount of $350,000 to Patrick B. McGinnis, the Chairman and Chief Executive Officer of the Company, in exchange for a full recourse promissory note in the same amount from Mr. McGinnis. The full recourse promissory note bears interest at a rate equal to the Company's cost of borrowing under its Credit Facility, or if no loan amount is outstanding under the Credit Facility, the federal short-term rate.

EXTERNAL FACTORS

The business of recovering subrogation and related claims for healthcare payors is subject to a wide variety of external factors. Prominent among these are factors that would materially change the healthcare payment, fault-based liability or workers' compensation systems. Because the Company's profitability depends in large measure upon obtaining and using claims data, and the availability of property and casualty and workers' compensation coverages as sources of recovery, changes in laws that would limit or bar either the access to or use of claims data or the ability of healthcare payors to recover subrogation and related claims represent an ongoing risk to the Company.

Moreover, because the Company's revenues derive from the recovery of the costs of medical treatment of accidents, material changes in such costs will tend to affect the Company's revenue or its rate of revenue growth. The healthcare industry, and particularly the business of healthcare payors, is subject to various external factors that may have the effect of significantly altering the costs of healthcare. The Company is unable to predict which of these factors, if any, could have a potentially material impact on healthcare payors and through them, the healthcare subrogation recovery industry.

The Company provides services to healthcare plans that as of December 31, 1998 covered approximately 40.5 million lives. HCRI's clients are national and regional healthcare payors, large third-party administrators or self-insured corporations. During 1998 and 1997, HCRI's largest clients generated 28%, 8%, and 7%, and 31%, 9% and 9%, respectively, of HCRI's revenues. The loss of one or more of these accounts could have a material adverse effect on HCRI's business, results of operations and financial condition. On December 31, 1998, HCRI had backlog of $770.7 million. HCRI's revenues are earned under written contracts with its clients that generally provide for contingency fees from recoveries under a variety of pricing regimes. The pricing arrangements offered by HCRI to its clients include a fixed fee percentage, a fee percentage that declines as the number of lives covered by the client and subject to HCRI's service increases and a fee percentage that varies with HCRI's recovery performance.

YEAR 2000 ISSUES

The year 2000 presents a problem for computer systems (software and hardware) that were not designed to handle any dates beyond the year 1999. The problem is pervasive and complex because virtually every computer operation will be affected in some way by the rollover of the last two digits of the year "00." In consequence, any such software and hardware will need to be modified some time prior to December 31, 1999, in order to remain functional. Computer systems that do not properly handle this rollover could generate erroneous data or fail to function.

The Company has initiated a company-wide program to identify and address the modifications to or replacements of computer code (including data received from clients), hardware and office equipment, the testing and the implementation procedures necessary to achieve year 2000 readiness ("Y2K Readiness" or descriptively, "Y2K Ready"). As a result of this program, all functions within the Company have been surveyed in order to first, identify software and hardware that are not presently Y2K Ready, and secondly, to establish a schedule for remediation or replacement of the items of software and hardware that are not Y2K Ready.

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The Company has completed its identification of the elements of its software and hardware that are not Y2K Ready. Included among these elements are certain fields contained in the SubroSystem, the Company's on-line subrogation system. The first date of potential failure for all of these items of software and hardware, including the SubroSystem, is January 1, 2000. The completion date for replacement or remediation of all elements of Company software, including the SubroSystem, and hardware which are not already Y2K Ready, is September 30, 1999. Although the Company had previously estimated a June 30, 1999 completion date, the Company directed certain resources during the fourth quarter of 1998 to facilitate acquisitions and certain other matters which caused the delay. To date, the costs of the Company's efforts to achieve Y2K Readiness have not exceeded $75,000, and are not expected to exceed $150,000 in total.

Management believes that the greatest risk posed to the Company's Y2K Readiness lies in the possible failure of its clients and other members of the healthcare payor industry to achieve Y2K Readiness. The Company relies on its clients to provide electronic claims data, through electronic data interfaces, as the source of information from which the Company identifies potentially recoverable claims. If clients are unable to provide such data because they are not Y2K Ready, the Company could suffer a slow-down in its recovery efforts, impairing its ability to make the recoveries from which it derives its revenue. Moreover, to the extent that payors which are potential clients fail to achieve Y2K Readiness, HCRI's ability to sell to and to install such payors may also be impaired. With respect to current clients, HCRI has undertaken a survey of each client's state of Y2K Readiness. The Company has received notifications from 70% of its client base, representing more than 70% of its installed lives. All notifications indicated that clients have Y2K efforts underway. The Company is attempting to obtain surveys from its remaining client base. However, as the Company is relying upon representations of client Y2K Readiness in response to the surveys, the Company is closely monitoring progress through available means, and preparing for contingencies, as necessary.

The Company's contingency planning calls for, among other things, early identification of alternative means of obtaining electronic claims data should the existing electronic data interfaces with clients fail. Contingency plans are being developed on an as-needed, client-specific basis, as warranted.

ITEM 7A. QUANTITATIVE & QUALITATIVE MARKET RISK DISCLOSURES

The Company is exposed to market risk from changes in interest rates related to its Credit Facility. The impact on earnings and value of any debt under its Credit Facility is subject to change as a result of movements in market rates and prices. The Credit Facility is subject to variable interest rates. As of December 31, 1998, the Company had nothing outstanding under its Credit Facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
Healthcare Recoveries, Inc.

In our opinion, the accompanying balance sheets and the related statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Healthcare Recoveries, Inc. (the Company) at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with

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generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion expressed above.

PricewaterhouseCoopers LLP

February 16, 1999, except for
Note 15 as to which the date
is March 22, 1999.

HEALTHCARE RECOVERIES, INC.

BALANCE SHEETS
DECEMBER 31, 1998 AND 1997
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$31,133	$24,674
Restricted cash	16,927	14,207
Accounts receivable, less allowance for doubtful accounts of $307 in 1998 and $251 in 1997	3,607	2,507
Other current assets	1,583	676
Total current assets	53,250	42,064
Property and equipment, at cost:		
Furniture and fixtures	2,527	2,177
Office equipment	1,783	1,471
Computer equipment	7,991	5,066
Leasehold improvements	845	649
	13,146	9,363
Accumulated depreciation and amortization	(6,962)	(4,920)
Property and equipment, net	6,184	4,443
Other assets	1,569	1,663
Total assets	$61,003	$48,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,234	$ 986
Accrued expenses	5,516	4,770
Funds due clients	13,118	11,643
Income taxes payable	2,484	1,754
Total current liabilities	22,352	19,153
Other liabilities	1,458	1,152
Total liabilities	23,810	20,305
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value; 2,000,000 shares authorized; no shares issued or outstanding	--	--
Common stock, $.001 par value; 20,000,000 shares		

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authorized; 11,502,987 shares and 11,470,000 shares issued and outstanding, respectively	12	11
Capital in excess of par value	22,428	22,001
Retained earnings	14,753	5,853
Total stockholders' equity	37,193	27,865
Total liabilities and stockholders' equity	$61,003	$48,170

</TABLE>

The accompanying notes are an integral part of the financial statements.

HEALTHCARE RECOVERIES, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	1998	1997	1996
Revenues:			
Subrogation	$48,734	$39,277	$30,248
Other revenues	--	--	1,171
Total revenues	48,734	39,277	31,419
Cost of services	22,199	18,523	15,026
Gross profit	26,535	20,754	16,393
Support expenses	10,692	8,922	7,215
Depreciation and amortization	2,334	1,181	878
Non-recurring compensation charge (See Note 7)	--	2,848	--
Operating income	13,509	7,803	8,300
Interest income, net	1,657	1,158	486
Income before income taxes	15,166	8,961	8,786
Provision for income taxes	6,266	4,959	3,685
Net income	$ 8,900	$ 4,002	$ 5,101
Earnings per common share (basic)	$ 0.78	$ 0.37	$ 0.52
Earnings per common share (diluted)	$ 0.77	$ 0.37	$ 0.52

</TABLE>

The accompanying notes are an integral part of the financial statements.

HEALTHCARE RECOVERIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	COMMON STOCK	CAPITAL IN EXCESS OF	EQUITY FUNDING FROM (TO)	RETAINED

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	SHARES	AMOUNT	PAR VALUE	MEDAPHIS CORPORATION	EARNINGS (DEFICIT)	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1995.......	9,800,000	$ 10	--	$ 4,447	$(1,183)	$ 3,274
Net income......................					5,101	5,101
Distribution to Medaphis........				(4,265)		(4,265)
Balances, December 31, 1996.......	9,800,000	10	--	182	3,918	4,110
Net income......................					4,002	4,002
Issuance of common stock........	1,470,000	1	19,241			19,242
Non-recurring compensation charge......................	200,000	--	2,800			2,800
Distributions to Medaphis Corporation.................				(182)	(2,067)	(2,249)
Other...........................			(40)			(40)
Balances, December 31, 1997.......	11,470,000	11	22,001	--	5,853	27,865
Net income......................					8,900	8,900
Issuance of common stock........	32,987	1	427			428
Balances, December 31, 1998.......	$11,502,987	$ 12	$22,428	--	$14,753	$37,193

</TABLE>

The accompanying notes are an integral part of the financial statements.

HEALTHCARE RECOVERIES, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income..	$ 8,900	$ 4,002	$ 5,101
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-recurring compensation charge.....................	--	2,848	--
Depreciation and amortization...........................	2,334	1,181	878
Deferred income taxes...................................	341	(295)	(27)
Changes in operating assets and liabilities:			
Restricted cash.......................................	(2,720)	4,548	(9,247)
Accounts receivable...................................	(1,100)	(581)	(630)
Other current assets..................................	(960)	(379)	89
Other assets..	(318)	(1,085)	(42)
Trade accounts payable................................	248	400	296
Accrued expenses......................................	746	1,109	1,473
Funds due clients.....................................	1,475	(3,310)	8,028
Income taxes payable..................................	730	1,754	--
Other liabilities.....................................	138	572	(43)
Net cash provided by operating activities.........	9,814	10,764	5,876
Cash flows from investing activities:			
Purchases of property and equipment......................	(3,783)	(3,096)	(1,558)
Net cash used in investing activities............	(3,783)	(3,096)	(1,558)
Cash flows from financing activities:			
Issuance of common stock.................................	428	19,242	--
Distributions to Medaphis Corporation....................	--	(2,249)	(4,265)
Other..	--	(40)	--

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Net cash provided by (used in) financing activities	428	16,953	(4,265)
Net increase in cash and cash equivalents	6,459	24,621	53
Cash and cash equivalents, beginning of period	24,674	53	--
Cash and cash equivalents, end of period	$31,133	$24,674	53
Supplemental cash flows disclosure:			
Income tax payments	$ 5,293	$ 3,753	$ 3,712

</TABLE>

The accompanying notes are an integral part of the financial statements.

HEALTHCARE RECOVERIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION:

Healthcare Recoveries, Inc. (the "Company") was incorporated on June 30, 1988 under the laws of the State of Delaware. The Company's services comprise the complete outsourcing of the identification, investigation and recovery of accident-related medical benefits incurred by its clients on behalf of their insureds, but which other persons or entities have primary responsibility. The Company's clients' rights to recover the value of these medical benefits, arising by law or contract, are generally known as the right of subrogation and paid from the proceeds of liability or workers' compensation insurance.

The Company operated as an independent entity until August 28, 1995 when it was merged with and into a subsidiary of Medaphis Corporation ("Medaphis") in a transaction accounted for as a pooling of interests (the "Merger"). Prior to the Merger, the Company's redeemable convertible preferred stock was converted to Common Stock. As of the effective time of the Merger, each share of the then issued and outstanding Company Common Stock was exchanged for Medaphis common stock. Employee stock options of the Company outstanding at the effective time of the Merger were also substituted with similar options on Medaphis common stock. Subsequent to the Merger, Medaphis recapitalized the Company effectively canceling all but 100 shares of common stock (not adjusted for the Stock Split discussed in Note 11), pledged the assets and shares as collateral for Medaphis' bank debt, and made the Company a guarantor for Medaphis' bank debt.

On May 21, 1997, the Company completed its initial public offering (the "Offering") of 9,800,000 shares of Common Stock, excluding 200,000 shares issued in connection with the non-recurring compensation charge (see Note 7). Medaphis sold all the shares. As a result, the Company received no proceeds from the sale of shares in the Offering. On June 9, 1997, the Company sold 1,470,000 shares of Common Stock to the underwriters of the Offering in satisfaction of the exercise of an over-allotment option, resulting in proceeds to the Company of approximately $19.2 million.

In connection with the Offering, certain revisions to allocations and estimates were made by management in the accompanying financial statements for the periods during which the Company was a subsidiary of Medaphis to present the financial position, results of operations and cash flows of the Company as an independent entity. Costs previously incurred by Medaphis on behalf of the Company include executive salaries, employee benefits, insurance, telecommunications, payroll processing and other general and administrative expenses. The allocation of these costs was based principally on specific identification, the ratio of the number of Company employees to total Medaphis employees or the ratio of total Company assets to total Medaphis assets, as appropriate. Total cost allocated to the Company was $361,000 for the year ended December 31, 1996. Effective January 1, 1997, these costs were paid by the Company. Management believes that, in the aggregate, costs of this nature reflect the fair value of services rendered by Medaphis and that it would have incurred similar costs as an independent entity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents include cash, demand deposits and highly liquid investments with an original maturity of three months or less. Carrying values of cash and cash equivalents approximate fair value due to the short-term nature of the instruments.

Restricted cash represents the balance in client-specific bank accounts of amounts collected on behalf of certain clients. A portion of the balance will be disbursed to clients in accordance with the terms of the contracts between the Company and its clients, while the remainder will be released to the Company.

The Company's cash, cash equivalents and restricted cash have been placed with one financial institution.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives of property and equipment range from three to five years. Effective January 1, 1998, the Company adopted Statement of Position 98-1, which requires the capitalization of internal and external costs incurred to develop or obtain computer software for internal use.

REVENUE RECOGNITION

Subrogation revenues are generally derived from contingent fee arrangements based on the recoveries effected by the Company on behalf of its clients. Revenue is recognized when a fee is earned based on the settlement of a case. A case is deemed settled when the parties agree on all material terms associated with the settlement. Typically, a settlement is reached verbally over the telephone, followed by a letter sent by Company personnel confirming the terms of the settlement.

OTHER REVENUES

Other revenues represent amounts associated with non-recurring subrogation services for clients in connection with class action tort claims relating to the use of breast implants.

PROVISION FOR INCOME TAXES

The provision for income taxes has been prepared as if the Company was an independent entity for all periods presented and in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

STOCK-BASED COMPENSATION PLANS

The Company accounts for its employee stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Effective in 1996, the Company implemented the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 requires companies that elect not to account for stock-based compensation as prescribed by SFAS No. 123, to disclose the pro forma effects on earnings and earnings per share as if SFAS No. 123 had been adopted. Additionally, certain other disclosures are required with respect to stock compensation and the assumptions used in determining the pro forma effects of SFAS No. 123.

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EARNINGS PER COMMON SHARE

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share calculations follows (dollars in thousands, except per share results):

	NET INCOME	SHARES	PER-SHARE RESULTS
YEAR ENDED DECEMBER 31, 1998:			
Basic earnings per common share....................	$8,900	11,484,266	$ 0.78
Effect of dilutive stock options...................	--	70,676	(0.01)
Diluted earnings per common share..................	8,900	11,554,942	0.77
YEAR ENDED DECEMBER 31, 1997:			
Basic earnings per common share....................	4,002	10,752,384	0.37
Effect of dilutive stock options...................	--	66,293	--
Diluted earnings per common share..................	4,002	10,818,677	0.37
YEAR ENDED DECEMBER 31, 1996:			
Basic earnings per common share....................	5,101	9,800,000	0.52
Effect of dilutive stock options...................	--	--	--
Diluted earnings per common share..................	5,101	9,800,000	0.52

Basic earnings per common share for 1997 were computed based on the weighted-average number of shares outstanding during the period after giving retroactive effect to the Stock Split (see Note 11). The dilutive effect of stock options is calculated using the treasury stock method. Options to purchase 360,550 shares for the year ended December 31, 1998 were not included in the computation of diluted earnings per common share as the options' exercise prices were greater than the average market price of the common shares during the period.

