QUADRAMED CORP
Form PRER14A
February 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

(Rule 14a-101)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

QUADRAMED CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(4) Date Filed:

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, 2010

Dear Stockholders of QuadraMed Corporation:

The board of directors of QuadraMed Corporation, a Delaware corporation, cordially invites you to attend a special meeting of our stockholders, to be held on [ ], 2010 at 9:00 a.m. local time, at the Hyatt Regency Reston, located at 1800 Presidents Street, Reston, Virginia 20190.

On December 7, 2009, we entered into a merger agreement providing for our acquisition by Bavaria Holdings Inc., an entity created by certain affiliates of Francisco Partners, a private equity fund. At the special meeting, you will be asked to consider and vote upon a proposal to adopt this merger agreement.

If the merger contemplated by the merger agreement is completed, if you are a holder of our common stock you will be entitled to receive $8.50 in cash, without interest and less any applicable withholding tax, in exchange for each share of our common stock which you hold (unless you have properly exercised your appraisal rights with respect to such shares). If you are a holder of our Series A Cumulative Mandatory Convertible Preferred Stock you will be entitled to receive $13.7097 in cash, without interest and less any applicable withholding tax, in exchange for each share of Series A Preferred Stock which you hold (unless you have properly exercised your appraisal rights with respect to such shares). The per share consideration for the Series A Preferred Stock represents the common-equivalent consideration for such Series A Preferred Stock based on its current conversion ratio of 1.6129 shares of our common stock per share of our Series A Preferred Stock and the per common share merger consideration of $8.50. The $8.50 per common share represents a premium of approximately 32.6% over the closing sales price of the Company s common stock on the last trading day immediately prior to the public announcement of the proposed merger, a premium of approximately 33.3% to the 30-day trailing average closing price of our common stock, and a premium of approximately 7.1% to the 52-week intra-day high price of our common stock, each as reported on the NASDAQ Global Market.

Our board of directors, after considering the unanimous recommendation of a special committee comprised entirely of our independent and disinterested directors, has determined that the merger agreement and the merger contemplated by the merger agreement are advisable, fair to and in the best interests of our stockholders. This special committee made its recommendation to our board of directors after consultation with its legal and independent financial advisors and consideration of a number of factors. **Our board of directors unanimously recommends that you vote FOR approval of the proposal to adopt the merger agreement and FOR approval of the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if we have not received sufficient proxies for adoption of the merger agreement and approval of the merger, at the time of the meeting.**

Approval of the proposal to adopt the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting.

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, date, sign and return by mail, as promptly as possible, the enclosed proxy card, or submit your proxy by telephone or the Internet. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. **The failure to vote will have the same effect as a vote AGAINST approval of the proposal to adopt the merger agreement.**

If your shares of our common stock are held in street name by your bank, brokerage firm or other nominee, your bank, brokerage firm or other nominee will be unable to vote your shares of our common stock unless you provide them with voting instructions. You should instruct your bank, brokerage firm or other nominee to vote your shares of our common stock, following the procedures provided by your bank, brokerage firm or other nominee. **The failure to instruct your bank, brokerage firm or other nominee to vote your shares of our common stock FOR approval of the proposal to adopt the merger agreement will have the same effect as voting against the proposal to adopt the merger agreement.**

The accompanying proxy statement provides you with detailed information about the special meeting, the merger agreement and the merger. We have attached a copy of the merger agreement as Appendix A to the proxy statement. We encourage you to read the entire proxy statement and its appendices, including the merger agreement, carefully. You may also obtain additional information about the Company from documents we have filed with the Securities and Exchange Commission.

If you have any questions or need assistance voting your shares of our common stock, please contact [ ], the Company s proxy solicitor, toll-free at [ ]. Thank you in advance for your cooperation and continued support.

Sincerely,
James E. Peebles

Chairman of the Board
The proxy statement is dated , 2010, and is first being mailed to our stockholders on or about , 2010.

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QUADRAMED CORPORATION

12110 Sunset Hills Road

Reston, VA 20190

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD [ ], 2010

To the Stockholders of QuadraMed Corporation:

NOTICE IS HEREBY GIVEN that QuadraMed Corporation, a Delaware corporation (QuadraMed or the Company), will hold a special meeting of its common stockholders (the Special Meeting) at 9:00 AM local time on [ ], 2010, at the Hyatt Regency Reston located at 1800 Presidents Street, Reston, Virginia 20190.

At the meeting, we will ask our common stockholders to:

1. Consider and vote upon a proposal to adopt the Agreement and Plan of Merger, as it may be amended from time to time (the Merger Agreement), dated as of December 7, 2009, by and among QuadraMed, Bavaria Holdings Inc., a Delaware corporation controlled by Francisco Partners (the Parent) and Bavaria Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Parent (Merger Sub), and to approve the Parent s acquisition of QuadraMed through a merger of Merger Sub with and into QuadraMed, with QuadraMed surviving the merger as a wholly owned subsidiary of the Parent, as contemplated by the Merger Agreement; and

2. Consider and vote upon a proposal to approve any adjournments of the Special Meeting to a later date or time, if necessary, to permit further solicitation of proxies if there are insufficient votes at the time of the Special Meeting, or at any adjournment or postponement thereof, to adopt the Merger Agreement and approve the merger.