USE OF ESTIMATES AND ASSUMPTIONS

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect (i) reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the date of the financial statements and (iii) reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

3. LEASE COMMITMENTS:

The Company leases office space and certain equipment. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 1998 are as follows (in thousands):

1999...	$1,195
2000...	1,179
2001...	1,156
2002...	587
	$4,117

Rental expense, which includes amounts applicable to short-term leases, was approximately $1,110,000, $979,000 and $806,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

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HEALTHCARE RECOVERIES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. INCOME TAXES:

The provision for income taxes for the years ended December 31, 1998, 1997 and 1996 consists of the following (in thousands):

	1998	1997	1996
Current:			
Federal	$4,961	$3,941	$2,784
State and local	964	1,313	928
	5,925	5,254	3,712
Deferred:			
Federal	286	(246)	(22)
State and local	55	(49)	(5)
	341	(295)	(27)
	$6,266	$4,959	$3,685

The following is a reconciliation of the effective tax rate to the federal statutory rate for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Federal statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	6.8	6.8	6.8
Non-recurring compensation charge	--	13.3	--
Other, net	(0.5)	0.2	0.1
	41.3%	55.3%	41.9%

Temporary differences giving rise to deferred taxes in the accompanying balance sheets at December 31, 1998 and 1997 consist of the following (in thousands):

	1998		1997	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Accrued bonuses	$ 585		$ 456	--
Accounts receivable		$1,395	--	$940
Accrued litigation	596		555	--
Other	163	15	219	15
	$1,344	$1,410	$1,230	$955

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Management believes that the deferred tax assets are realizable based primarily on the existence of sufficient taxable income within the allowable carryback period.

5. MAJOR CLIENTS:

The following table presents the percentage of total revenues contributed by the Company's largest clients for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
UnitedHealth Group	28%	31%	25%
Kaiser Permanente	8	9	12
	36%	40%	37%

No other client accounted for more than 10% of the Company's total revenues. The loss of one or both of these clients could have a material adverse effect on the Company's results of operations, financial position and cash flows.

6. RELATED PARTY TRANSACTION:

The Company has entered into a contract for legal services with a professional service corporation that is wholly owned by one of the Company's officers. This arrangement exists solely for the purpose of minimizing the costs of legal services purchased by the Company on behalf of its clients. For the years ended December 31, 1998, 1997 and 1996, approximately $1,320,000, $1,001,000 and $748,000, respectively, was paid to this law firm for such legal services.

7. NON-RECURRING COMPENSATION CHARGE:

During the second quarter of 1997, the Company recognized a non-recurring, non-cash compensation charge of approximately $2.8 million relating to a bonus comprised of 200,000 shares of the Company's Common Stock granted by the Company to certain members of the Company's executive management upon consummation of the Offering. The amount of the charge approximated the fair value of the shares granted based on the Offering price of $14.00 per share.

8. EMPLOYEE BENEFIT PLAN:

PENSION PLAN

The Company's employees participated in the 401(k) defined contribution pension plan of Medaphis prior to January 1, 1997. Effective on that date, the Company's employees began participation in the Company's 401(k) defined contribution pension plan. Annual expense provisions for both plans are based upon the level of employee participation, as the plans require the Company to match a certain portion of the employees' contributions. Total retirement plan expense was approximately $342,700, $247,000 and $165,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

OTHER

Accrued bonuses included in the accompanying balance sheets at December 31, 1998 and 1997 approximate $4.4 and $3.4 million, respectively.

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9. CONTINGENCIES:

The Company is engaged in the business of identifying and recovering subrogation and related claims of its clients, many of which arise in the context of personal injury lawsuits. As such, the Company operates in a litigation-intensive environment. The Company has, from time to time, been, and in the future expects to be, named as a party in litigation incidental to its business operations. To date, the Company has not been involved in any litigation which has had a material adverse effect upon the Company, but there can be no assurance that pending litigation or future litigation will not have a material adverse effect on the Company's business, results of operations or financial condition.

10. CREDIT FACILITY:

On February 1, 1998, the Company entered into an agreement which provides an unsecured revolving line of credit (the "Credit Facility") for borrowings up to a maximum of $50 million, expiring January 31, 2001. There were no outstanding borrowings on this line at December 31, 1998 (See Note 15). The Credit Facility replaced an existing $10 million revolving line of credit, under which there were no outstanding borrowings at December 31, 1997. Principal amounts outstanding under the Credit Facility bear interest at a variable rate

based on the Prime Rate or Eurodollar Rate, as applicable, plus a pre-determined margin based on the ratio of the Company's total indebtedness to earnings before interest, taxes, depreciation and amortization. The agreement contains customary covenants and events of default including maintenance of certain minimum interest coverage and leverage ratios and a minimum level of net worth. The agreement also contains a material adverse change clause. The Company does not expect changes in interest rates to have a material effect on its financial position, results of operation or cash flows in 1999. The Credit Facility was amended in May 1998 and March 1999 to enable the Company to acquire entities that do not maintain audited financials and to use proceeds from the Credit Facility to repurchase up to $10 million of outstanding Common Stock.

11. RECAPITALIZATION:

On May 16, 1997, the Company amended its Certificate of Incorporation to authorize 2,000,000 shares of $.001 par value preferred stock and 20,000,000 shares of $.001 par value Common Stock, of which 9,800,000 shares of Common Stock were issued and outstanding after a 98,000-for-1 Common Stock split ("Stock Split"), which the Company declared to be effective immediately prior to the Offering. The Stock Split was effected in the form of a stock dividend. Accordingly, all references in the accompanying financial statements to number of shares and related per share results have been stated to reflect these changes.

12. SEPARATION AGREEMENT WITH MEDAPHIS:

Effective May 21, 1997, the Company and Medaphis entered into a separation agreement (the "Separation Agreement") that provided for the separation of the Company from Medaphis. The Separation Agreement provided that on the date of the Offering (i) the Company would (assuming none of the underwriters' over-allotment option had been exercised) have a nominal amount of unrestricted cash, and would not owe any amount to Medaphis (except as discussed below with respect to purchased goods and services, certain employee benefit plan payments and a distribution to be paid to Medaphis to reduce the Company's stockholders' equity to $4,110,000) and (ii) Medaphis would not owe any amount to the Company.

The Separation Agreement also provided that (i) the Company would pay (without markup or markdown) Medaphis after the consummation of the Offering for any goods or services purchased from or through Medaphis prior to consummation but not paid for prior to such consummation; (ii) Medaphis would cause its bank lenders to release in connection with the Offering the Company's guaranty of

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Medaphis' bank debt, all liens on the Company's assets and the common stock to be sold by Medaphis pursuant to the Offering; (iii) the Company would upon consummation of the Offering assume responsibility for providing health insurance or insurance coverage to former company employees (and their eligible dependents) who have exercised their right under federal law to obtain such insurance or insurance coverage in accordance with applicable federal law; (iv) assets and liabilities under the Medaphis "cafeteria" employee benefit plan relating to the Company's employees would be transferred to a new Company "cafeteria" benefit plan, together with an adjusting payment to or from the Company to reflect any difference between plan assets and liabilities; (v) after consummation of the Offering, Medaphis would transfer assets in the Medaphis 401(k) retirement plan that relate to the Company's employees to a new 401(k) retirement plan in a manner that satisfies legal requirements for interplan asset transfers; (vi) all stock options held by the Company's employees as of the consummation of the Offering would, in accordance with the particular option plan under which such options were granted, become immediately vested as of such date and any such optionees would be entitled to exercise their options in accordance with the terms of the particular option agreements relating to the granting of such options; (vii) effective as of the consummation of the Offering, the Company was required to have in place certain insured and self-funded welfare benefit plans and arrangements to cover those Company employees who were covered by such types of plans prior to such date; and (viii) Medaphis would pay, in one lump sum, the account balances under the Medaphis Executive Deferred Compensation Plan due

to those plan participants who would be continuing employment with the Company after consummation of the Offering.

With respect to indemnification, the Separation Agreement provided that (i) the Company would indemnify Medaphis for federal, state and local income and other tax liability relating to the Company for all periods ending on or prior to August 28, 1995, the date of the Merger and for all periods after the consummation of the Offering; (ii) Medaphis would indemnify the Company for federal income tax liability relating to Medaphis or any of its subsidiaries (including the Company), and for state and local income and other tax liability relating to Medaphis or any subsidiaries (other than the Company) from August 29, 1995 to the date of consummation of the Offering; (iii) the Company would indemnify Medaphis from liability due to or arising out of acts or failures to act of the Company in the periods described in clause (i); (iv) Medaphis would indemnify the Company from liability due to or arising out of the acts or failures to act of Medaphis or any of its subsidiaries (other than the Company) for all periods described in (i) and (ii); and (v) Medaphis would indemnify the non-employee directors of the Company from certain liabilities arising out of the Offering, including liabilities under the Securities Act of 1993.

13. COMMON STOCK OPTIONS:

Upon consummation of the Offering, the Company adopted the Healthcare Recoveries, Inc. Non-Qualified Stock Option Plan for Eligible Employees (the "Employees' Plan"), the Healthcare Recoveries, Inc. Amended and Restated Directors' Stock Option Plan (the "Directors' Plan") and the Healthcare Recoveries, Inc. Employee Stock Purchase Plan (the "Purchase Plan"). On December 8, 1997, the Company adopted the Healthcare Recoveries, Inc. 1997 Stock Option Plan for Eligible Participants (the "1997 Plan").

The Employees' Plan provides for the award of stock options to certain officers and key employees of the Company. Options under the Employees' Plan are exercisable at 100% of the market value of the Company's Common Stock on the date of grant. Awards under the Employees' Plan vest ratably over a three-year period and expire ten years from the date of grant. As provided in the Employees' Plan, all options granted to the Company's employees automatically vest in the event of a change in control. At December 31, 1998, 673,750 shares of Common Stock were reserved for issuance under the Employees' Plan, including 105,889 shares available for future award.

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The Directors' Plan provides for the grant of options to purchase the Company's Common Stock to each non-employee director of the Company. Options under the Directors' Plan are exercisable at 100% of the market value of the Company's Common Stock on the date of grant. Each eligible director is to be granted on the date of each annual meeting of stockholders of the Company beginning in 1998 an option to purchase 2,000 shares of Common Stock, for so long as shares are available under the Plan, but not after March 31, 2002. Terms of options granted under this Plan commence on the date of grant and expire on the tenth anniversary of the grant date. Each option is to become exercisable when vested. The options vest ratably over a three-year period, provided that the optionee must be a non-employee Director of the Company on each such anniversary in order for options to vest on such date. At December 31, 1998, 150,000 shares of Common Stock were reserved for issuance under the Directors' Plan, including 90,000 shares available for future award.

Under the Purchase Plan, eligible employees may purchase shares of the Company's Common Stock, subject to certain limitations, at 85% of its market value. Purchases are made from payroll deductions up to a maximum of 15% of an employee's eligible annual compensation. During the year ended December 31, 1998, 6,737 shares of the Company's Common Stock were purchased under the Purchase Plan, resulting in 293,263 reserved shares of Common Stock being available for purchase at December 31, 1998.

The 1997 Plan provides for the grant of options to purchase the Company's Common Stock to eligible participants of the Company at 100% of the market value of the Company's Common Stock on the date of grant. Awards under the 1997 Plan expire ten years from the date of grant and vest according to the terms that

the compensation committee of the Board of Directors determines in its sole discretion. As provided in the 1997 Plan, all options granted to the Company's employees automatically vest in the event of a change in control. At December 31, 1998, 860,000 shares of Common Stock have been reserved under the 1997 Plan of which 402,700 shares are available for future award.

Activity related to the Employees' Plan, Directors' Plan and 1997 Plan for the year ended December 31, 1998 is summarized as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Options outstanding as of January 1, 1998........	723	$14.93	--	--
Granted.......................................	537	$17.85	728	$ 14.94
Exercised.....................................	(26)	$17.60	--	--
Canceled......................................	(149)	$15.79	(5)	$ 15.87
Options outstanding as of December 31, 1998......	1,085	$16.58	723	$ 14.93
Weighted-average fair value of options granted during the year (per share)....................	$ 8.07		$6.54	

</TABLE>

The following table summarizes information about options outstanding under the Employees' Plan, Directors' Plan and 1997 Plan at December 31, 1998:

<TABLE>
<CAPTION>

OPTIONS OUTSTANDING OPTIONS EXERCISABLE

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RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING DECEMBER 31, 1998 (000)	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OUTSTANDING DECEMBER 31, 1998 (000)	WEIGHTED-AVERAGE EXERCISE PRICE
$8.56 - $15.938....................	607	9.0	$15.34	207	$14.45
$16.37 - $23.50....................	478	9.23	19.56	7	18.48
	1,085	9.12	16.58	214	16.47

</TABLE>

Employee stock options of the Company outstanding at the effective time of the Merger were substituted with similar options on Medaphis common stock. Subsequent to the Merger and prior to the Offering, employees of the Company participated in the Non-Qualified Stock Option Plan and the Non-Qualified Stock Option Plan for Non-Executive Employees (the "Medaphis Plans") of Medaphis. Granted options under the Medaphis Plans expire 10 to 11 years after the date of grant and generally vest over a three-to-five-year period; however, in accordance with the terms of the Medaphis Plans, all options granted to the Company's employees automatically vested in connection with the Offering. All unexercised options held by the Company's employees under the Medaphis Plans expired on November 21, 1997. Stock options granted to the Company's employees under the Medaphis Plans do not affect the number of shares used in determining the Company's earnings per common share results. The following presents information related to the Company's employees' participation in the Medaphis Plans prior to the Offering.

All options under the Medaphis Plans were either exercised or canceled as of December 31, 1997. Activity related to the years 1997 and 1996 is summarized as follows:

<TABLE>
<CAPTION>

	1997		1996	
	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE
Options outstanding as of January 1......	412	$14.06	220	$14.06
Granted..............................	--	$13.75	293	$13.75
Exercised............................	(227)	$ 7.37	(10)	$ 7.37
Canceled.............................	(185)	$28.64	(91)	$28.64
Options outstanding as of December 31....	0	$10.79	412	$10.79
Options exercisable as of December 31....	0		35	89
Weighted-average fair value of options granted during the year (per share)....	$ 0		$2.23	

</TABLE>

On October 25, 1996, Medaphis changed the exercise price of approximately 81,000 of its then outstanding stock options, which had an exercise price of $15.00 or greater, to a new exercise price of $9.875. On April 25, 1997, Medaphis re-priced all options then outstanding under the Medaphis Plans to the market price of Medaphis common stock on that date of $5.375. No other terms of these options were changed. The Company has not recognized compensation expense as a result of the re-pricing of the stock options granted under the Medaphis Plans.

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The Company accounts for options granted under its employee stock-based compensation plans in accordance with APB No. 25. As a result, the Company has not recognized compensation expense for stock options granted with an exercise price equal to the quoted market price of the common stock on the date of grant and which vest based solely on continuation of employment by the recipient of the option award. The Company adopted SFAS No. 123 for disclosure purposes in 1996. For SFAS No. 123 purposes, the fair value of each option grant and stock based award has been estimated as of the date of grant using the Black-Scholes option pricing model. The following summarizes the weighted average assumptions used in valuing awards under the Employees' Plan, Directors' Plan and 1997 Plan in 1998 and 1997 and the Medaphis Plans in 1997 and 1996.

	1998	1997	1996
Expected life (years)	5.0	5.0	3.8
Risk-free interest rate	5.5%	5.8%	6.2%
Dividend yield	0.0	0.0	0.0
Expected volatility	38.2	40.0	52.9

Had compensation expense been recognized under the provisions of SFAS No. 123, utilizing the assumptions in the table above, the Company's net income for the years ended December 31, 1998, 1997 and 1996 and earnings per common share (basic and diluted) for the years ended December 31, 1998, 1997 and 1996 would have decreased to the following pro forma amounts:

	1998	1997	1996
Net Income As reported	$8,900	$4,002	$5,101
Proforma	6,972	3,217	4,793
Earnings per common share (basic and diluted) As reported (basic)	0.78	0.37	0.52
As reported (diluted)	0.77	0.37	0.52
Proforma	0.60	0.30	0.49

The effects of applying SFAS No. 123 in the pro forma disclosures are not likely to be representative of the effects on pro forma net income or earnings per common share for future years because variables such as

option grants, option exercises, and stock price volatility included in the disclosures may not be indicative of actual future activity.

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

A summary of the Company's quarterly results of operations follows (dollars in thousands except per share amounts):

	FIRST	SECOND	THIRD	FOURTH
YEAR ENDED DECEMBER 31, 1998:				
Revenues	$11,196	$12,025	$12,719	$12,794
Income before income taxes	3,608	3,704	3,865	3,989
Net income	2,093	2,171	2,277	2,359
Earnings per common share (basic)	0.18	0.19	0.20	0.21

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Earnings per common share (diluted)	0.17	0.19	0.20	0.21
YEAR ENDED DECEMBER 31, 1997:				
Revenues	$ 8,917	$ 9,324	$10,180	$10,856
Income (loss) before income taxes	2,367	(118)	3,180(a)	3,532
Net income (loss)	1,375	(1,264)	1,839(a)	2,052
Earnings (loss) per common share (basic and diluted)	0.14	(0.12)	0.16(a)	0.18

</TABLE>

(a) Includes a non-recurring compensation charge of approximately $2.8 million ($0.26 per share) related to a bonus granted by the Company to certain members of the Company's executive management upon consummation of the Offering.

15. SUBSEQUENT EVENTS:

ACQUISITIONS

On January 25, 1999, the Company acquired the assets of SAI for approximately $24.4 million, using available unrestricted cash, and may pay up to $8.5 million over the next two years pursuant to an earn-out arrangement. SAI is based in Wisconsin and has provided recovery services to an installed base of approximately 8 million lives, who are covered by insurers, HMO's and employer-funded plans throughout the United States. The acquisition was accounted for using the purchase method of accounting and will be operated as a division of HCRI.

On February 15, 1999, the Company acquired the assets of MedCap for approximately $10 million, using existing cash and short-term borrowed funds, and may pay up to fifty percent of gross profits of the MedCap business for each of the twelve month periods ending December 31, 1999 and 2000, pursuant to an earn-out arrangement. MedCap provides a variety of medical cost management services to health insurers and HMOs. These services include hospital bill auditing, contract compliance review, identification of certain other payments, and cost management consulting services. The acquisition was accounted for using the purchase method of accounting and will be operated as a division of HCRI.

STOCK REPURCHASE PLAN

HCRI also announced on March 22, 1999 that its Board had authorized a stock repurchase plan under which the Company may repurchase up to $10 million of HCRI Common Stock in the open market, from time to time, at prices per share deemed favorable by it. Shares will be repurchased using borrowed funds and will continue until such time as the Company has repurchased $10 million of HCRI Common Stock or until it otherwise determines to terminate the stock repurchase plan.

ADOPTION OF A RIGHTS PLAN

On February 12, 1999, the Board of Director adopted a Stockholder Rights Plan and declared a dividend of one preferred stock purchase right (a "Right") for each outstanding share of Common Stock of the Company. The dividend was payable to stockholders of record on March 1, 1999. The Rights, which will initially trade with the common stock, separate and become exercisable only upon the earlier to occur of (i) 10 days after the date (the "Stock Acquisition Date") of a public announcement that a person or group of affiliated persons has acquired 20% or more of the common stock (such person or group being hereinafter referred to as an "Acquiring Person") or (ii) 10 days (or such later date as the Board of Directors shall determine) after the commencement of, or announcement of an intention to make, a tender offer or exchange offer that could result in such person or group owning 20% or more of the common stock (the earlier of such

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dates being called the "Distribution Date"). When exercisable, each Right initially entitles the registered holder to purchase from the Company one one-hundredth of a share of a newly created class of preferred stock of the Company at a purchase price of $65 (the "Purchase Price"). The Rights are redeemable for $0.001 per Right at the option of the Board of Directors. The Rights expire on March 1, 2009.

If any person becomes an Acquiring Person, each holder of a Right will thereafter have the right (the "Flip-In Right") to receive, in lieu of shares of preferred stock and upon payment of the Purchase Price, shares of Common Stock having a value equal to two times the Purchase Price of the Right. Also, if, at any time on or after the Stock Acquisition Date, (i) the Company is acquired in a transaction in which the holders of all the outstanding shares of Common Stock immediately prior to the consummation of the transaction are not the holders of all of the surviving corporation's voting power, or (ii) more than 50% of the Company's assets, cash flow or earning power is sold or transferred other than in the ordinary course of business, then each holder of a Right shall thereafter have the right (the "Flip-Over Right") to receive, in lieu of shares of preferred stock and upon exercise and payment of the Purchase Price, common shares of the acquiring company having a value equal to two times the Purchase Price. If a transaction would otherwise result in a holder having a Flip-In as well as a Flip-Over Right, then only the Flip-Over Right will be exercisable. If a transaction results in a holder having a Flip-Over Right subsequent to a transaction resulting in the holder having a Flip-In Right, a holder will have a Flip-Over Right only to the extent such holder's Flip-In Rights have not been exercised.

RELATED PARTY TRANSACTION

On February 12, 1999, the Board of Directors authorized a loan in the amount of $350,000 to Patrick B. McGinnis, Chairman and Chief Executive Officer, in exchange for a full recourse promissory note in the same amount from Mr. McGinnis. The full recourse promissory note bears interest at a rate equal to the Company's cost of borrowing under its Credit Facility, or, if no loan amount is outstanding under the Credit Facility, the federal short-term rate.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item with respect to Directors and Executive Officers of the Registrant is included in the sections entitled "Management of the Company", "Executive Officers" "Certain Relationships and Related Transactions" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 1999 and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is included in the sections entitled "Executive Compensation", "Stock Option Grants", "Stock Option Exercises", "Compensation Committee Report on Executive Compensation", and "Stock Price Performance Graph" of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 1999 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is included in the sections entitled "Management Common Stock Ownership" and "Principal Stockholders" of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 1999 and is incorporated herein by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is included in the section entitled "Certain Relationships and Related Transactions" of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 3, 1999 and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

Report of Independent Accountants

Balance Sheets -- years ended December 31, 1998 and 1997

Statements of Income -- years ended December 31, 1998, 1997, and 1996

Statements of Changes in Stockholders' Equity -- years ended December 31, 1998, 1997, and 1996

Statements of Cash Flow -- years ended December 31, 1998, 1997, and 1996

2. Financial Statement Schedules (none required)

3. Exhibits

The following list of Exhibits includes both exhibits submitted with this Form 10-K as filed with the Commission and those incorporated by reference to other filings:

<TABLE>
<C> <C> <S>

2.1	--	Asset Purchase Agreement, dated as of December 4, 1998, by and among the Registrant, MedCap Medical Cost Management, Inc. and Marcia Deutsch (incorporated by reference to Exhibit 2.1 of registrant's Current Report on Form 8-K, filed December 11, 1998, File No. 000-22585.)
2.2	--	Asset Purchase Agreement, dated as of January 3, 1999, by and among the Registrant, Subro-Audit, Inc., O'Donnell Leasing Co., LLP, Kevin M. O'Donnell and Leah Lampone (incorporated by reference to Exhibit 2.1 of Registrant's Current Report on Form 8-K, filed January 11, 1999, File No. 000-22585).
2.3	--	Amendment to Asset Purchase Agreement by and among Healthcare Recoveries, Inc., Subro-Audit, Inc., O'Donnell Leasing Co., LLP, Kevin O'Donnell and Leah Lampone, dated as of January 25, 1999 (incorporated by reference to Exhibit 2.2 of Registrant's Current Report on Form 8-K, filed February 3, 1999, File No. 000-22585).
3.1	--	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of Registrant's Amendment No. 2 to Registration Statement on Form S-1, File No. 333-23287).
3.2	--	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of Registrant's Amendment No. 2 to Registration Statement on Form S-1, File No. 333-23287).
4.1	--	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Registrant's Amendment No. 1 to Registration Statement on Form S-1, File No. 333-23287).
4.2	--	Rights Agreement, dated February 12, 1999, between the Registrant and National City Bank, as Rights Agent, which includes as Exhibit A the Form of Certificate of Designations of the Preferred Stock, as Exhibit B the Form

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of Right Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Stock (incorporated by reference to Exhibit 4.1 of Registrant's Form 8-A, filed February 16, 1999).

10.1	--	Healthcare Recoveries, Inc. Non-Qualified Stock Option Plan for Eligible Employees (incorporated by reference to Exhibit 4.2 of Registrant's Registration Statement on Form S-1, File No. 333-23287).
10.2	--	Healthcare Recoveries, Inc. Amended and Restated Directors' Stock Option Plan.
10.3	--	Healthcare Recoveries, Inc. 1997 Stock Option Plan for Eligible Participants (incorporated by reference to Annex A of Registrant's Proxy Statement for a Special Meeting, dated November 10, 1997).
10.4	--	Healthcare Recoveries, Inc. Employee Stock Purchase Plan (incorporated by reference to Registrant's Registration Statement on Form S-8, File No. 333-41557).
10.5	--	Employment Agreement between the Registrant and Patrick B. McGinnis (incorporated by reference to Exhibit 10.2 to Registrant's Registration Statement on Form S-1, File No. 333-23287).
10.6	--	Amendment No. 1 to Employment Agreement between the Registrant and Patrick B. McGinnis, dated February 12, 1999.
10.7	--	Form of Employment Agreement between the Registrant and Douglas R. Sharps, Bobby T. Tokuuke and Debra M. Murphy (incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form S-1, File No. 333-23287).
10.8	--	Agreement relating to Employment and Stock Options, dated June 23, 1998, by and between the Registrant and Bobby T. Tokuuke.
10.9	--	Employment Agreement between the Registrant and Kevin M. O'Donnell, dated January 25, 1999.

</TABLE>

<TABLE>

<C>	<C>	<S>
10.10	--	Separation Agreement between Medaphis and the Registrant (incorporated by reference to Exhibit 10.1 of Registrant's Amendment No. 2 to Registration Statement on Form S-1, File No. 333-23287).
10.11	--	Divestiture Bonus Agreement (incorporated by reference to Exhibit 10.4 of Registrant's Amendment No. 2 to Registration Statement on Form S-1, File No. 333.23287).
10.12	--	Supplemental Retirement Savings Plan (incorporated by reference to Exhibit 10.5 of Registrant's Amendment No. 2 to Registration Statement on Form S-1, File No. 333-23287).
10.13	--	Lease between W&M Kentucky, Inc. and the Registrant (incorporated by reference to Exhibit 10.6 of Registrant's Statement on Form S-1, File No. 333-23287).
10.14	--	Annual Bonus Plan (incorporated by reference to Exhibit 10.7 of Registrant's Amendment No. 2 to Registration Statement on Form S-1, File No. 333-23287).
10.15	--	Credit Agreement, dated as of February 1, 1998 by and among the Registrant, the Lending Institutions Named Therein and National City Bank of Kentucky (incorporated by reference to Exhibit 10.12 of Registrant's Form 10-K, for the period ended December 31, 1997).
10.16	--	Amendment No. 1 to the Credit Agreement, dated as of May 15, 1998 by and among the Registrant, the Lending Institutions Named Therein and National City Bank of Kentucky.
10.17	--	Amendment No. 2 to the Credit Agreement, dated as of March 19, 1999 by and among the Registrant, the Lending Institutions Named Therein and National City Bank of Kentucky.
23.1	--	Consent of PricewaterhouseCoopers LLP.
27.1	--	Financial Data Schedule. (for SEC use only)
99.1	--	Healthcare Recoveries, Inc. Private Securities Litigation Reform Act of 1995 Safe Harbor Compliance Statement for

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Forward-Looking Statement.
</TABLE>

(b) Reports on Form 8-K

A report on Form 8-K, filed on December 4, 1998, announced that the Company had entered into an Asset Purchase Agreement by and among the Company, MedCap Medical Cost Management, Inc. ("MedCap") and Marcia Deutsch (the "Asset Purchase Agreement"), pursuant to which the Company would purchase substantially all of the assets and assume certain of the liabilities of MedCap. The Company agreed to pay $10 million in cash at closing and additional amounts over two years pursuant to an earn-out agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HEALTHCARE RECOVERIES, INC.

/s/ PATRICK B. MCGINNIS

Patrick B. McGinnis
Chairman, President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
/s/ PATRICK B. MCGINNIS Patrick B. McGinnis	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 26, 1999
/s/ DOUGLAS R. SHARPS Douglas R. Sharps	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1999
/s/ WILLIAM C. BALLARD, JR. William C. Ballard, Jr.	Director	March 26, 1999
/s/ JILL L. FORCE Jill L. Force	Director	March 26, 1999
/s/ JOHN H. NEWMAN John H. Newman	Director	March 26, 1999
/s/ ELAINE J. ROBINSON Elaine J. Robinson	Director	March 26, 1999
/s/ CHRIS B. VAN ARSDEL Chris B. Van Arsdel	Director	March 26, 1999

</TABLE>

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EXHIBIT 10.2

HEALTHCARE RECOVERIES, INC. AMENDED AND RESTATED
DIRECTORS' STOCK OPTION PLAN

1. Purpose. The Healthcare Recoveries, Inc. Directors' Stock Option Plan (the "Plan") is intended as an incentive and as a means of encouraging stock ownership by non-employee members of the Board of Directors of Healthcare Recoveries, Inc. (the "Company").

2. Administration.

(a) The Plan shall be administered, construed and interpreted by the Compensation Committee (the "Committee") of the Board of Directors. During any time that the Board of Directors does not have a Compensation Committee, the duties of the Committee under the Plan shall be performed by the Board of Directors.

(b) The interpretation and construction by the Committee of any provision of the Plan, any option granted under it or any Stock Option Agreement and any determination by the Committee, pursuant to any provision of the Plan, any such option or any provisions of a Stock Option Agreement, shall be final and conclusive. The terms and conditions of each individual Stock Option Agreement shall be in accordance with the provisions of the Plan, but the Committee may provide for such additional terms and conditions, not in conflict with the provisions of the Plan, as it deems advisable.

3. Eligibility. Members of the Board of Directors who are not employees of the Company or any subsidiary shall be granted options under and pursuant to the terms of the Plan.

4. Stock. The stock subject to the options and other provisions of the Plan shall be authorized but unissued or reacquired shares of the $.001 par value Common Stock of the Company (the "Common Stock"). Subject to readjustment in accordance with the provisions of Section 6(h), the total amount of Common Stock on which options may be granted to Directors under the Plan shall not exceed in the aggregate 150,000 shares.

If any outstanding option (or portion thereof) under the Plan for any reason expires unexercised or is terminated without exercise prior to the end of the period during which options may be granted, the shares of Common Stock allocable to the unexercised portion of such option again may be subjected to an option under the Plan.

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5. Grant of Options. Each eligible Director shall be granted on the later of the date of consummation of the initial public offering of the Common Stock, or the date he or she first becomes a Director an option to purchase 10,000 shares of Common Stock, and each eligible Director shall be granted on the date of each annual meeting of stockholders of the Company beginning in 1998 an option to purchase 2,000 shares of Common Stock, for so long as shares are available under the Plan, but no option shall be granted after March 31, 2002. Options granted shall be subject to the vesting and other terms and conditions of the Plan and each optionee's Stock Option Agreement.

6. Terms and Conditions of Options. Stock options granted pursuant to the Plan shall be evidenced by Stock Option Agreements in such form as the Committee from time to time shall approve; such agreements and the stock options granted by such agreements shall comply with and be subject to the following, terms and conditions:

(a) Number of Shares. Each Stock Option Agreement shall state the total number of shares of Common Stock to which it pertains.

(b) Exercise Price. In the case of options granted on the date of consummation of the initial public offering of the Common Stock, the exercise price per share shall be the initial public offering price per share. In all other cases, the exercise price per share shall be the arithmetic average of the Fair Market Value per share of the Common Stock on the ten trading days that precede the date of grant, including the date of grant as the tenth trading day, on which shares of the Common Stock are traded.

(c) Medium and Time Payment. The exercise price shall be payable upon the exercise of the option, or as provided in Section 6(f) if the Company adopts a broker-directed cashless exercise/resale procedure, in each case in an amount equal to the number of shares then being purchased times the per share exercise price. Payment at the election of the optionee, shall be (i) in cash;(ii) by delivery to the Company of a certificate or certificates for shares of Common Stock, duly endorsed for transfer to the Company with signature guaranteed by a member firm of the New York Stock Exchange or by a national banking association; (iii) by the withholding by the Company of shares of stock that otherwise would be issued to the optionee as a result of the exercise of such option to the extent that the optionee elects to pay such exercise price through such withheld shares of Common Stock; or (iv) by a combination of (i), (ii) and (iii). In the event of any payment by delivery or withholding of shares of Common Stock, such shares shall be valued on the basis of their Fair Market Value determined as of the day prior to the date of delivery or withholding. If payment is made by delivery of shares of Common Stock, the value of such shares may not

exceed the total exercise price payment; but the preceding clause shall not

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prevent delivery of a stock certificate for a number of shares having a greater value, if the number of shares to be applied to payment of the exercise price is designated by the optionee and the optionee requests that a certificate for the remainder shares be delivered to the optionee.