These proposals are further described in the proxy statement of which this notice forms a part. We request that you pay careful attention to all of the information in the proxy statement.

Only QuadraMed common stockholders of record at the close of business on [ ], 2010, the record date for the Special Meeting, or their duly authorized proxies are entitled to vote at the Special Meeting and any adjournment or postponement thereof. Each QuadraMed common stockholder is entitled to one vote for each share of QuadraMed common stock held on the record date.

The proposal for the adoption of the Merger Agreement and approval of the merger requires the affirmative vote of the holders of a majority of QuadraMed s shares of common stock issued and outstanding on the record date. Even if you are a common stockholder who plans on attending the Special Meeting, QuadraMed requests that you, as promptly as possible, complete, sign, date and return the enclosed proxy card by mail or submit your proxy by telephone or the Internet to ensure that you and your shares are represented at the Special Meeting and your vote is counted. If you are not able to attend the Special Meeting in person, failure to return a proxy card or submit a proxy by telephone or Internet on a timely basis will result in your shares not being counted at the Special Meeting, thus having the effect of a vote **AGAINST** the proposal to adopt the Merger Agreement and approve the merger. Properly executed proxy cards with no instructions indicated on the proxy card will be voted

FOR the adoption of the Merger Agreement and approval of the merger and **FOR** the adjournment of the Special Meeting, if necessary, to solicit additional proxies.

Only QuadraMed stockholders of record as of the record date or their duly authorized proxies may, and are invited to, attend the Special Meeting, and all attendees will be required to present a valid picture ID. If you own shares through a bank, brokerage firm or other nominee, you will need to present a copy of your brokerage statement evidencing your ownership of QuadraMed common stock or Series A Cumulative Mandatory Convertible Preferred Stock (Series A Preferred Stock) to gain admittance to the Special Meeting. If you are a representative of a corporate or institutional stockholder, you must present proof of such representation. Cameras, recording devices and electronic devices will not be allowed in the Special Meeting.

QuadraMed common stockholders and holders of Series A Preferred Stock who do not vote in favor of the proposal to adopt the Merger Agreement and approve the merger will have the right to seek appraisal of the fair value of the shares of QuadraMed common stock or Series A Preferred Stock they own, subject to compliance with other statutory procedures. To exercise these appraisal rights, you must deliver a written demand for appraisal before the taking of the vote on the proposal to adopt the Merger Agreement and approve the merger at the Special Meeting and further comply with all Delaware law requirements. These requirements are summarized in this proxy statement and included in their entirety at **Appendix C** to the proxy statement.

For ten (10) days prior to the Special Meeting, a list of stockholders entitled to vote at the Special Meeting will be available for inspection during ordinary business hours at QuadraMed s offices located at 12110 Sunset Hills Road, Suite 600, Reston, Virginia 20190.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, WE URGE YOU TO COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE OR SUBMIT YOUR PROXY BY TELEPHONE OR INTERNET. YOUR PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE TIME IT IS VOTED AT THE SPECIAL MEETING. FURTHER, IF YOU ATTEND THE SPECIAL MEETING AND VOTE IN PERSON, YOUR PREVIOUSLY SUBMITTED PROXY WILL BE REVOKED.

THE QUADRAMED BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT AND APPROVAL OF THE MERGER AND FOR APPROVAL OF THE PROPOSAL TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, TO SOLICIT ADDITIONAL PROXIES.

By order of the Board of Directors,
James E. Peebles

Chairman of the Board

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement, documents that we reference in this proxy statement, and oral or written statements that we have made or will make, contain certain forward-looking statements and information as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including statements regarding whether and when the proposed merger will close, whether conditions to the proposed merger will be satisfied, the effect of the proposed merger on our business and operating results, and all other statements regarding our intent, plans, beliefs, expectations or those of our directors or officers. In some cases, you can identify forward-looking statements by terminology such as believes, anticipates, plans, should, expects, predicts, intends, estimates, may, will, could, would, or the negative of those terms or comparable terminology. Not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions that could cause actual results and developments to differ materially from those described in these forward-looking statements. These risks, uncertainties and assumptions that could cause our actual results and developments to differ from these forward-looking statements include, but are not limited to, the risks detailed elsewhere in this proxy statement, in our periodic reports filed with the SEC, including our most recent Forms 10-Q and 10-K (please see Where You Can Find More Information at page [ ]), and below:

- the occurrence of any event, change or circumstance that could give rise to a termination of the Merger Agreement, including a termination in which we are obligated to pay a termination fee or to reimburse the Parent for expenses;
- the failure of the merger to be completed for any other reason, including for failure by us, the Parent or Merger Sub to satisfy the conditions to closing in the Merger Agreement, including required regulatory approvals;
- adoption of the Merger Agreement and approval of the merger by our stockholders;
- the time at which the proposed merger is completed;
- the risks that the proposed merger disrupts current plans and operations and creates potential difficulties in employee retention;
- the diversion of management s time and attention from our business and operations;
- the outcome of any legal proceedings that have been or may be brought against us and others relating to the Merger Agreement, the proposed merger, our directors and our stock;
- the effect of the announcement of the proposed merger on our business relationships, operating results and business generally; and
- the amount of the costs, fees, expenses and charges related to the proposed merger.