In addition to the payment of the purchase price of the shares then being purchased, an optionee shall also, pursuant to Section 12, pay to the Company or otherwise provide for an amount equal to the amount, if any, which the Company at the time of exercise is required to withhold under the income tax withholding provisions of the Internal Revenue Code and other applicable income tax laws.

(d) Fair Market Value. For purposes of Sections 6(b) and (c), Fair Market Value of Common Stock shall be determined on the applicable date as follows. If Common Stock is registered on a national securities exchange (as such term is defined by the Securities Exchange Act of 1934) or is regularly traded in the over-the-counter market on the date of determination, the Fair Market Value per share of the Common Stock shall be determined as the price equal to the mean between the high and low sales prices of a share of the Common Stock on said national securities exchange on that day (or, for purposes of Section 6(c), if no shares of the stock are traded on that date but there were shares traded on dates within a reasonable period both before and after such date, the Fair Market Value shall be the weighted average of the means between the high and low sales prices of the stock on the nearest date before the nearest date after that date on which shares of the stock are traded) or of the mean between the high "bid" and low "asked" prices per share in said over-the-counter market on that day, as reported by the National Association of Securities Dealers. If the Common Stock is traded on two national securities exchanges, the Fair Market Value shall be determined by the weighted average Fair Market Value on such exchanges unless one of such exchanges is the New York Stock Exchange in which case Fair Market Value shall be determined by prices on that exchange. If the Common Stock is traded both on a national securities exchange and in the over-the-counter market, the Fair Market Value shall be determined by the prices on the national securities exchange, unless transactions on such exchange and in the over-the-counter market are jointly reported on a consolidated reporting system in which case the Fair Market Value shall be determined by reference to such consolidated reporting system. If the Common Stock is not listed for trading on a national securities exchange and is not regularly traded in the over-the-counter market, then the Committee shall determine the Fair Market Value of the stock from all relevant available facts which may include options of independent experts as to value and may take into account any recent sales and purchases of such stock to the extent they are representative.

(e) Terms of Options; Date of Exercise. Terms of options granted under this Plan shall commence on the date of grant and shall expire on the 10th anniversary of the grant date, subject to Section 6(g). Each option shall

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become exercisable when vested.

(f) Method of Exercise. Options shall be exercised (i) by written notice directed to the Secretary of the Company at its principal place of business, accompanied by payment (made in accordance with Section 6(c)), in cash or personal check (which will be accepted subject to collection), or by certificates for shares of the Common Stock, or by directions for withholding of shares, or by a combination of the foregoing, of the option price for the number of shares specified in the notice of exercise and by any documents required by Section 6(i), or (ii) by complying with the exercise and other provisions of any broker-directed cashless exercise/resale procedure adopted by the Company and approved by the Committee, and by delivery of any documents required by Section 6(i). The Company shall make delivery of such shares within a reasonable period of time or in accordance with applicable provisions of any such broker-directed cashless exercise/resale procedure; provided, however, that if any law or regulation requires the Company to take any action (including but not limited to the filing of a registration statement under the Securities Act of 1933 and causing such registration statement to become effective) with respect to the shares specified in such notice before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action.

(g) Effect of Termination of Service as a Director. If an optionee during his life ceases to be a non-employee Director of the Company (including its subsidiaries) due to voluntary resignation as a Director, voluntary decision not to stand for reelection or removal as a Director by the stockholders for cause, then the unvested portion of any option shall terminate on the earlier to occur of (i) the expiration date of the option, or (ii) the date of termination of service as a non-employee Director. If an optionee ceases to be a Director for any other reason, the unvested portion of options shall vest on the date of termination of service and may thereafter be exercised in accordance with their terms. In the event of the death of the optionee while he is a non-employee Director of the Company or after termination of such service, the vested portion of any option may be exercised by his personal representatives, heirs or legatees at any time prior to the expiration of six months from the date of death of the optionee, but in no event later than the date of expiration of the option.

(h) Adjustments Upon Changes in Capitalization. If the Common Stock should, as a result of a stock split or stock divided, combination of shares, recapitalization or other change in the capital structure of the company or exchange of Common Stock for other securities by reclassification or otherwise, be increased or decreased or changed into, or exchanged for, a different number or kind of shares of other securities of the Company, or any other corporation, then the number of shares

covered by options, the number and kind of shares which thereafter may be distributed or issued under the Plan and the per share option price of options

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shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent dilution of or increase in the rights granted to, or available for, optionees.

(i) Who May Exercise. No option shall be assignable or transferable by the optionee except by will or by the laws of descent and distribution; and, during the lifetime of an optionee, the option shall be exercisable only by him.

(j) Optionee's Agreement. If, in the opinion of counsel for the Company, such action is necessary or desirable, no option shall be granted to any optionee unless at such time such optionee represents and warrants that the stock will be acquired for investment only and not for purposes of resale or distribution and makes such further representation and warranties as are deemed necessary or desirable by counsel to the Company with regard to holding and resale of the stock. If at the time of the exercise of any option, in the opinion of counsel for the Company, it is necessary or desirable, in order to comply with any applicable laws or regulations relating to the sale of securities, that the optionee shall represent and warrant that he is purchasing the shares that are subject to the option for investment and not with any present intention to resell or distribute the same or make other and further representations and warranties with regard to the holding and resale of the shares, the optionee, upon the request of the Committee, will execute and deliver to the Company an agreement or affidavit to such effect. All certificates issued pursuant to the exercise of any option shall be marked with a restrictive legend, if such marking, in the opinion of counsel to the Company, is necessary or desirable.

(k) Rights as a Stockholder. An optionee shall have no rights as a stockholder with respect to shares covered by his option until the date of the issuance of the shares to him and only after such shares are fully paid. Unless specified in Section 6(h), no adjustment will be made for dividends or other rights for which the record date is prior to the date of such issuance.

(l) Vesting. The right to purchase one-third of the shares of Common Stock covered by an option shall vest on the first anniversary of the grant date and on each succeeding anniversary thereof until fully vested, provided that the optionee must be a non-employee Director of the Company on each such anniversary in order for options to vest on such date.

(m) Miscellaneous Provisions. The Stock Option Agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the option as the Committee shall deem advisable.

7. Effective Date and Termination of Plan.

(a) The Plan shall become effective upon adoption by the Board of

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Directors of the Company.

(b) The Plan, with respect to the granting of options, shall terminate at midnight on March 31, 2002, but the Board of Directors may terminate the Plan at any time prior to said time and date. Such termination of the Plan by the Board of Directors shall not alter or impair any of the rights or obligations under any option theretofore granted under the Plan unless the affected optionee shall so consent.

8. Fractional Shares. If any provision of this Plan or a Stock Option Agreement would create a right to acquire a fractional share, such fractional share shall be disregarded.

9. Successor Corporation. The obligations of the Company under the Plan shall be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company and shall continue to be binding upon the Company notwithstanding any change in ownership of the Company. The Company agrees that it will make appropriate provision for the preservation of optionees' rights under the Plan in any agreement or plan which it may enter into or adopt to effect any such transfer of assets or ownership.

10. Non-Alienation of Benefits. Except insofar as applicable law may otherwise require, (i) no options, rights or interest of optionees or Common Stock deliverable to any optionee at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge of encumbrance of any kind, and any attempt to so alienate, sell, transfer, assign, pledge, attach, charge or otherwise encumber any such amount, whether presently or thereafter payable, shall be void; and (ii), to the fullest extent permitted by law, the Plan shall in no manner be liable for, or subject to, claims, liens, attachments or other like proceedings or the debts, liabilities, contracts, engagements, or torts of any optionee. Nothing in this Section 10 shall prevent an optionee's rights and interests under the Plan from being transferred by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or ERISA;

provided, however, that no transfer by will or by the laws of descent and distribution shall be effective to bind the Company unless the Committee or its designee shall have been furnished before or after the death of such optionee with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

11. Listing and Qualification of Shares. The company, in its discretion, may postpone the issuance or delivery of shares of Common Stock until completion of any stock exchange listing, or other qualification or registration of such shares under any state or federal law, rule or regulation, as the Company may consider appropriate, and may require any optionee to furnish such information as it may consider appropriate in connection with the issuance or delivery of

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the shares in compliance with applicable laws, rules and regulations.

12. Taxes. The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local and other taxes required by law to be withheld with respect to options under the Plan, including, but not limited to, (i) deducting the amount required to be withheld from any amount then or thereafter payable to an optionee, beneficiary or legal representative, (ii) requiring an optionee, beneficiary or legal representative to pay to the Company the amount required to be withheld as a condition of releasing shares, or (iii) complying with applicable provisions of any broker-directed cashless exercise/resale procedure adopted by the Company pursuant to Section 6(f). If, in the exercise of an Option, the Company requires payment pursuant to (ii), then, to the extent permitted by the Company in its discretion, payment may be made in any medium provided for in subsection (d) of Section 6.

13. No Liability of Directors. No member of the Board or the Committee shall be personally liable by reason of any contract or other instrument executed by such member on his behalf in his capacity as a member of the Board or Committee, nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each employee, officer and Director of the Company, to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan to the fullest extent permitted or required by the Company's governing instruments and, in addition, to the fullest extent of any applicable insurance policy purchased by the Company.

14. Amendment. This Plan may be amended by the Board from time to time to the extent that the Board deems necessary or appropriate; provided, however, no such amendment shall be made absent the approval of the stockholders of the Company: (1) if stockholder approval of such amendment is required for continued compliance with Rule 16b-3 of the Securities Exchange Act, or (2) if stockholder approval of such amendment is required by any other applicable laws or regulations or by the rules of any stock exchange as long as the Common Stock is listed for trading on such exchange. The Committee also may suspend the granting of options under this Plan at any time; provided, however, the Company shall not have the right unilaterally to modify, amend or cancel any option granted before such suspension unless (i) the optionee consents in writing to such modification, amendment or cancellation or (ii) there is a dissolution or liquidation of the Company or a transaction described in Section 6(h) of this Plan.

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15. Captions. The captions preceding the sections of the Plan have been inserted solely as a matter of convenience and shall not, in any manner, define or limit the scope or intent of any provisions of the Plan.

16. Governing Law. The Plan and all rights thereunder shall be governed by, and construed in accordance with, the laws of the Commonwealth of Kentucky, without reference to the principles of conflicts of law thereof.

17. Expenses. All expenses of administering the Plan shall be borne by the Company.

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EXHIBIT 10.6

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (the "Amendment") amended that certain Employment Agreement dated as of May 28, 1997 (the "Employment Agreement") between HEALTHCARE RECOVERIES, INC. ("HCRI"), a Delaware corporation, and Patrick B. McGinnis, a resident of Louisville, Jefferson County, Kentucky, and the duly elected Chairman of the Board, Chief Executive Officer and President of HCRI.

The parties agree as follows:

Section 5(a) of the Employment Agreement is hereby amended by deleting the last sentence and substituting the following sentence in place thereof:

Such annual salary will be subject to annual adjustments by any increases given in the normal course of business.

Except as expressly modified herein, the terms and conditions set forth in the Employment Agreement shall continue in full force and effect and shall be incorporated herein.

IN WITNESS HEREOF, each party has executed this Amendment individually or by its duly authorized representative as of February 16, 1999.

HEALTHCARE RECOVERIES, INC.

By /s/ Douglas R. Sharps

Douglas R. Sharps
Executive Vice President Finance &
Administration

/s/ Patrick B. McGinnis

Patrick B. McGinnis
Chairman, Chief Executive Officer &
President

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EXHIBIT 10.8

AGREEMENT RELATING TO EMPLOYMENT AND STOCK OPTIONS

THIS AGREEMENT RELATING TO EMPLOYMENT AND STOCK OPTIONS dated as of June 23, 1998 (the "Agreement") amends and supplements certain agreements described below between HEALTHCARE RECOVERIES, INC. ("HRI"), a Delaware corporation, and BOBBY T. TOKUUKE ('Mr. Tokuuke").

RECITALS

A. HRI and Mr. Tokuuke have previously entered into an Employment Agreement dated May 28, 1997 and an Amendment thereto of even date therewith (the "Employment Agreement") setting forth the terms and conditions of Mr. Tokuuke's employment with HRI as a member of its Management Group.

B. HRI and Mr. Tokuuke have also previously entered into a Stock Option Agreement dated May 28, 1997 (the "Stock Option Agreement) under which Mr. Tokuuke was granted a stock options to purchase 65,000 shares of the $0.001 per value common stock of HRI ("HRI Common Stock") at a price of $14.00 per share (such stock options being referred to as the "1997 Options"), subject to all the provisions set forth in the Stock Option Agreement.

C. In February 1998, HRI granted to Mr. Tokuuke stock options to purchase 5,000 shares of HRI Common Stock at a price of $20.25 per share (such stock options being referred to as the "1998 Options").

D. HRI and Mr. Tokuuke have mutually agreed to alter the terms of Mr. Tokuuke's employment and compensation, as provided by this Agreement, and therefore to amend the Employment Agreement and the Stock Option Agreement.

NOW, THEREFORE, in consideration of the mutual premises and covenants set forth herein and in the Recitals hereto and made a part of this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms used herein shall have the meaning set forth in the Employment Agreement or the Stock Option Agreement as the context may indicate unless the context requires otherwise.

2. The Stock Option Agreement is hereby amended as follows.

A. Clause (i) of Section 2(b) of the Stock Option Agreement is deleted in its entirety.

B. Clause (iii) of Section 3(a) of the Stock Option Agreement is deleted in its entirety.

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3. Mr. Tokuuke hereby agrees that 43,333 1997 Options are, as of June 23, 1998, unvested, and hereby surrenders to HRI all of his unvested 1997 Options, and relinquishes all rights and claims to such unvested 1997 Options. With respect to the 1997 Options that are, as of June 23, 1998, vested, neither this Agreement nor any of the transactions contemplated hereby shall constitute a termination of Mr. Tokuuke's employment for purposes of Section 3 of the Stock Option Agreement.

4. Mr. Tokuuke hereby surrenders to HRI all of his 1998 Options, and relinquishes all rights and claims to the 1998 Options.

5. The Employment Agreement is hereby amended as follows: Section 5(b) shall be deleted in its entirety, and in lieu thereof the following provisions shall be substituted:

(b) Incentive Compensation. Effective June 23, 1998, until the termination of this Agreement, Employee shall be entitled to incentive compensation payments in accordance with the Key Managers Incentive Compensation Plan of Healthcare Recoveries, Inc.

6. In consideration of the foregoing, HRI shall issue to Mr. Tokuuke, as of June 23, 1998, stock options to purchase 20,000 shares of HRI Common Stock, with an exercise price equal to Fair Market Value, as such term is defined in the Healthcare Recoveries, Inc. 1997 Stock Option Plan for Eligible Participants under which such options shall be issued.

7. Notwithstanding anything to the contrary set forth in the Stock Option Agreement or the Employment Agreement, the terms and conditions hereinafter set forth shall control and any term or condition of the Stock Option Agreement or the Employment Agreement, as the case, may be, that is inconsistent with any term or condition hereinafter set forth shall be of no force or effect whatsoever.

8. HRI and Mr. Tokuuke agree that except as expressly modified herein, all other terms and conditions of the Stock Option Agreements and the Employment Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the first date set forth above.

HEALTHCARE RECOVERIES, INC.	BOBBY T. TOKUUKE
By /s/ Douglas R. Sharps	/s/ Bobby T. Tokuuke

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------------------------ ------------------------

Douglas R. Sharps
Chief Financial Officer

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EXHIBIT 10.9

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of this 25th day of January, 1999, by and between HEALTHCARE RECOVERIES, INC., a Delaware corporation (the "Company") and KEVIN M. O'DONNELL, a resident of the State of Wisconsin (the "Employee").