These statements are only predictions, and we can give no assurance that such expectations will prove to be correct. You should not place undue reliance on these forward-looking statements. In light of the significant uncertainties inherent in the forward-looking statements included in this proxy statement, you should not consider the inclusion of such information as a representation by us or anyone else that we will achieve such results or developments. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and actual results may differ from those indicated by the forward-looking statements included in this proxy statement, documents referenced in this proxy statement and in our oral and written statements.

The forward-looking statements and information in this proxy statement represent our views as of the date of this proxy statement, and you should not assume that these statements will remain accurate as of any future date. Except as required by applicable law, we undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events or otherwise. Investors, stockholders and others are advised, however to consult any further disclosures we make in our subsequent amended proxy statements, current reports on Form 8-K, quarterly reports on Form 10-Q, annual reports on Form 10-K and other reports filed with the SEC (please see Where You Can Find More Information at page [ ]).

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger, the Merger Agreement and the Special Meeting. These questions and answers may not address all questions that may be important to you as a Company stockholder. Please refer to the Summary and the more detailed information contained elsewhere in this proxy statement, the appendices to this proxy statement and the documents referred to in this proxy statement, which you should read carefully. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where You Can Find More Information beginning on page [ ].

On or about [ ], 2010 the Company intends to mail this proxy statement and accompanying proxy card to all common stockholders entitled to vote at the Special Meeting and the proxy statement to all holders of Series A Preferred Stock.

WHEN AND WHERE IS THE SPECIAL MEETING?

The Special Meeting will be held on [ ], 2010, at 9:00 AM at the Hyatt Regency in Reston, Virginia. Directions to the meeting are at the back of this proxy statement.

WHO IS ENTITLED TO VOTE AT THE SPECIAL MEETING?

Any owner of record of QuadraMed common stock as of the close of business on [ ], 2010 is entitled to one vote per share of common stock owned. There were [ ] shares of common stock outstanding on that date.

Under the terms of the Designation, Powers, Preferences and Rights of the Series A Preferred Stock incorporated into the Fourth Amended and Restated Certificate of Incorporation of the Company (the Preferred Stock Designation), the holders of Series A Preferred Stock do not have voting rights for the proposals contained in this proxy statement. As of [ ], 2010, there were 4,000,000 shares of the Company s Series A Preferred Stock outstanding.

WHAT IS THE PROPOSED TRANSACTION? WHAT EFFECT WILL IT HAVE ON THE COMPANY?

The proposed transaction is the acquisition of the Company by the Parent pursuant to the Merger Agreement. If the proposal to adopt the Merger Agreement is approved by our common stockholders and the other closing conditions under the Merger Agreement have been satisfied or waived, Merger Sub will merge with and into the Company, with the Company being the surviving corporation. We refer to this transaction as the merger. As a result of the merger, the Company will become a wholly owned subsidiary of the Parent and will no longer be a publicly held corporation, our common stock will be delisted from the NASDAQ Global Market and deregistered under the Securities Exchange Act of 1934 (the Exchange Act), we will no longer file periodic reports with the SEC under the Exchange Act, and you will no longer have any interest in our future earnings or growth.

WHAT WILL I BE ENTITLED TO RECEIVE IF THE MERGER IS COMPLETED?

Upon completion of the merger, you will be entitled to receive the per share merger consideration of $8.50 in cash, without interest, less any applicable withholding taxes, for each share of common stock that you own, unless you have properly exercised and not withdrawn your appraisal rights under the General Corporation Law of the State of Delaware (the DGCL) with respect to such shares. For example, if you own 1,000 shares of common stock, you will be entitled to receive $8,500 in cash in exchange for your shares of common stock, less any applicable withholding taxes. You will not own any shares of the capital stock in the surviving corporation, which will no longer be publicly traded.

Upon completion of the merger, a holder of shares of Series A Preferred Stock will be entitled to receive the per share merger consideration of $13.7097 in cash, without interest, less any applicable withholding taxes for

each share of Series A Preferred Stock owned, unless such holder has properly exercised and not withdrawn its appraisal rights under the DGCL with respect to such shares. For example, if a holder of Series A Preferred Stock owns 1,000 shares of Series A Preferred Stock, such holder will be entitled to receive $13,709.70 in cash in exchange for these shares, less any applicable withholding taxes. The per share consideration payable to the Series A Preferred Stock represents the common-equivalent consideration for such Series A Preferred Stock, based on its current conversion ratio of 1.6129 shares of common stock per share of Series A Preferred Stock and the per common share merger consideration of $8.50. Holders of Series A Preferred Stock will not own any shares of the capital stock in the surviving corporation.

HOW DOES THE BOARD OF DIRECTORS RECOMMEND THAT I VOTE?

The Board unanimously recommends that you vote **FOR** the proposal to adopt the Merger Agreement and approve the merger and **FOR** the proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies, as more fully set forth below in this proxy statement.

WHAT WAS THE ROLE OF THE SPECIAL COMMITTEE IN CONSIDERING THE MERGER?

Following the decision of the Board to undertake a review of the Company s strategic alternatives, including, if appropriate, a possible sale of the Company, and in response to an unsolicited indication of interest from a potential bidder, the Board determined that it was advisable and in the best interests of the Company and its stockholders to form the Special Committee, consisting solely of independent and disinterested directors, for the purpose of directing this potential sale process. The Board appointed each of Messrs. Lawrence P. English, Robert W. Miller, William K. Jurika, Robert L. Pevenstein, and James E. Peebles as members of the Special Committee, with Mr. Pevenstein serving as Chairman of the Special Committee. The Special Committee was delegated full power and authority to direct the strategic review process, to consider, negotiate, and recommend to the Board the terms of any potential transaction involving a potential change in control of the Company and, subject to any approval of the Board and the Company s stockholders required by the DGCL, to approve any other actions the Special Committee deemed necessary to consider, negotiate, recommend, and effect a potential transaction.

The Special Committee, at a meeting held on December 7, 2009, unanimously resolved that the Merger Agreement and transactions contemplated thereby were advisable, fair to, and in the best interests of the Company s stockholders and approved the recommendation of the Merger Agreement and related documents to the full Board for approval, execution and recommendation to the Company s common stockholders.

In light of the Special Committee s recommendation and its review, the Board unanimously resolved that the execution of the Merger Agreement and entry into the transactions contemplated thereby were advisable, fair to, and in the best interests of the Company s stockholders, authorized Board Chairman Peebles to execute the Merger Agreement and other transaction agreements on behalf of the Company, and unanimously recommended the adoption of the Merger Agreement and approval of the merger by the Company s common stockholders at the Special Meeting.

WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

The Company is working towards completing the merger as soon as practicable. Assuming timely satisfaction of all necessary closing conditions, including the affirmative vote of the holders of a majority of our outstanding common stock to adopt the Merger Agreement and approve the merger, we anticipate that the merger will be completed by the end of the first quarter of 2010.

WILL THE MERGER HAVE TAX CONSEQUENCES FOR ME AS A STOCKHOLDER?

Yes. The exchange of shares of QuadraMed common stock or Series A Preferred Stock for cash pursuant to the Merger Agreement generally will be a taxable transaction to U.S. Holders for U.S. federal income tax

purposes. If you are a U.S. Holder and you exchange your shares of QuadraMed common stock or Series A Preferred Stock pursuant to the merger, you will generally recognize gain or loss in an amount equal to the difference, if any, between the cash payments made pursuant to the merger and your adjusted tax basis in your shares of QuadraMed common stock or Series A Preferred Stock, as applicable. Backup withholding may also apply to the cash payments made pursuant to the merger unless the U.S. Holder or other payee provides a taxpayer identification number, certifies that such number is correct and otherwise complies with the backup withholding rules. You should read **The Merger Material U.S. Federal Income Tax Consequences of the Merger** beginning on page [ ] for a more detailed discussion of the U.S. federal income tax consequences of the merger and the definition of U.S. Holders. You should also consult your tax advisor for a complete analysis of the effect of the merger on your U.S. federal, state and local and/or foreign taxes.

DO ANY OF THE COMPANY S DIRECTORS OR OFFICERS HAVE INTERESTS IN THE MERGER THAT MAY DIFFER FROM OR BE IN ADDITION TO MY INTERESTS AS A STOCKHOLDER?

Yes. In considering the unanimous recommendation of the Board with respect to the Merger Agreement, you should be aware that the Company s directors and executive officers may have interests in the merger that may be different from, or in addition to, the interests of our stockholders generally. The Special Committee and the Board were aware of and considered these interests, among other matters, in evaluating and negotiating the Merger Agreement and the merger, and in recommending that the Merger Agreement be adopted by the stockholders of the Company entitled to vote thereon. See **The Merger Interests of Certain Persons in the Merger** beginning on page [ ].

WHAT HAPPENS IF THE MERGER IS NOT SUCCESSFULLY COMPLETED?

If the Merger Agreement is not adopted by the holders of a majority of the Company s outstanding common stock of the Company or if the merger is not completed for any other reason, the stockholders of the Company will not receive any payment for their shares of common stock in connection with the merger. Instead, the Company will remain an independent public company and the common stock will continue to be listed and traded on the NASDAQ Global Market, subject to the continued satisfaction of listing requirements and the Series A Preferred Stock will remain issued and outstanding. Under specified circumstances, the Company may be required to pay to or receive from the Parent a fee with respect to the termination of the Merger Agreement or reimburse the Parent for expenses, as applicable, as described under **The Merger Agreement Termination Fees** beginning on page [ ].

WHO IS SOLICITING MY PROXY TO VOTE MY SHARES AND WHEN?

Our Board is soliciting your proxy, or your authorization for our representatives to vote your shares of common stock. Your proxy will be effective for the [ ], 2010 meeting and at any adjournment or postponement of that meeting.

WHO IS PAYING FOR AND WHAT IS THE COST OF SOLICITING PROXIES?

QuadraMed is bearing the entire cost of soliciting proxies. Proxies will be solicited principally through the mail, but may also be solicited personally or by telephone, Internet, facsimile or special letter by QuadraMed s directors, officers and regular employees for no additional compensation. To assist in the solicitation of proxies and the distribution and collection of proxy materials, QuadraMed has engaged [ ], a proxy solicitation firm, for an estimated fee of $[ ]. QuadraMed will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to their customers or principals who are the beneficial owners of shares of common stock.