I. STATEMENT OF BACKGROUND INFORMATION

The Company provides subrogation and related recovery services for healthcare payors, a full range of cost management services to third party payors and providers in recovering the cost or reasonable value of healthcare benefits provided to insureds who are injured under circumstances where a third party is ultimately responsible for such healthcare benefits and cost management services to third party payors and other parties within the healthcare industry, including, but not limited to hospital bill audit, credit balance recovery, cost management and other consulting services (the "Business");

Subro-Audit, Inc., a Wisconsin corporation ("SAI") and O'Donnell Leasing Co., LLP, a Wisconsin limited liability Partnership ("ODL"), (SAI and ODL shall collectively be referred to as "SAI Division") operate a subrogation and related recovery services business which provides, among other things, subrogation and related recovery services for healthcare payors (the "Sellers' Business");

The Company is a party to an Asset Purchase Agreement, dated as of January 3, 1999 (the "Asset Purchase Agreement"), by and among the Company, SAI, ODL, Employee and Leah Lampone ("Lampone" and together with Employee, hereinafter referred to as "Shareholders"), pursuant to which the Sellers (as defined in the Asset Purchase Agreement) propose to sell to the Company and the Company proposes to purchase from Sellers substantially all of the assets of the Sellers' Business for the Purchase Price (as defined in the Asset Purchase Agreement) and assume certain obligations of the Sellers' Business (the "Transaction");

Upon the Closing Date (as defined in the Asset Purchase Agreement) of the Transaction, the Company desires to employ Employee upon the terms and conditions set forth in this Agreement and Employee desires to accept such employment;

Employee's execution and delivery of this Agreement (including, without limitation, the covenants set forth in Sections 6, 7, and 8) is a material inducement to the Company to effect the Transaction, and a condition precedent to the Company's obligations to consummate the Transaction.

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II. STATEMENT OF AGREEMENT

In consideration of the mutual covenants, promises and conditions set forth in this Agreement, and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Employment. The Company hereby employs Employee and Employee hereby accepts such employment to serve as Executive Vice President of the Company and President of the SAI Division of the Company, upon the terms and conditions set forth in this Agreement. Employee shall report directly to the Chairman and Chief Executive Officer of the Company. For purposes of Sections 6, 7 and 8 of this Agreement, "employment" shall mean any period of time during the term hereof which the Company is paying the Employee compensation described herein, whether or not the Employee is currently performing services for the Company at the time of such payment. Notwithstanding anything in this Agreement to the contrary, in the event the Company is paying the Employee compensation described herein after termination of Employee's employment with the Company, such payments will cease immediately if Employee obtains any other employment in any capacity.

2. Duties of Employee.

(a) Sales and Marketing. Employee agrees to use Employee's reasonable best efforts to acquire new customers and expand the relationships with SAI Division's existing customers under terms and conditions similar to those normally negotiated by the Company. Employee also agrees to use Employee's reasonable best efforts to obtain executed service contracts with each of SAI Division's existing customers containing as many of the Company's usual terms and conditions as are feasible under the circumstances. Employee shall collaborate with the Company's Senior Vice President of Sales and Marketing to design a program (the "Conversion") to convert SAI Division's customers over to new fee schedules so as to materially increase historical levels of recoveries. With respect to Provident and Blue Cross/Blue Shield of Georgia, Employee will have sole discretion to determine how, when and if the Conversion will be introduced. Employee and the Chief Executive Officer of the Company will work together to determine how, when and if the Conversion will be introduced to SAI Division's other customers. Employee agrees to use Employee's reasonable best efforts to introduce any claims recovery products developed by the Company to SAI Division's customers. Such products may include, but are not limited to: COB recoveries, fraud and abuse direction and recoveries, recoveries for overpayments arising from a variety of circumstances and claim auditing services.

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(b) General Duties. It is understood between the Company and Employee that Employee shall not receive a salary for his services and, accordingly, Employee shall not be required to follow a fixed schedule or to work a certain number of hours per week.

Employee shall devote that amount of professional and business time, skill and attention which he deems necessary to maximize the amount of the First Earn-Out Payment and Second Earn-Out Payment specified in the Asset Purchase Agreement. Nothing in this Agreement shall prevent Employee from engaging in other business or professional activities so long as they do not violate any of the covenants set forth in Sections 6, 7 and 8 of this Agreement. Consistent with the foregoing, Employee shall manage the SAI Division's human resources dedicated to customer relations and shall comply with all of the Company's policies, standards and regulations and shall follow the reasonable instructions and directives of Employee's superiors within the Company, as promulgated by the officers of the Company. This Section will not be construed to prevent Employee from (a) investing personal assets in businesses which do not compete with the Company in such form or manner that will not require any services on the part of the Employee in the operation or the affairs of the companies in which such investments are made and in which Employee's participation is solely that of an investor, (b) purchasing securities in any corporation whose securities are listed on a national securities exchange or regularly traded in the over-the-counter market, provided that Employee at no time owns, directly or indirectly, in excess of two and one half percent (2 1/2%) of the outstanding stock of any class of any such corporation engaged in a business competitive with that of the Company, or (c) engaging in the practice of law on Employee's own time provided such practice of law does not interfere or conflict with Employee's performance of the duties contained in this Agreement or violate any of the covenants set forth in Sections 6, 7, and 8 of this Agreement.

3. Term. The term of this Agreement will commence on the date hereof and expire on the Second Additional Closing Date, as defined in the Asset Purchase Agreement, subject to earlier termination as provided for in Section 4.

4. Termination.

(a) Termination by Company for Cause. Notwithstanding anything contained in Section 3 to the contrary, the Company may terminate this Agreement and all of its obligations hereunder immediately if any of the following events occur:

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(i) Employee materially breaches any of the terms or conditions set forth in this Agreement and fails to cure such breach within thirty (30) days after Employee's receipt from the Company of written notice of such breach, which notice shall describe in reasonable detail the Company's belief that Employee is in breach hereof (notwithstanding the foregoing, no cure period shall be applicable to breaches by Employee of Sections 6, 7 or 8 of this Agreement);

(ii) Employee commits any other act materially detrimental to the business or reputation of the Company;

(iii) Employee intentionally engages in dishonest or illegal activities or commits or is convicted of any crime involving fraud, deceit or moral turpitude; or

(iv) Employee dies or becomes mentally or physically incapacitated or disabled so as to be unable to perform the essential functions of Employee's job even with reasonable accommodation. Without limiting the generality of the foregoing, Employee's inability to perform the essential functions of Employee's job even with reasonable accommodation for a period of one hundred twenty (120) consecutive days will be conclusive evidence of such mental or physical incapacity or disability, unless such inability adequately to perform services under this Agreement is pursuant to a mental or physical incapacity or disability covered by the Family Medical Leave Act, in which case such one hundred twenty (120)-day period shall be extended to a one hundred and fifty (150)-day period.

5. Compensation and Benefits.

(a) Sales Commission. The Company will pay Employee a sales commission (the "Commission") of one dollar ($ 1.00) for New Lives, as defined in the Asset Purchase Agreement, in excess of 2,000,000 ("Additional New Lives"). For the purposes of

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calculating the sales commission under this section, the number of Additional New Lives shall not include any New Lives used in calculating the First Year New Lives Amount (as defined in the Asset Purchase Agreement) or the Second Year New Lives Amount (as defined in the Asset Purchase Agreement). Any Commission shall be payable within forty-five (45) days after the end of the quarter in which it is earned.

(b) Stock Option Awards. Employee shall be granted options to purchase fifty thousand (50,000) shares of the Company's common stock under the Healthcare Recoveries, Inc. 1997 Stock Option Plan for Eligible Participants, a copy of which is attached hereto as Exhibit A. The terms and conditions of the option will be as set forth in Exhibit B attached hereto. During the term of this Agreement, Employee will be subject to Employer's standing policies for employees and outside directors regarding transactions in Employer's stock (including the exercise of stock options), a copy of which is attached hereto as Exhibit C. To the extent Employee is in possession of material nonpublic information regarding Employer at the time this Agreement is terminated, he shall continue to be subject to Employer's policies until such information has been made public.

(c) Other Benefits. Employee will be entitled to such fringe benefits as may be provided from time-to-time by the Company to its employees, including, but not limited to, group health insurance, retirement and any other fringe benefits now or hereafter provided by the Company to its employees, if and when Employee meets the eligibility requirements for any such benefit. The Company reserves the right to change or discontinue any employee benefit plans or programs now being offered to its employees; provided, however, that all benefits provided for employees of the same position and status as Employee will be provided to Employee on an equal basis.

(d) Business Expenses. Employee will be reimbursed for all expenses incurred in the discharge of Employee's duties under this Agreement pursuant to the Company's standard reimbursement policies.

(e) Withholding. The Company will deduct and withhold from the payments made to Employee under this Agreement, state and federal income taxes, FICA and other amounts normally withheld

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from compensation due employees.

6. Non-Disclosure of Proprietary Information. Employee recognizes and acknowledges that any trade secrets or confidential information of the Company and its affiliates and all physical embodiments of same (as they may exist from time-to-time, collectively, the "Proprietary Information"), are valuable, special and unique assets of the Business. Employee further acknowledges that access to such Proprietary Information relating to the business of the Company and its affiliates' businesses is essential to the performance of Employee's duties under this Agreement. Therefore, in order to obtain access to such Proprietary Information, Employee agrees that Employee will not, in whole or in part, disclose such Proprietary Information to any person, firm, corporation, association or any other entity for any reason or purpose whatsoever, nor will Employee make use of any such information for Employee's own purposes or for the benefit of any person, firm, corporation, association or other entity (except the Company or its affiliates). For purposes of this Agreement, the term "trade secrets" means the whole or any portion of any scientific or technical or other information, design, process, procedure, formula, computer software product, documentation or improvement relating to the Business which (1) derives economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality. The term "confidential information" means any and all data and information relating to the Business, other than trade secrets which (1) have value to the Company or its affiliates; (2) are not generally known by their competitors or the public; and (3) are treated as confidential by the Company or its affiliates. Provided there is no uncured breach by the Company of this Agreement, the provisions of this Section 6 will apply during Employee's employment by the Company and thereafter for a two (2) year period with respect to confidential

information, and during Employee's employment by the Company and for a ten (10) year period thereafter with respect to trade secrets. These restrictions will not apply to any Proprietary Information which: (i) is in the public domain, provided that Employee was not responsible, directly or indirectly, for such Proprietary Information entering the public domain without the Company's consent; (ii) becomes known to Employee, during the term of this Agreement, from a third party not known to Employee to be under a confidential relationship with the Company or its affiliates; or (iii) is required by law or governmental tribunal to be disclosed; provided, however, that if Employee is legally compelled to disclose any Proprietary Information, Employee will provide the Company with prompt written notice of such legal

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compulsion so that the Company may seek a protective order or other available remedy.

7. Restrictive Covenants.

(a) Non-Competition Covenant. During Employee's employment by the Company and for a period of two (2) years following any termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, on Employee's own behalf or in the service of or on behalf of any other individual or entity, compete with the Company or its affiliates in the Business within the Geographical Area (as hereinafter defined). The term "compete" means to engage, directly or indirectly, on Employee's own behalf or in the service of or on behalf of any other individual or entity, either as a proprietor, employee, agent, independent contractor, consultant, director, officer, partner or stockholder (other than a stockholder of a corporation listed on a national securities exchange or whose stock is regularly traded in the over-the-counter market, provided that Employee at no time owns, directly or indirectly, in excess of two and one half percent (2 1/2%) of the outstanding stock of any class of any such corporation) in providing or marketing Business products or services. In addition, the term "compete" shall mean to (i) conduct lectures, seminars or publish material relating to the methods or legal theories utilized to defeat subrogation claims; or (ii) serve as an expert witness in litigation or a contested matter on behalf of a party or parties seeking to defeat subrogation claims; or (iii) own, operate, or be employed by or consult with a law firm, law department, or law practice which specializes in or for which the principal focus of the practice is the analysis, selection and processing of subrogation claims; provided however, nothing herein shall preclude Employee from conducting the practice of law so long as such practice of law does not specialize in or focus principally upon the analysis, selection and/or processing of subrogation claims as a business or the sale or marketing of such subrogation services as a business. For purposes of this Agreement, the term "Geographical Area" means the territory located within a fifty mile radius around: (i) each client of the Sellers' Business as of the date of this Agreement; (ii) each client of the Business during Employee's employment with the Company with whom Employee had contact during Employee's employment with the Company; and (iii) the offices of the Business.

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(b) Non-Interference. During Employee's employment by the Company and for a period of two (2) years following any termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, on Employee's own behalf or in the service of or on behalf of any other individual or entity, interfere with, disrupt, or attempt to disrupt the past, present or prospective relationships, contractual or otherwise, between the Company or its affiliates and any supplier, consultant client or vendor of or to the Company or its affiliates with whom Employee had material contact during Employee's employment by the Company under this Agreement. The term "prospective relationship" is defined as any relationship where the Company or its affiliates have actively sought an individual or entity as a prospective supplier, consultant, client or vendor.

(c) Non-Solicitation of Clients Covenant. Employee agrees that during Employee's employment by the Company under this Agreement and for a period of two (2) years following any termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, on Employee's own behalf or in the service of or on behalf of any other individual or entity, divert, solicit or attempt to solicit for the purpose of providing Business services for any individual or entity (i) who is client of the Company or its affiliates at any time during the six (6)-month period prior to Employee's termination with the Company, or was actively sought by the Company or its affiliates as a prospective client during such period, and (ii) with whom Employee had material contact while employed by the Company. Employee further agrees that during Employee's employment by the Company and for a period of two (2) years following the termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, as an employee, independent contractor, agent or in any other capacity, be employed by any client:

(i) which received Business products or services from Employee, or with which Employee otherwise had material contact while employed by the Company; or

(ii) which received Business products or services from any office or employee of the Company or its affiliates over which Employee had direct management responsibility;

in either case to provide, directly or indirectly, Business products or services.

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(d) Construction. In the event that any provision of either such Section is determined not to be specifically enforceable, the Company shall nevertheless be entitled to bring an action to seek to recover monetary damages as a result of the breach of such provision by Employee.

8. Non-Solicitation of Employees Covenant. Employee further agrees and represents that during Employee's employment by the Company and for a period of two (2) years following any termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, on Employee's own behalf or in the service of, or on behalf of any other individual or entity, divert or solicit, or attempt to divert or solicit, to or for any individual or entity which is engaged in providing Business services, any person employed by the Company or its affiliates, whether or not such employee is a full-time employee or temporary employee of the Company or its affiliates, whether or not such employee is employed pursuant to written Agreement and whether or not such employee is employed for a determined period or at-will, except as agreed to by the Company.

9. Existing Restrictive Covenants. Employee represents and warrants that Employee's employment with the Company does not and will not breach any agreement which Employee has with any individual or entity to keep in confidence confidential information or not to compete with any such individual or entity. Employee will not disclose to the Company or its affiliates or use on either of their behalf any confidential information of any other party required to be kept confidential by Employee.

10. Return of Confidential Information. Employee acknowledges that as a result of Employee's employment with the Company, Employee may come into the possession and control of Proprietary Information, such as proprietary documents, drawings, specifications, manuals, notes, computer programs, or other proprietary material. Employee acknowledges, warrants and agrees that Employee will return to the Company all such items and any copies or excerpts thereof, and any other properties, client lists, client contracts, files or documents related to the Business obtained as a result of Employee's employment with the Company, immediately upon the termination of Employee's employment with the Company.

11. Proprietary Rights. During the course of Employee's employment with the Company under this Agreement, Employee may make, develop or conceive of useful processes, machines, compositions of matter, computer software, algorithms, works of authorship expressing such algorithm, or any other

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discovery, idea, concept, document or improvement which substantially related to or is useful to the Business (the "Inventions"), whether or not subject to copyright or patent protection, and which may or may not be considered Proprietary Information. Employee acknowledges that all such Inventions will be "works made for hire" under United States copyright law and will remain the sole and exclusive property of the Company. Employee also hereby assigns and agrees to assign to the Company, in perpetuity, all right, title and interest Employee may have in and to such Inventions, including without limitation, all copyrights, and the right to apply for any form of patent, utility model, industrial design or similar proprietary right recognized by any state, country or jurisdiction. Employee further agrees, at the Company's request and expense, to do all things and sign all documents or instruments necessary, in the opinion of the Company, to eliminate any ambiguity as to the ownership

of, and rights of the Company to, such Inventions, including filing copyright and patent registrations and defending and enforcing in litigation or otherwise all such rights.