WHAT ARE THE REQUIREMENTS FOR BUSINESS TO BE CONDUCTED AT THE SPECIAL MEETING?

For business to be conducted at the Special Meeting, a quorum constituting a majority of the shares of QuadraMed common stock issued and outstanding and entitled to vote at the meeting must be present in person

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or represented by proxy. As the Series A Preferred Stock is not entitled to vote on any proposal at the Special Meeting, shares of the Series A Preferred Stock (or shares of common stock issuable upon conversion of the Series A Preferred Stock unless such shares of Series A Preferred Stock have been converted in advance of the record date for the meeting) do not count towards a quorum.

WHERE DO I FIND THE RESULTS OF VOTING AT THE MEETING?

We intend to announce preliminary voting results at the meeting. Final voting results will be published in a Current Report on Form 8-K following the meeting. The report will be filed with the SEC on or about [ ], 2010, and you may receive a copy by contacting QuadraMed Investor Relations at 703-709-2300, or the SEC at 800-SEC-0330 for the location of its nearest public reference room. You may also access a copy on the Internet at www.quadramed.com by clicking on **Corporate**, and **Corporate Governance,** and **SEC Filings** or through EDGAR, the SEC s electronic data system, at www.sec.gov.

PROPOSALS FOR STOCKHOLDER VOTE AND APPROVAL REQUIREMENTS

Management is presenting two (2) proposals for a vote by the holders of our common stock. Delaware law and QuadraMed s Certificate of Incorporation and Bylaws govern the vote on these proposals.

PROPOSAL 1. ADOPTION OF THE AGREEMENT AND PLAN OF MERGER, DATED DECEMBER 7, 2009 BY AND AMONG QUADRAMED CORPORATION, BAVARIA HOLDINGS INC. AND BAVARIA MERGER SUB, INC., AS IT MAY BE AMENDED FROM TIME TO TIME AND APPROVAL OF THE MERGER CONTEMPLATED THEREBY.

This proposal to be voted on is the adoption of the Agreement and Plan of Merger, dated as of December 7, 2009, by and among QuadraMed Corporation, Bavaria Holdings Inc. and Bavaria Merger Sub, Inc., as it may be amended from time to time (the Merger Agreement), and the approval of the merger contemplated thereby.

You may find information about this proposal in this proxy statement.

You may vote in favor of the proposal, vote against the proposal, or abstain from voting. If a quorum is present in person or represented by proxy at the Special Meeting, the proposal will pass if approved by the holders of a majority of the shares of our common stock outstanding on the record date. Abstentions and broker non-votes will have the same effect as votes against the proposal.

The Board unanimously recommends a vote FOR the adoption of the Merger Agreement and the approval of the merger contemplated thereby as described in this proxy statement.

PROPOSAL 2. APPROVAL OF ANY ADJOURNMENTS OF THE SPECIAL MEETING TO A LATER DATE OR TIME, IF NECESSARY, TO PERMIT FURTHER SOLICITATION OF PROXIES IF THERE ARE INSUFFICIENT VOTES AT THE TIME OF THE SPECIAL MEETING, OR AT ANY ADJOURNMENT OR POSTPONEMENT THEREOF, TO ADOPT THE MERGER AGREEMENT AND APPROVE THE MERGER.

This proposal to be voted on is to approve any adjournments of the Special Meeting to a later date or time, if necessary, to permit further solicitation of proxies if there are insufficient votes at the time of the Special Meeting, or at any adjournment or postponement thereof, to adopt the Merger Agreement and the approval of the merger. The Board unanimously recommends a vote FOR the approval of any adjournments of the Special Meeting as described in this Proxy Statement.

The adjournment proposal will pass if approved by the holders of a majority of the shares of QuadraMed common stock present or represented and entitled to vote on the adjournment proposal. Abstentions will have the same effect as votes against the adjournment proposal. Broker non-votes will have no effect on the vote on the adjournment proposal.

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The Board unanimously recommends a vote FOR the approval of any adjournments of the Special Meeting to a later date and time, if necessary, to permit further solicitation of proxies if there are insufficient votes at the time of the Special Meeting, or at any adjournment or postponement thereof, to adopt the Merger Agreement.

VOTING AND PROXY PROCEDURE

HOW DO I VOTE?

Common stockholders of record as of the record date may vote in either of two (2) ways:

1. BY PROXY.

   Mark your voting instructions, sign and date the proxy card and then return it in the postage-paid envelope provided. If you mail your proxy card, we must receive it before the polls close at the end of the Special Meeting;

   Call the toll-free telephone number noted on your proxy card; or

   Visit the website for Internet proxy submission listed on your proxy card.

If your signed proxy card does not provide voting instructions, our representatives will vote your shares FOR Proposal 1 and FOR Proposal 2. If any other matters arise during the meeting that require a vote, the representatives will exercise their discretion.

A control number, located on your proxy card, is designed to verify your identity and allow you to provide voting instructions for your shares of the common stock, and to confirm that your voting instructions have been properly recorded when submitting a proxy over the Internet or by telephone. Please be aware that if you submit a proxy over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible.

2. IN PERSON. Attend the Special Meeting, or send a personal representative with an appropriate proxy, in order to vote.

If you are a beneficial but not record owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you. Please note that if you are a beneficial but not record owner and wish to vote in person at the Special Meeting, you must provide a copy of a legal proxy that you received from your bank, brokerage firm or other nominee.

HOW DO I REVOKE MY PROXY OR CHANGE MY VOTING INSTRUCTIONS?

You may revoke your proxy or change your voting instructions in three (3) different ways:

1. WRITE TO QUADRAMED S CORPORATE SECRETARY, DAVID L. PIAZZA, AT 12110 SUNSET HILLS ROAD, SUITE 600, RESTON, VIRGINIA 20190.

Your letter should contain the name in which your shares are registered, your control number, the date of the proxy you wish to revoke or change, your new voting instructions, if applicable, and your signature. Mr. Piazza must receive your letter before the Special Meeting begins.

2. SUBMIT A NEW PROXY CARD BEARING A LATER DATE THAN THE ONE YOU WISH TO REVOKE. We must receive your new proxy card before the Special Meeting begins.

3. ATTEND THE SPECIAL MEETING AND VOTE IN PERSON (OR BY PERSONAL REPRESENTATIVE WITH AN APPROPRIATE PROXY).

If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your instructions.

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HOW WILL PROXIES BE VOTED IF I GIVE MY AUTHORIZATION?

The Board has selected David L. Piazza and Edward B. Borris, and each of them, to act as proxies with full power of substitution. With respect to the proposal to adopt the Merger Agreement, common stockholders may (i) vote for, (ii) vote against or (iii) abstain from voting as to each such matter. All properly executed proxy cards delivered by stockholders and not revoked will be voted at the Special Meeting in accordance with the directions given. IF NO SPECIFIC INSTRUCTIONS ARE GIVEN WITH REGARD TO THE MATTERS TO BE VOTED UPON, THE SHARES REPRESENTED BY A PROPERLY EXECUTED PROXY CARD WILL BE VOTED FOR THE ADOPTION OF THE MERGER AGREEMENT AND FOR THE ADJOURNMENT OF THE SPECIAL MEETING, IF NECESSARY, TO PERMIT SOLICITATION OF ADDITIONAL PROXIES. Management knows of no other matters that may come before the Special Meeting for consideration by the stockholders. However, if any other matter properly comes before the Special Meeting, the persons named in the enclosed proxy card as proxies will vote upon such matters in accordance with their judgment.

HOW WILL VOTES BE COUNTED?

Holders of record of our common stock on the record date are entitled to one vote per share on each matter to be considered at the Special Meeting. The inspector of elections appointed by the Board for the Special Meeting will calculate affirmative votes, negative votes, abstentions and broker non-votes. Under Delaware law, shares represented by proxies that reflect abstentions, but not broker non-votes, will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

A broker non-vote results on a matter when a broker or other street or nominee record holder returns a duly executed proxy but does not vote on such matter solely because the record holder does not have discretionary authority to vote on such matter and has not received voting instructions from the beneficial holder. Such record holders have discretionary authority to vote on routine matters, regardless of whether they have received voting instructions. Accordingly, no broker non-votes occur when voting on routine matters. The proposal to adopt the Merger Agreement, however, is not considered routine. This proposal is determined based on the vote of all shares of QuadraMed common stock outstanding as of the record date. Therefore, abstentions and broker non-votes on such proposal have the same effect as a vote against this proposal.

The proposal to adjourn the Special Meeting, if necessary, to permit solicitation of additional proxies is also not routine, though it is determined based on the vote of a majority of the shares of our common stock represented in person or by proxy at the Special Meeting and entitled to vote thereon, even if less than a quorum. Accordingly, broker non-votes and not voting at the Special Meeting will have no effect on the outcome of this proposal, but abstentions will have the same effect of a vote against this proposal.

AM I ENTITLED TO APPRAISAL RIGHTS?

Yes. As a holder of QuadraMed common stock or Series A Preferred Stock, you may dissent from the adoption of the Merger Agreement and approval of the merger and, by complying with applicable Delaware law, have the fair value of your shares of QuadraMed common stock or Series A Preferred Stock determined by a court. The fair value of your shares of QuadraMed common stock or Series A Preferred Stock, as determined by a court, may be more than, the same as or less than the applicable consideration to be paid pursuant to the merger. For more information about appraisal rights in the merger, see **The Merger Appraisal Rights.**

To exercise appraisal rights, you must not vote in favor of the adoption of the Merger Agreement, and you must strictly comply with all of the applicable requirements of Delaware law summarized under the heading **The Merger Appraisal Rights.** Shares of QuadraMed common stock or Series A Preferred Stock held by QuadraMed stockholders who have perfected appraisal rights will not be converted into the right to receive the applicable merger consideration at the effective time of the merger.

We have included a copy of Section 262 of the DGCL, which governs appraisal rights, as **Appendix C** to this proxy statement.