Employee will not be obligated to assign to the Company any Invention made by Employee while in the Company's employ which does not relate to any business or activity in which the Company or its affiliates is or may become engaged during the Employee's employment with the Company, except that Employee is so obligated if the same relates to or is based on Proprietary Information to which Employee will have had access during and by virtue of Employee's employment or which arises out of work assigned to Employee by the Company. Employee will not be obligated to assign any Invention which may be wholly conceived by Employee after termination of this Agreement, except that Employee is so obligated if such Invention involves the utilization of Proprietary Information obtained while in the employ of the Company. Employee is not obligated to assign any Invention which relates to or would be useful in any business or activities in which the Company or its affiliates is engaged if such Invention was conceived and reduced to practice by Employee prior to Employee's employment with the Company, provided that all such Inventions are listed at the time of employment on the attached Exhibit D.

12. Remedies. Employee agrees and acknowledges that the violation of any of the covenants or agreements contained in Sections 6, 7, 8, 9, 10 and 11 of this Agreement would cause irreparable injury to the Company, that the remedy at law for any such violation or threatened violation thereof would be inadequate, and that the Company will be entitled, in addition to any other remedy, to temporary and permanent injunctive or

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other equitable relief without the necessity of proving actual damages.

13. Notices. Any notice or communication under this Agreement will be in writing and sent by registered or certified mail addressed to the respective parties as follows:

If to the Company:	If to the Employee:
Healthcare Recoveries, Inc. 1400 Watterson Tower Louisville, Kentucky 40218	Kevin M. O'Donnell 9516 West Brookside Drive Greenfield, Wisconsin 53228

14. Severability. Subject to the application of Section 7(d) to the interpretation of Sections 7 and 8, in case one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, the same will not affect any other provision in this Agreement, and this Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained herein. It is the intent of the parties that this Agreement be enforced to the maximum extent permitted by law.

15. Entire Agreement. This Agreement embodies the entire agreement of the parties relating to the subject matter hereof and supersedes all prior agreements, oral or written, regarding such subject matter. No amendment or modification of this Agreement will be valid or binding upon the parties unless made in writing and signed by the parties.

16. Binding Effect. This Agreement will be binding upon the parties and their respective heirs, representatives, successors, transferees and permitted assigns.

17. Assignment. This Agreement is one for personal services and is not assignable by Employee. The Company may assign this Agreement to any of its affiliates; provided that the Company shall remain liable for the obligations of its affiliates under this Agreement.

18. Governing Law. This Agreement is entered into and will be interpreted and enforced pursuant to the laws of the State of Wisconsin. The parties hereto hereby agree that the appropriate forum and venue for any disputes between any of the parties hereto arising out of this Agreement shall be any federal court in the State of Wisconsin and each of the parties hereto hereby submits to the personal jurisdiction of any such court. The foregoing shall not limit the rights of any party to obtain execution of judgment in any other jurisdiction. The parties further agree, to the extent permitted by law, that a final and

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unappealable judgment against either of them in any action or proceeding contemplated above shall be conclusive and may be enforced in any other jurisdiction within or outside the United States by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and amount of such judgment.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

COMPANY:	EMPLOYEE:
HEALTHCARE RECOVERIES, INC.	KEVIN M. O'DONNELL
By: /s/	/s/ Kevin M. O'Donnell
----------------------------------	----------------------------
Title: Chairman, Pres. & CEO	Kevin M. O'Donnell

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EXHIBIT 10.16

HEALTHCARE RECOVERIES, INC.
as the Borrower

And

THE FINANCIAL INSTITUTIONS NAMED HEREIN
as Lenders

And

NATIONAL CITY BANK OF KENTUCKY
as Administrative Agent

AMENDMENT NO. 1
dated as of
May 15, 1998

to

CREDIT AGREEMENT
dated as of
February 1, 1998

AMENDMENT NO. 1 TO CREDIT AGREEMENT

THIS AMENDMENT NO. 1 TO CREDIT AGREEMENT, dated as of May 15, 1998 ("THIS AMENDMENT"), among the following:

(i) HEALTHCARE RECOVERIES, INC., a Delaware corporation (herein, together with its successors and assigns, the "BORROWER"):

(ii) the financial institutions listed on the signature pages hereof (the "LENDERS"); and

(iii) NATIONAL CITY BANK OF KENTUCKY, a national banking association, as Administrative Agent (the "ADMINISTRATIVE AGENT") for the Lenders under the Credit Agreement:

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders named therein, and the Administrative Agent entered into the Credit Agreement, dated as of February 1, 1998 (the "CREDIT AGREEMENT"; with the terms defined therein, or the definitions of which are incorporated therein, being used herein as so defined).

(2) The parties hereto desire to make certain changes in the definition of the term Permitted Acquisition which is contained in the Credit Agreement so as to permit the Borrower to avoid being required to provide audited financial statements for a business to be acquired in an Acquisition in circumstances where the Borrower can meet the financial test provided in the definition of such term without taking the financial results of such business into account, all as more fully set forth below.

NOW, THEREFORE, the parties hereby agree as follows:

SECTION 1. AMENDMENT.

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Effective on the Effective Date provided in section 4 hereof, the definition of the term Permitted Acquisition in section 1.1 of the Credit Agreement is amended to read in its entirety as follows:

"PERMITTED ACQUISITION" shall mean and include any Acquisition as to which all of the following conditions are satisfied:

(i) such Acquisition (A) involves a line or lines of business which is complementary to the lines of business in which the Borrower and its Subsidiaries, considered as an entirety, are engaged on the Effective Date, and (B) involves a line or lines of business which has generated a positive earnings before interest, income taxes, depreciation and amortization for its most recently completed four full fiscal quarters for which financial information is available, unless the Required Lenders specifically approve or consent to such Acquisition in writing;

(ii) the aggregate consideration for such Acquisition and all other Permitted Acquisitions completed during the then current and immediately preceding three consecutive fiscal quarters, including the principal amount of any assumed Indebtedness and (without duplication) any Indebtedness of any acquired person or persons, does not exceed $50,000,000, unless the

Required Lenders specifically approve or consent to such Acquisition in writing, provided that in computing the amount of consideration for Acquisitions during any period for purposes of this clause (ii), no portion of the first $24,000,000 of cash consideration paid for Acquisitions after January 1, 1998 which is paid during such period shall count against such $50,000,000 limitation;

(iii) except as otherwise provided in clause (v) below, the ratio of

(x) the Consolidated Total Indebtedness of the Borrower and the Indebtedness which is to be incurred to acquire, or which is being directly or indirectly assumed in connection with the acquisition of, such acquired business, on a combined basis, to

(y) the Borrower's Consolidated EBITDA for its most recent Testing Period (without including in such Consolidated EBITDA any financial items for the acquired business),

is less than 2.00 to 1.00, provided, that if the Borrower so elects, such ratio may be computed on a pro forma basis, as if such Acquisition had been completed at the beginning of such Testing Period, the earnings before interest, taxes, depreciation and amortization of the acquired business, were combined with the Borrower's Consolidated EBITDA for the Testing Period (but without giving effect to any credit for unobtained or unrealized gains or any adjustments to overhead in connection with such Acquisition), and any such Indebtedness had been outstanding for such Testing Period, if and only if the financial information for the acquired business or person which is delivered pursuant to clause (iv)(A) below also includes audited financial statements for the most recent fiscal year (unless the same are unavailable and unaudited financial statements are acceptable to the Required Lenders);

(iv) at least 10 Business Days prior to the completion of such transaction the Borrower shall have delivered to the Lenders (A) copies of the financial statements of the Borrower for the most recent Testing Period and for the acquired business or person for its most recent fiscal year and for the most recent Testing Period; and (B) a certificate of a responsible financial or accounting officer of the Borrower demonstrating, in reasonable detail, the computation of such ratio or pro forma ratio, as the case may be; and

(v) if such ratio or pro forma ratio, as the case may be, is equal to or greater than 2.00 to 1.00, then the condition specified in clause (iii) above need not be satisfied if (A) the Required Lenders shall have,

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in their discretion, approved or consented to such Acquisition in writing, and (B) such certificate shall also demonstrate that the Borrower will be in compliance, on a pro forma basis after giving effect to such Acquisition, with the financial covenants contained in sections 9.7 and 9.8;

provided, that the term Permitted Acquisition specifically excludes any loans, advances or minority investments otherwise permitted pursuant to section 9.5.

SECTION 2. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants as follows:

2.1 AUTHORIZATION, VALIDITY AND BINDING EFFECT. This Amendment has been duly authorized by all necessary corporate action on the part of the Borrower, has been duly executed and delivered by a duly authorized officer or officers of the Borrower, and constitutes the valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms.

2.2 REPRESENTATIONS AND WARRANTIES TRUE AND CORRECT. The representations and warranties of the Borrower contained in the Credit Agreement, as amended hereby, are true and correct on and as of the date hereof as though made on and as of the date hereof, except to the extent that such representations and warranties expressly relate to a specified date, in which case such representations and warranties are hereby reaffirmed as true and correct when made.

2.3 NO EVENT OF DEFAULT, ETC. No condition or event has occurred or exists which constitutes or which, after notice or lapse of time or both, would constitute an Event of Default.

2.4 COMPLIANCE. The Borrower is in full compliance with all covenants and agreements contained in the Credit Agreement, as amended hereby.

SECTION 3. EFFECTIVENESS.

This Amendment shall become effective on and as of the date (the "EFFECTIVE DATE"), on or before June 15, 1998 if the following conditions are satisfied;

(a) this Amendment shall have been executed by the Borrower and the Administrative Agent, and counterparts hereof as so executed shall have been delivered to the Administrative Agent; and

(b) the Administrative Agent shall have been notified by the Required Lenders that such Lenders have executed this Amendment (which notification may be by facsimile or other written confirmation of such execution.)

The Administrative Agent shall notify the Borrower and each Lender in writing of the effectiveness hereof.

SECTION 4. RATIFICATIONS.

The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement, and except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement are ratified and confirmed and shall continue in full force and effect.

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SECTION 5. MISCELLANEOUS.

5.1. SUCCESSORS AND ASSIGNS. This Amendment shall be binding upon and inure to the benefit of the Borrower, each Lender and the Administrative Agent and their respective permitted successors and assigns.

5.2 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties made in this Amendment shall survive the execution and delivery of this Amendment, and no investigation by the Administrative Agent or any Lender or any subsequent Loan or issuance of a Letter of Credit shall affect the representations and warranties or the right of the Administrative Agent or any Lender to rely upon them.

5.3 REFERENCE TO CREDIT AGREEMENT. The Credit Agreement and any and all other agreements, instruments or documentation now or hereafter executed and delivered pursuant to the terms of the Credit Agreement as amended hereby, are hereby amended so that any reference therein to the Credit Agreement shall mean a reference to the Credit Agreement as amended hereby.

5.4 EXPENSES. As provided in the Credit Agreement, but without limiting any terms or provisions thereof, the Borrower agrees to pay on demand all costs and expenses incurred by the Administrative Agent in connection with the preparation, negotiation, and execution of this Amendment, including without limitation the costs and fees of the Administrative Agent's special legal counsel, regardless of whether this Amendment becomes effective in accordance with the terms hereof, and all costs and expenses incurred by the Administrative Agent or any Lender in connection with the enforcement or preservation of any rights under the Credit Agreement, as amended hereby.

5.5 SEVERABILITY. Any term or provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the term or provision so held to be invalid or unenforceable.

5.6 APPLICABLE LAW. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

5.7 HEADINGS. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

5.8 ENTIRE AGREEMENT. This Amendment is specifically limited to the matters expressly set forth herein. This Amendment and all other instruments, agreements and documentation executed and delivered in connection with this Amendment embody the final, entire agreement among the parties hereto with respect to the subject matter hereof and supersede any and all prior commitments, agreements, representations and understandings, whether written or oral, relating to the matters covered by this Amendment, and may not be contradicted or varied by evidence of prior, contemporaneous or subsequent oral agreements or discussions of the parties hereto. There are no oral agreements among the parties hereto relating to the subject matter hereof or any other subject matter relating to the Credit Agreement.

5.9 COUNTERPARTS. This Amendment may be executed by the parties hereto separately in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the date first above written.

<TABLE>

<S>	<C>
HEALTHCARE RECOVERIES, INC.	NATIONAL CITY BANK OF KENTUCKY, individually as a Lender, a Letter of Credit Issuer and as Administrative Agent

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By: /s/ Douglas R. Sharps Chief Financial Officer	By: /s/ Deroy Scott Vice President
BANK ONE, KENTUCKY, N. A.	FIRST AMERICAN NATIONAL BANK
By: /s/ Dennis P. Heishman Senior Vice President	By: /s/ Wallace Carter, III Senior Vice President
PNC BANK, N. A.	LASALLE NATIONAL BANK
By:/s/ Paula Fryland Vice President	By: /s/ David S. Killpack Assistant Vice President

</TABLE>

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EXHIBIT 10.17

HEALTHCARE RECOVERIES, INC.
as the Borrower

And

THE FINANCIAL INSTITUTIONS NAMED HEREIN
as Lenders

And

NATIONAL CITY BANK OF KENTUCKY
as Administrative Agent

AMENDMENT NO.2
dated as of
March 1, 1999

to

CREDIT AGREEMENT
dated as of
February 1, 1998

AMENDMENT NO. 2 TO CREDIT AGREEMENT

THIS AMENDMENT NO. 2 TO CREDIT AGREEMENT, dated as of March 1, 1999 ("THIS AMENDMENT"), among the following:

(i) HEALTHCARE RECOVERIES, INC., a Delaware corporation (herein, together with its successors and assigns, the "BORROWER");

(ii) the financial institutions listed on the signature pages hereof (the "LENDERS"); and

(iii) NATIONAL CITY BANK OF KENTUCKY, a national banking association, as Administrative Agent (the "ADMINISTRATIVE AGENT") for the Lenders under the Credit Agreement:

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders named therein, and the Administrative Agent entered into the Credit Agreement, dated as of February 1, 1998, as amended by Amendment No. 1 thereto, dated as of May 15, 1998 (as so amended, the "CREDIT AGREEMENT"; with the terms defined therein, or the definitions of which are incorporated therein, being used herein as so defined).

(2) The parties hereto desire to amend certain of the terms of the Credit Agreement, as more fully set forth below.

NOW, THEREFORE, the parties hereby agree as follows:

1. AMENDMENTS.

1.1. REPRESENTATIONS AS TO USE OF PROCEEDS. Section 7.7(b) of the Credit Agreement is amended to read in its entirety as follows:

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(b) No part of the proceeds of any Credit Event will be used directly or indirectly to purchase or carry Margin Stock, or to extend credit to others for the purpose of purchasing or carrying any Margin Stock, in violation of the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. At no time would more than 25% of the value of the assets of the Borrower or of the Borrower and its consolidated Subsidiaries that are subject to any "arrangement" (as such term is used in section 221.2(g) of such Regulation U) hereunder be represented by Margin Stock.

1.2. DIVIDENDS; STOCK REPURCHASES, ETC. Section 9.6 of the Credit Agreement is amended to read in its entirety as follows:

9.6. DIVIDENDS; STOCK REPURCHASES, ETC. The Borrower will not (a) directly or indirectly declare, order, pay or make any dividend (other than dividends payable solely in capital stock of the Borrower) or other distribution on or in respect of any capital stock of any class of the Borrower, whether by reduction of capital or otherwise, or (b) directly or indirectly make, or

permit any of its Subsidiaries to directly or indirectly make, any purchase, redemption, retirement or other acquisition of any capital stock of any class of the Borrower (other than for a consideration consisting solely of capital stock of the same class of the Borrower) or of any warrants, rights or options to acquire or any securities convertible into or exchangeable for any capital stock of the Borrower, except that if no Event of Default shall have occurred and be continuing or would result therefrom,

(i) the Borrower shall be permitted to declare and pay cash dividends of up to 100% of the net after tax proceeds of any extraordinary or other non-recurring cash gain, if such dividend is declared and paid within 90 days following the recognition of such gain; and

(ii) the Borrower and its Subsidiaries shall be permitted to purchase and/or repurchase for cash consideration shares of common stock of the Borrower (and any associated rights), if the aggregate amount expended for such purposes subsequent to December 31, 1998 does not exceed $10,000,000.

1.3. MINIMUM CONSOLIDATED NET WORTH. Section 9.11 of the Credit Agreement is amended to read in its entirety as follows:

9.11. MINIMUM CONSOLIDATED NET WORTH. The Borrower will not permit its Consolidated Net Worth at any time to be less than $33,500,000, except that

(i) effective as of the end of the Borrower's fiscal quarter ended March 31, 1999, and as of the end of each fiscal quarter thereafter, the foregoing amount (as it may from time to time be increased or decreased as herein provided), shall be increased by 75% of the consolidated net income of the Borrower and its Subsidiaries for the fiscal quarter ended on such date, if any, as determined in conformity with GAAP (there being no reduction in the case of any such consolidated net income which reflects a deficit),

(ii) the foregoing amount (as it may from time to time be increased or decreased as herein provided), shall be increased by an amount equal to 50% of the cash proceeds (net of underwriting discounts and commissions and other customary fees and costs associated therewith) from any sale or issuance of equity by the Borrower after December 31, 1998 (other than any sale or issuance to management or employees pursuant to employee benefit plans of general application),

(iii) the foregoing amount (as it may from time to time be increased or decreased as herein provided), shall be increased by an

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amount equal to 50% of the increase in Consolidated Net Worth attributable to the issuance of common stock or other equity interests subsequent to December 31, 1998 as consideration in any Acquisitions permitted under section 9.2, and

(iv) the foregoing amount (as it may from time to time be increased or decreased as herein provided), shall be decreased by 90% of the aggregate amount expended by the Borrower and its Subsidiaries subsequent to December 31, 1998 for the purchase or repurchase of shares of common stock of the Borrower (and any associated rights).

1.4. Advances, Investments, Loans and Guaranty Obligations. Clause (p) of section 9.5 of the Credit Agreement is amended to read in its entirety as follows:

(p) any other loans, advances, investments (whether in the form of cash or contribution of property, and if in the form of a contribution of property, such property shall be valued for purposes of this clause (p) at the fair value thereof as reasonably determined by the Borrower) and Guaranty Obligations, including, without limitation, in or to or for the benefit of, Subsidiaries, joint ventures, or other persons, not otherwise permitted by the foregoing clauses, made after the end of the most recent fiscal quarter of the Borrower for which financial statements were furnished to the Lenders prior to the Effective Date (such loans, advances and investments and Guaranty Obligations, collectively, "BASKET INVESTMENTS AND GUARANTEES"), shall be permitted to be incurred if (i) no Event of Default shall have occurred and be continuing, or would result therefrom, (ii) the aggregate Basket Investments and Guarantees outstanding at any time does not exceed $10,000,000, and (iii) no more than $750,000 of the aggregate Basket Investments and Guarantees outstanding at any time consists of loans or advances to, and Guaranty Obligations incurred to support Indebtedness of, officers, directors and employees of the Borrower and its Subsidiaries.

SECTION 2. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants as follows:

2.1. AUTHORIZATION, VALIDITY AND BINDING EFFECT. This Amendment has been duly authorized by all necessary corporate action on the part of the Borrower, has been duly executed and delivered by a duly authorized officer or officers of the Borrower, and constitutes the valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms.

2.2. REPRESENTATIONS AND WARRANTIES TRUE AND CORRECT. The representations and warranties of the Borrower contained in the Credit Agreement, as amended hereby, are true and correct on and as of the date hereof as though made on and as of the date hereof, except to the extent that such representations and warranties expressly relate to a specified date, in which case such representations and warranties are hereby reaffirmed as true and correct when made.

2.3. NO EVENT OF DEFAULT, ETC. No condition or event has occurred or exists which constitutes or which, after notice or lapse of time or both, would constitute an Event of Default.

2.4. COMPLIANCE. The Borrower is in full compliance with all covenants and agreements contained in the Credit Agreement, as amended hereby.

SECTION 3. EFFECTIVENESS

This Amendment shall become effective on and as of the date (the "EFFECTIVE DATE"), on or before March 31, 1999 if the following conditions are satisfied:

(a) this Amendment shall have been executed by the Borrower and the Administrative Agent, and counterparts hereof as so executed shall have been delivered to the Administrative Agent; and

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(b) the Administrative Agent shall have been notified by the Required Lenders that such Lenders have executed this Amendment (which notification may be by facsimile or other written confirmation of such execution).

The Administrative Agent shall notify the Borrower and each Lender in writing of the effectiveness hereof.

SECTION 4. RATIFICATIONS.

The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement, and except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement are ratified and confirmed and shall continue in full force and effect.

SECTION 5. MISCELLANEOUS.

5.1. SUCCESSORS AND ASSIGNS. This Amendment shall be binding upon and inure to the benefit of the Borrower, each Lender and the Administrative Agent and their respective permitted successors and assigns.

5.2. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties made in this Amendment shall survive the execution and delivery of this Amendment, and no investigation by the Administrative Agent or any Lender or any subsequent Loan or issuance of a Letter of Credit shall affect the representations and warranties or the right of the Administrative Agent or any Lender to rely upon them.

5.3. REFERENCE TO CREDIT AGREEMENT. The Credit Agreement and any and all other agreements, instruments or documentation now or hereafter executed and delivered pursuant to the terms of the Credit Agreement as amended hereby, are hereby amended so that any reference therein to the Credit Agreement shall mean a reference to the Credit Agreement as amended hereby.

5.4. EXPENSES. As provided in the Credit Agreement, but without limiting any terms or provisions thereof, the Borrower agrees to pay on demand all costs and expenses incurred by the Administrative Agent in connection with the preparation, negotiation, and execution of this Amendment, including without limitation the costs and fees of the Administrative Agent's special legal counsel, regardless of whether this Amendment becomes effective in accordance with the terms hereof, and all costs and expenses incurred by the Administrative Agent or any Lender in connection with the enforcement or preservation of any rights under the Credit Agreement, as amended hereby.

5.5. SEVERABILITY. Any term or provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the term or provision so held to be invalid or unenforceable.

5.6. APPLICABLE LAW. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

5.7. HEADINGS. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

5.8. ENTIRE AGREEMENT. This Amendment is specifically limited to the matters expressly set forth herein. This Amendment and all other instruments, agreements and documentation executed and delivered in connection with this Amendment embody the final, entire agreement among the parties hereto with respect to the subject matter hereof and supersede any and all prior commitments, agreements, representations and understandings, whether written or oral, relating to the matters covered by this Amendment, and may not be

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contradicted or varied by evidence of prior, contemporaneous or subsequent oral agreements or discussions of the parties hereto. There are no oral agreements among the parties hereto relating to the subject matter hereof or any other subject matter relating to the Credit Agreement.

5.9. COUNTERPARTS. This Amendment may be executed by the parties hereto separately in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same agreement

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the date first above written.

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HEALTHCARE RECOVERIES, INC.	NATIONAL CITY BANK OF KENTUCKY, individually as a Lender, a Letter of Credit Issuer and as Administrative Agent
By: /s/ Douglas R. Sharps Chief Financial Officer	By: /s/ Deroy Scott Vice President
BANK ONE, KENTUCKY, N. A.	FIRST AMERICAN NATIONAL BANK
By: /s/ Dennis P. Heishman Senior Vice President	By: /s/ Kent Wood Vice President
PNC BANK, N. A.	LASALLE NATIONAL BANK
By: /s/ Benjamin A. Willingham Vice President	By: /s/ David S. Killpack First Vice President

</TABLE>

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EXHIBIT 23.1

[PRICEWATERHOUSECOOPERS LETTERHEAD]

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Healthcare Recoveries, Inc. (the "Company") on Form S-8 (File Nos. 333-41557, 333-41559, and 333-41561) of our report dated February 16, 1999, except for Note 15 as to which the date is March 22, 1999, on our audits of the financial statements of the Company as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, which report is included in the Company's 1998 Annual Report on Form 10-K filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

February 16, 1999

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EXHIBIT 99.1

HEALTHCARE RECOVERIES, INC.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR COMPLIANCE STATEMENT
FOR FORWARD-LOOKING STATEMENTS

In passing the Private Securities Litigation Reform Act of 1995 ("the Reform Act"), 15 U.S.C.A. Section 77z-2 and 78u-5 (Supp. 1996), Congress encouraged public companies to make "forward-looking statements" by creating a safe harbor to protect companies from securities law liability in connection with forward-looking statements. Healthcare Recoveries, Inc. ("HCRI" or the "Company") intends to qualify both its written and oral forward-looking statements for protection under the Reform Act and any other similar safe harbor provisions.

"Forward-looking statements" are defined by the Reform Act. Generally, forward-looking statements include expressed expectations of future events and the assumptions on which the expressed expectations are based. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties, which could cause actual events or results to differ materially from those projected. Due to those uncertainties and risks, the investment community is urged not to place undue reliance on written or oral forward-looking statements of HCRI. The Company undertakes no obligation to update or revise this Safe Harbor Compliance Statement for Forward-Looking Statements (the "Safe Harbor Statement") to reflect future developments. In addition, HCRI undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

HCRI provides the following risk factor disclosure in connection with its continuing effort to qualify its written and oral forward-looking statements for the safe harbor protection of the Reform Act and any other similar safe harbor provisions. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include the following:

REGULATORY AND POLITICAL RISKS

General. From time to time, legislation is introduced in Congress and in various state legislatures which would materially affect the Company's business. The most significant legislation, laws and regulations may, for clarity, be grouped into three categories:

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- Legislation that would substantially limit the ability of healthcare insurers to recover from third-parties accident-related medical benefits incurred by injured insureds ("Health Insurance Primacy Laws");
- Legislation that would substantially limit the Company's ability to receive and utilize individual claim information from healthcare insurers ("Confidentiality Laws"); and
- Other federal and state laws.

The following identifies specific risks in these three categories:

Health Insurance Primacy Laws

Auto Choice Reform Act. In each of the last two sessions of Congress, legislation known as the "Auto Choice Reform Act of 1997" (the "Proposed Act") was introduced, but not enacted. Proponents of these bills have expressed intent to introduce a similar bill in 1999. Under this Proposed Act, in those states not opting out of its provisions, individual drivers may choose to be covered by an auto insurance system in which healthcare insurers, with some exceptions, could be made primarily responsible for healthcare costs incurred by those injured in automobile accidents. Consequently, even if insured's injuries were caused by the negligence of another driver, the healthcare insurer might have no rights of recovery against the negligent party or that party's liability insurer. Revenue generated from recoveries against automobile liability insurers

represented approximately 67% of the Company's 1998 revenues. Should this or similar legislation be enacted, it could have a material adverse effect on the Company's business, results of operations and financial condition.

Proponents of the proposed legislation assert that (i) the costs of operating a motor vehicle are excessive due to legal and administrative costs associated with the processing of claims under the fault-based liability system; and (ii) the costly fault-based liability insurance system often fails to provide compensation commensurate with loss and takes too long to pay benefits.

Even if the Proposed Act is ultimately abandoned, these policy reasons may result in future legislation designed to significantly alter the fault-based liability system used in most states, eliminate recovery rights of healthcare insurers and adversely affect the Company's business.

Certain No Fault Insurance Systems. Certain states have adopted versions of automobile "no fault" insurance systems in which the injured party's health insurance carrier or provider is primarily responsible for healthcare related expenses (and not the responsible party and his or her insurer or the injured insured's automobile liability insurer). In 1996, California voters rejected a no-fault automobile insurance measure, Proposition 200, which would have required drivers with bodily injuries to be compensated by their own healthcare insurers. Although Proposition 200 was rejected by the voters, there can be no assurance that similar measures will not again be presented in a ballot initiative or as legislation in California or elsewhere in the future. Growth in

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the number of states adopting similar systems could significantly reduce the amounts otherwise recoverable by the Company in connection with automobile injuries in such states.

Confidentiality Laws

Confidentiality Provisions of the Health Insurance Portability and Accountability Act of 1996. Section 262 of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") (42 U.S.C. sec. 1177) prohibits any person from knowingly obtaining or disclosing individually identifiable health information relating to an individual in violation of the standards established by the Secretary of the Department of Health and Human Services (the "Secretary") relating to the electronic transmission of healthcare information in connection with certain categories of transactions described in the statute. Section 264 of the HIPAA requires the Secretary to issue recommendations on standards with respect to the privacy of individually identifiable health information. In September 1997, the Secretary submitted such recommendations to Congress. Section 264 of the HIPAA also provides that if legislation governing standards with respect to the privacy of individually identifiable health information is not enacted by August 1999, the Secretary will be required to issue final regulations containing such standards no later than February 2000. During 1998, the Secretary issued several proposed rules that outline security standards for healthcare information that is maintained or transmitted electronically, including standards for electronic signatures; electronic transaction standards, a standard employer identification number and requirements concerning its implementation; and a standard healthcare provider identifier and requirements concerning its implementation. The comment periods for these proposed rules have ended; however, none of the rules have been issued in final form. In addition to rules proposed by the Secretary, several bills containing provisions relating to the privacy of individually identifiable health information were introduced during the 105th Congress. Thus far in the 106th Congress, several managed care bills have been introduced that contain provisions relating to the confidentiality of patient information. It is anticipated that more comprehensive privacy legislation will be introduced later in this Congress. The provisions of future federal legislation and regulations could impair or prevent the acquisition and use by the Company of claims and insurance information necessary to process recovery claims on behalf of its clients. In addition, state laws governing privacy of insurance records and related matters may significantly affect the Company's business.

Other Federal and State Laws

Changes in the regulation of insurance and debt collection could also affect the Company's business. Similarly, changes in law that would bar healthcare subrogation or impair an injured party's ability to collect insured damages (that is, an injured person would be prevented from recovering from the wrongdoer damages

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for accident-related medical benefits covered by health insurance) could similarly adversely affect the Company's business. Existing debt collection laws also may be amended or interpreted in a manner that could adversely affect the Company's business. Additionally, although the Company does not believe that it engages in the unauthorized practice of law, changes in the law or a judicial or administrative decision defining some of the Company's activities as the practice of law, could have a material adverse effect on the Company's business.

Certain Legal Doctrines

With respect to recoverable claims, the rights of subrogation and reimbursement may be limited in some cases by (i) the "made whole doctrine," which may limit the healthcare provider's ability to recover when the settlement damage award received by the injured party is inadequate to cover the injured party's damages; and (ii) the "common fund doctrine," which permits plaintiff's attorneys to determine their compensation based on the entire amount covered by a damage award and may, in some cases, proportionally diminish the amount recoverable by HCRI on behalf of the healthcare payor out of that damage award.

DEPENDENCE ON LARGE CLIENTS

The Company's clients include national and regional healthcare payors, large third-party administrators or self-insured corporations. The loss of one or more of the Company's clients could have a material adverse effect on the Company's business, results of operations, financial condition and stock price. During the last three years, HCRI has lost eleven clients representing approximately 4.3 million lives. Terminations occurred due to consolidations, where another existing vendor was chosen and where a client took the work in-house. The Company has recently re-signed one of these clients representing 1.5 million lives. The Company's revenues are earned under written contracts with its clients that provide for contingency fees from recoveries under a variety of pricing regimes. These contracts are generally terminable on 60 to 180 days' notice by either party. However, the Company's contracts provide that in the event of termination, the Company is generally entitled to complete the recovery process on the backlog for that client. See "Marketing, Sales and Client Services" section.

LENGTHY REVENUE CYCLE AND FLUCTUATION IN OPERATING RESULTS

The Company's operating results may fluctuate from time to time as a result of a number of factors. These factors include but are not limited to:

- the addition of new clients;
- the cancellation of client contracts;
- the postponement of client decisions to enter into contracts;
- delays in transmission of clients' claims data;
- changes in prices offered to new clients;
- timing of acquisitions; and
- introduction of new services or introduction of new technologies to the

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Company's business processes.

HCRI expends substantial time, effort and funds to install lives and generate active files. As a result, HCRI incurs expenses related to its revenue before it is received which can result in fluctuations in operating results.

In particular, during a fiscal quarter it is difficult to forecast when and how much client claims data will be received. The Company's clients continuously update and modify their claims and medical encounter processing systems often causing delays in or errors to the transmission of claims data. The Company's expense levels are based in part on expectations of future receipt of claims data and the Company has been significantly increasing and intends to continue to increase operating expenditures and working capital balances as it expands its operations. Specifically, material increases in new clients and lives installed, and consequently client claims data received, will cause the Company to increase its operating capacity before it expects to earn revenues from such new clients. If operating results in any particular quarter do not meet the expectations of securities analysts it is likely to cause volatility in the price of the Company's Common Stock.