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SUMMARY TERM SHEET

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read carefully this entire proxy statement, including all appendices, and the documents we refer to herein. The Merger Agreement is attached as ***Appendix A*** *to this proxy statement. Before voting on the proposal to adopt the Merger Agreement, we encourage you to read the Merger Agreement as it is the legal document that governs the merger.*

The Companies (page [ ])

QuadraMed Corporation

12110 Sunset Hills Road, Suite 600

Reston, Virginia 20190

Telephone: (703) 709-2300

QuadraMed Corporation (QuadraMed or the Company) is a provider of healthcare technologies and services that help turn quality care into positive financial outcomes. QuadraMed provides innovative solutions that streamline revenue management and compliance processes, while helping healthcare professionals deliver quality patient care. QuadraMed common stock is listed on the NASDAQ Global Market under the symbol QDHC. For more information about QuadraMed, visit www.quadramed.com.

Bavaria Holdings Inc.

c/o Francisco Partners

One Letterman Drive

Building C Suite 410

San Francisco, CA 94129

Telephone: (415) 418-2900

Bavaria Holdings Inc. (the Parent) is a newly formed Delaware corporation organized by affiliates of Francisco Partners solely for the purpose of effecting the merger and the other transactions contemplated by the Merger Agreement. Prior to its entry into the Merger Agreement on December 7, 2009, the Parent had not engaged in any business activities other than such activity incidental to its formation and entry into the Merger Agreement. Francisco Partners is one of the world s largest technology-focused private equity funds, with approximately $5.0 billion of committed capital. Following the consummation of the merger, the Company will be a wholly owned subsidiary of the Parent.

Bavaria Merger Sub, Inc.

c/o Francisco Partners

One Letterman Drive

Building C Suite 410

San Francisco, CA 94129

Telephone: (415) 418-2900

Bavaria Merger Sub, Inc. (Merger Sub), a wholly owned subsidiary of the Parent, was organized by the Parent solely for the purpose of entering into the Merger Agreement with QuadraMed and completing the merger and has not conducted any business operations other than such activity incidental to its formation and entry into the Merger Agreement. Upon consummation of the merger, Merger Sub will cease to exist.

The Special Meeting of QuadraMed s Stockholders (page [ ])

Date, Time, Place, Purpose. A Special Meeting of QuadraMed s common stockholders will be held on [ ], 2010, at the Hyatt Regency Reston located at 1800 Presidents Street, Reston, Virginia 20190, at 9:00 a.m., local time, to:

approve and adopt the Merger Agreement and approve the merger;

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approve any adjournments of the Special Meeting to a later date or time, if necessary, to permit further solicitation of proxies if there are insufficient votes at the time of the Special Meeting or at any adjournment or postponement thereof, to adopt the Merger Agreement;

consider any other matters that properly come before the Special Meeting or any adjournments or postponements thereof.

Record Date and Voting Power. You are entitled to vote at the Special Meeting if you owned shares of QuadraMed common stock at the close of business on [ ], 2010, the record date for the Special Meeting. You will have one vote at the Special Meeting for each share of QuadraMed common stock you owned at the close of business on the record date. There were [ ] shares of QuadraMed common stock entitled to be voted at the Special Meeting as of the record date. As of [ ], 2010, our directors and executive officers beneficially owned approximately [ ]% of the shares entitled to vote at the Special Meeting (which includes stock options that may be exercised within 60 days of [ ], 2010) and may have interests that may be different from or in addition to yours.

Required Vote. The adoption of the Merger Agreement requires the affirmative vote of a majority of the shares of QuadraMed common stock outstanding at the close of business on the record date. Approval of any proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies requires the affirmative vote of at least a majority of the votes entitled to be cast by holders of QuadraMed common stock that are present, in person or by proxy, at the Special Meeting, and entitled to vote thereon.

The Merger (page [ ])

The Merger Agreement provides that Merger Sub will merge with and into QuadraMed, with QuadraMed continuing as the surviving corporation and a wholly owned subsidiary of the Parent. Following the merger, QuadraMed will continue to do business, but it will cease to be a public company. If the merger is completed, you will not own any shares in the surviving corporation.

Merger Consideration (page [ ])

If the merger is completed, each holder of QuadraMed common stock will be entitled to receive $8.50 in cash, without interest and less any applicable withholding tax, in exchange for each share of QuadraMed common stock. Further, each holder of QuadraMed s Series A Cumulative Mandatory Convertible Preferred Stock (Series A Preferred Stock) will be entitled to receive $13.7097 in cash, without interest and less any applicable withholding tax, in exchange for each share of QuadraMed Series A Preferred Stock. The per share consideration to the Series A Preferred Stock represents the common-equivalent consideration for such Series A Preferred Stock based on its current conversion ratio and the per common share merger consideration of $8.50.

After the merger is completed, holders of common stock and Series A Preferred Stock will have the right to receive the applicable merger consideration, but will no longer have any rights as QuadraMed stockholders. QuadraMed stockholders will receive the merger consideration after exchanging their QuadraMed stock certificates or book entry shares in accordance with the instructions contained in a letter of transmittal to be mailed to our stockholders as soon as reasonably practicable after closing of the merger.