LITIGATION

The Company is engaged in the business of identifying and recovering subrogation and related claims of its clients, many of which arise in the context of personal injury lawsuits. As such, the Company operates in a litigation-intensive environment. The Company has, from time to time, been, and in the future expects to be, named as a party in litigation incidental to its business operations. To date, the Company has not been involved in any litigation which has had a material adverse effect upon the Company, but there can be no assurance that pending litigation or future litigation will not have a material adverse effect on the Company's business, results of operations and financial condition.

The Company is also party to a putative class action lawsuit (the "Lawsuit"). The Lawsuit seeks monetary damages from the Company on the basis that the Company recovered from responsible parties the "reasonable value" of medical treatment provided by medical providers rather than the amounts actually paid by certain healthcare payors who had a discounted fee-for-service ("DFS") arrangement, capitation arrangement or other payment arrangement that did not involve solely fee-for-service arrangements with the medical providers. Under a typical capitation arrangement, a medical provider is paid a flat periodic fee for each patient referred by a healthcare payor and the medical provider contractually bears the risk of the amount of services needed by the potential patient group. Thus, specific services rendered by these medical providers do not correspond directly to a specific payment by the healthcare provider. In addition to monetary damages, the Lawsuit seeks injunctive relief preventing the Company from pursuing recoveries in excess of the amounts actually paid by its clients. The Company's current policy is not to seek recovery of the "reasonable

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value" of medical treatment in DFS arrangements, but the Company does collect the "reasonable value" of medical treatment under capitation and certain other payment arrangements. The Company's clients determine such "reasonable value" according to their internal procedures. If the Lawsuit or another lawsuit seeking relief under similar theories were to be successful, it could have a material adverse effect on the Company's business, results of operations and financial condition.

COMPETITION

HCRI competes primarily with the internal recovery departments of potential customers and other subrogation recovery service vendors. To the Company's knowledge, there are two smaller, but significant, independent providers of subrogation recovery services in addition to HCRI. Both independent competitors preceded HCRI's entry into the recovery industry, and no major competitors have entered the market since that time. HCRI believes that it has competitive advantages in the bulk of its market, including process expertise, capital requirements necessitated by the unusually long revenue cycle in the recovery industry, assembling and training a qualified and productive employee base possessing appropriate industry expertise, and an information processing system designed to aid investigators and examiners engaged in the recovery process. However, there are participants in the healthcare insurance and transaction processing industries that possess sufficient capital, and managerial and technical expertise to develop competitive services.

DEPENDENCE ON KEY PERSONNEL

The Company's success depends to a significant degree upon the continued contributions of members of the Company's senior management and other key sales, marketing, computer systems and operations personnel, and the loss of any such persons could have a materially adverse effect on the business of the Company. The Company's success also depends upon its ability to attract and retain highly qualified and skilled managerial, sales, marketing and computer software development and operations personnel, the competition for whom is intense. There can be no assurance that the Company will be successful in hiring or retaining the requisite personnel, which could have a material adverse effect on the Company's business, results of operations and financial condition. The Company does not maintain key man insurance. The Company has employment agreements with Patrick B. McGinnis, Chairman and Chief Executive Officer, Debra M. Murphy, Corporate Executive Vice President -- Operations, HRI Division, Douglas R. Sharps, Corporate Executive Vice President -- Finance and Administration Chief Financial Officer and Secretary, Kevin O'Donnell, Corporate Executive Vice President -- SAI Sales Division, and Marcia Deutsch, Corporate Senior Vice President and President, MedCap Division.

HCRI employs, and facilitates the development of, skilled knowledge-workers. HCRI maintains an extensive, in-house training program, which it believes is attractive to employees and essential in developing the necessary

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industry-specific skills. All HCRI employees participate in one of four incentive compensation plans, depending upon the responsibilities of each employee. The Company believes the tight labor market could have an impact on future hiring. HCRI employed approximately 495 persons as of December 31, 1998.

UPGRADE OF INFORMATION MANAGEMENT SYSTEM AND LOSS OF PROPRIETARY TECHNOLOGY

The SubroSystem and its Upgrade.

System Upgrade. Although the SubroSystem, a key component of HCRI's recovery process, historically served the Company's operational and management information needs, HCRI developed a plan (the "System Upgrade") under which it would, over a 24-month to 36-month period, migrate the SubroSystem to a modern network operating system and database architecture. The System Upgrade includes a detailed process for the comprehensive testing of all key elements prior to implementation of each step of the upgrade.

At the end of January 1998, HCRI successfully migrated the SubroSystem to a Windows NT environment, the first step of the System Upgrade. In the course of migration, the Company encountered technical difficulties generally of the type and number management believes are common with conversions of similar size and scope. Following migration, HCRI has continued to maintain an inventory of platform components for redundancy, to store on-line data on redundant devices, and, on a daily basis, to copy all on-line storage systems to magnetic tapes, which are then removed to a security vault off-site. HCRI's systems department handles development and maintenance of the SubroSystem.

Work was completed in late 1998 on the second step of the System Upgrade for the creation of a logical data model to support subrogation and other processes. This work resulted in the initial implementation of a relational database to support data warehousing. Planning for the last step of the System Upgrade, the migration of data and process to the new platform, is presently underway. The Company expects that it will complete the last step of the System Upgrade during the latter part of 2000. As of December 31, 1998, the Company has spent approximately $3.3 million on the System Upgrade.

There can be no assurance that the implementation of the System Upgrade (or any part of it) will be successful, that it will be within budget, or that the implementation of the System Upgrade (or any part of it) will not have an adverse effect on the Company's business, results of operations or financial condition. Furthermore, because the SubroSystem is proprietary, industry-specific software, the absence of complete and detailed written documentation with respect to the SubroSystem's functioning and code structure make the Company dependent on existing staff, who are skilled in its operations and some of whom participated in its design.

Dependence on Proprietary Software Applications. The Company's success depends, in part, upon its proprietary technology, specifically the integrated software programs comprising the SubroSystem. Although, federal copyright law protects certain elements of the SubroSystem, such protection neither confers a monopoly on the use of subrogation recovery software systems nor prevents

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competitors from developing similar systems. The SubroSystem, like all other software programs, may be subject to a variety of replication techniques (for example, reverse engineering, logic tracing, disassembly and decompilation) that would produce a functionally similar software system not covered by the Company's registered copyright. Therefore, there can be no assurance that the Company's registered copyright on the SubroSystem will preclude or deter circumvention by current or future competitors, with the effect that the Company might lose any advantage conferred by the SubroSystem.

CONSOLIDATION AMONG HEALTHCARE PAYORS: PRESSURE ON MARGINS

Consolidation among healthcare payors could increase their bargaining strength as the number of lives insured or otherwise covered by such healthcare payors grows. This consolidation may place downward pressure on the Company's historic margins and may create additional competition from such healthcare

payors in the form of better-equipped in-house recovery departments. Additionally, existing clients have been and may in the future be lost through acquisition by non-client healthcare payors.

LIMITATION ON DIVIDENDS

From August 28, 1995, the date Medaphis Corporation ("Medaphis") acquired HCRI, until May 1997 when Medaphis sold HCRI in an initial public offering (the "Offering"), the Company paid dividends to Medaphis totaling $13.6 million. Following the Offering, however, the Company has retained earnings to finance the growth and development of its business and does not anticipate paying cash dividends on its Common Stock in the foreseeable future. The Company's credit facility limits its ability to pay dividends on its Common Stock.

YEAR 2000 ISSUES

The year 2000 presents a problem for computer systems (software and hardware) that were not designed to handle any dates beyond the year 1999. The problem is pervasive and complex because virtually every computer operation will be affected in some way by the rollover of the last two digits of the year "00". In consequence, any such software and hardware will need to be modified some time prior to December 31, 1999, in order to remain functional. Computer systems that do not properly handle this rollover could generate erroneous data or fail to function.

The Company has initiated a company-wide program to identify and address the modifications to or replacements of computer code (including data received from clients), hardware and office equipment, the testing and the implementation procedures necessary to achieve year 2000 readiness ("Y2K Readiness" or descriptively "Y2K Ready"). As a result of this program, all functions within the Company have been surveyed in order to first, identify software and hardware

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that are not presently Y2K Ready, and secondly, to establish a schedule for remediation or replacement of the items of software and hardware that are not Y2K Ready.

The Company has completed its identification of the elements of its software, and hardware that are not Y2K Ready. Included among these elements are certain fields contained in the SubroSystem, the Company's on-line subrogation system. The first date of potential failure for all of these items of software, including the SubroSystem, and hardware is January 1, 2000. The completion date for replacement or remediation of all elements of Company software, including the SubroSystem, and hardware which are not already Y2K Ready, is September 30, 1999. Although the Company had previously estimated a June 30, 1999 completion date, the Company directed certain resources during the fourth quarter of 1998 to facilitate acquisitions and certain other matters which caused the delay. To date, the costs of the Company's efforts to achieve Y2K Readiness have not exceeded $75,000, and are not expected to exceed $150,000 in total.

Management believes that the greatest risk posed to the Company's Y2K Readiness lies in the possible failure of its clients and other members of the healthcare payor industry to achieve Y2K Readiness. The Company relies on its clients to provide electronic claims data, through electronic data interfaces, as the source of information from which the Company identifies potentially recoverable claims. If clients are unable to provide such data because they are not Y2K Ready, the Company could suffer a slow-down in its recovery efforts, impairing its ability to make the recoveries from which it derives its revenue. Moreover, to the extent that payors which are potential clients fail to achieve Y2K Readiness, HCRI's ability to sell to and to install such payors may also be impaired. With respect to current clients, HCRI has undertaken a survey of each client's state of Y2K Readiness. The Company has received notifications from 70% of its client base, representing more than 70% of its installed lives. All notifications indicated that clients have Y2K efforts underway. The Company is attempting to obtain surveys from its remaining client base. However, as the Company is relying upon representations of clients Y2K Readiness in response to the surveys, the Company is closely monitoring progress through available means, and preparing for contingencies, as necessary.

The Company's contingency planning calls for, among other things, early identification of alternative means of obtaining electronic claims data should the existing electronic data interfaces with clients fail. Contingency plans are being developed on an as-needed, client-specific basis, as warranted..

ABILITY TO MANAGE GROWTH IN SUBROGATION BUSINESS

The Company recently has experienced significant growth in both its revenues and the number of its employees. This growth has resulted in an increase in responsibilities placed upon the Company's management and has placed added pressures an the Company's operating systems. The Company is expanding its management, systems development and support, marketing, sales and customer

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services and upgrading the SubroSystem, which may place a strain on the Company's operations. Furthermore, the initial expenses associated with the addition of new clients may be incurred before the Company recognizes any revenues from such new clients. There can be no assurance that the Company will successfully manage its expanding operations or implement its growth strategy; and if the Company's management is unable to manage growth effectively, the Company's business, operating results and financial condition could be adversely affected.

ABILITY TO EXECUTE GROWTH STRATEGY

In addition to growing its existing subrogation recovery business, HCRI intends to extend its systems-driven, process-oriented approach, through acquisitions and internal developments, to outsourcing opportunities in other service industries. HCRI believes that future development opportunities are likely to be characterized by:

- outsourcing services that produce predictable and recurring revenue streams;
- competitive advantages from processes, automation and the provision of knowledge-rich services;
- development-stage niche markets;
- value-based pricing; and
- a focus on (non-exclusive) healthcare information services.

There can be no assurance that the Company will be successful in the internal development or acquisition of new lines of business or that it will be able to successfully integrate or manage new lines of business which it may develop or acquire, and if the Company's management is unable either to execute this growth strategy or to manage the resulting growth, the Company's business, operating results and financial condition could be adversely affected.

CERTAIN ANTI-TAKEOVER PROVISIONS

Certain provisions of the Amended and Restated Certificate of Incorporation and Bylaws of the Company may be deemed to have the effect of making difficult an acquisition of control of the Company in a transaction not approved by the Company's Board of Directors. These provisions include the ability of the Company's board of directors to issue shares of preferred stock in one or more series without further authorization of the Company's stockholders. Accordingly, the Company's Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of Common Stock. In the event of such issuance, the preferred stock could also be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company. Although the Company has no current intention to issue any shares of its preferred stock, there can be no assurance that the Company will not do so in the future. These provisions may also have the effect of discouraging a third-party from making a tender offer or otherwise attempting to obtain control of the Company even though such a transaction might be economically beneficial

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to the Company and its stockholders. Furthermore, the Company is subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law which prohibits the Company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time of the transaction in which the person first becomes an "interested stockholder," unless the business combination is approved in a prescribed manner. The application of Section 203 could have the effect of delaying or preventing a change of control of the Company. Certain other provisions of the Company's Amended and Restated Certificate of Incorporation and Bylaws may have the effect of delaying or preventing

changes of control or management of the Company, which could adversely affect the market price of the Common Stock. Among these are provisions:

- requiring a classified board of directors;
- limiting the person able to, and the procedures for, calling a special meeting of the stockholders; and
- requiring certain supermajority stockholder votes to amend certain of the foregoing provisions.

On February 12, 1999, the Board of Director adopted a Stockholder Rights Plan and declared a dividend of one preferred stock purchase right (a "Right") for each outstanding share of Common Stock of the Company. The dividend was payable to stockholders of record on March 1, 1999. The Rights, which will initially trade with the common stock, separate and become exercisable only upon the earlier to occur of (i) 10 days after the date (the "Stock Acquisition Date") of a public announcement that a person or group of affiliated persons has acquired 20% or more of the common stock (such person or group being hereinafter referred to as an "Acquiring Person") or (ii) 10 days (or such later date as the Board of Directors shall determine) after the commencement of, or announcement of an intention to make, a tender offer or exchange offer that could result in such person or group owning 20% or more of the common stock (the earlier of such dates being called the "Distribution Date"). When exercisable, each Right initially entitles the registered holder to purchase from the Company one one-hundredth of a share of a newly created class of preferred stock of the Company at a purchase price of $65 (the "Purchase Price"). The Rights are redeemable for $0.001 per Right at the option of the Board of Directors. The Rights expire on March 1, 2009.

If any person becomes an Acquiring Person, each holder of a Right will thereafter have the right (the "Flip-In Right") to receive, in lieu of shares of preferred stock and upon payment of the Purchase Price, shares of Common Stock having a value equal to two times the Purchase Price of the Right. Also, if at any time on or after the Stock Acquisition Date, (i) the Company is acquired in a transaction in which the holders of all the outstanding shares of Common Stock immediately prior to the consummation of the transaction are not the holders of all of the surviving corporation's voting power, or (ii) more than 50% of the

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Company's assets, cash flow or earning power is sold or transferred other than in the ordinary course of business, then each holder of a Right shall thereafter have the right (the "Flip-Over Right") to receive, in lieu of shares of preferred stock and upon exercise and payment of the Purchase Price, common shares of the acquiring company having a value equal to two times the Purchase Price. If a transaction would otherwise result in a holder having a Flip-In as well as a Flip-Over Right, then only the Flip-Over Right will be exercisable. If a transaction results in a holder having a Flip-Over Right subsequent to a transaction resulting in the holder having a Flip-In Right, a holder will have a Flip-Over Right only to the extent such holder's Flip-In Rights have not been exercised.

PROFESSIONAL LIABILITY AND INDEMNITY OBLIGATIONS TO CLIENTS

From time to time, the Company may be subject to claims from its clients that it failed to provide services in accordance with its contract or that its recovery activities have harmed the client. To date, no client has terminated its contract with the Company based upon the failure to provide services, nor has any client asserted that the Company has in any way damaged its business. The Company has agreed to indemnify and hold certain of its clients harmless from negligent acts or omissions of the Company in the performance of recovery services. Although the Company maintains, and intends to continue maintaining, insurance covering these types of risks, there can be no assurance that such insurance will be an adequate amount or will be available at reasonable costs in the future.

STOCK PRICE VOLATILITY

The Company believes that a variety of factors could cause the price of the Common Stock to fluctuate, perhaps substantially, including:

- announcements of developments related to the Company's business;
- changes in financial estimates by securities analysts; and
- developments in the Company's relationships with its customers, distributors and suppliers.

In addition, in recent years the stock prices of companies have experienced extreme price fluctuations, which have often been unrelated to the operating performance of such companies. Similar fluctuations may adversely affect the market price of the Common Stock in the future.

This Safe Harbor Statement supersedes the Safe Harbor Statements filed as Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q, for the period ending September 30, 1998.

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