Reasons for the Merger; Recommendation of the Board of Directors (page [ ])

The Board determined it was advisable to form the Special Committee, comprised solely of independent and disinterested Board members, for the purpose of evaluating a potential transaction involving a change in control of the Company, including a review of an unsolicited offer to acquire the Company. The Special Committee was formed on September 2, 2009. On December 7, 2009, after a thorough review of the alternatives available to the Company with the assistance of its financial and legal advisors, the Special Committee unanimously resolved that the Merger Agreement and transactions contemplated in the Merger Agreement were advisable, fair to, and in the best interests of the Company s stockholders and unanimously approved the recommendation of the

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Merger Agreement and related documents to the full Board for approval, execution and recommendation to the holders of the Company s common stock. Also on December 7, 2009, on the basis of the Special Committee s unanimous recommendation to the Board, the Board unanimously resolved that the execution of the Merger Agreement and entry into the transactions contemplated thereby were advisable, fair to, and in the best interests of the Company s stockholders, and unanimously resolved to approve the execution of the Merger Agreement, entry into the merger contemplated by the Merger Agreement and the recommendation to holders of the Company s common stock to adopt the Merger Agreement and approve the merger. For more information, please refer to **The Merger Background of the Merger.**

For more information on the Special Committee s process, including:

- the solicitation of interest from 11 potential bidders (including both potential private equity and strategic buyers) that would have a potential interest in, and capacity for, acquiring the Company;
- the Special Committee s deliberations in connection with that process and its results; and
- the negotiations with Francisco Partners,

please refer to **The Merger Background of the Merger.**

In making its determination and recommendations, the Special Committee considered, among other factors, the following:

- its knowledge of the current state of the Company s business, financial condition, operations, earnings, strategic plans, management, competitive position and prospects were the Company to remain independent and public;
- its and the Company s management s views and opinions regarding the healthcare information technology industry, the Company s competitors and changes affecting the Company s industry and competitive landscape;
- based on the foregoing factors, its belief that the Company s common stock was unlikely to trade at prices significantly above its then-current level in the near- to mid-term;
- its knowledge of the process with respect to the proposed transaction, including the solicitation of 11 potential buyers;
- entry into confidentiality agreements, provision of due diligence information and presentations by the Company s management to eight potential buyers;
- receipt of three proposed offers and negotiation with two final bidders; and
- material positive factors and potentially negative factors regarding the Merger Agreement and merger.

Based on its review of these factors (as more fully described in **The Merger Reasons for the Merger: Recommendation of the Board of Directors**), the Special Committee concluded that the $8.50 per share merger consideration for the Company s common stock, along with the material positive features of the merger, outweighed the foregoing potentially negative factors, and resolved to recommend the Merger Agreement to the Board for approval and recommendation to the Company s common stockholders for adoption.

Based on the unanimous recommendation of the Special Committee and its consideration of the factors that the Special Committee considered, the Board unanimously concluded to approve the Merger Agreement and recommend adoption of the Merger Agreement and approval of the merger by the holders of the Company s common stock.

The Board unanimously recommends that you vote FOR the proposal to adopt the Merger Agreement and approve the merger and FOR the proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies.

Opinion of the Company s Financial Advisor (page [ ])

In connection with the merger, Piper Jaffray & Co. (Piper Jaffray) served as financial advisor to the Special Committee, delivered an oral opinion to the Special Committee on December 7, 2009 and subsequently confirmed this opinion in writing on December 7, 2009, as to the fairness, from a financial point of view and as of the date of such opinion, of the $8.50 per share consideration to be received in the merger by holders of the Company s common stock. The full text of Piper Jaffray s written opinion, dated December 7, 2009, is attached to this proxy statement as **Appendix B. Piper Jaffray s fairness opinion was provided for the benefit of the Special Committee in connection with, and for the purpose of, its evaluation of the $8.50 per share merger consideration for the holders of the Company s common stock from a financial point of view and does not address any other aspect of the merger. Piper Jaffray s fairness opinion does not address the merits of the merger relative to other business strategies or transactions potentially available to the Company or the Company s underlying business decision to effect the merger. The opinion does not constitute a recommendation to any stockholder as to how to vote or act with respect to the merger.** Holders of the Company s common stock are encouraged to read Piper Jaffray s fairness opinion carefully in its entirety for a description of Piper Jaffray s assumptions, procedures, considerations and limitations in connection with its review and opinion.

For more information, please refer to **The Merger Opinion of the Company s Financial Advisor.**

Appraisal Rights (page [ ] and Appendix C)

Our stockholders have the right under Section 262 of the DGCL to exercise appraisal rights and to receive payment in cash for the fair value of their shares of our common stock and/or Series A Preferred Stock, as applicable, as determined by the Delaware Court of Chancery in a judicial appraisal proceeding. The fair value of shares of our common stock and/or Series A Preferred Stock, as applicable, as so determined, may be more than, the same as or less than the merger consideration to be paid to non-dissenting QuadraMed stockholders pursuant to the merger. To preserve their rights, stockholders who wish to exercise appraisal rights must not vote in favor of the adoption of the Merger Agreement and must follow specific procedures. QuadraMed stockholders must precisely follow these specific procedures to exercise appraisal rights, or their appraisal rights may be lost. These procedures are described in this proxy statement, and the provisions of the DGCL that grant appraisal rights and govern such procedures are attached as **Appendix C** to this proxy statement. You are encouraged to read these provisions carefully and in their entirety.

Treatment of Stock Options and Employee Stock Purchase Plan Shares (page [ ])

At the effective time of the merger, each outstanding and unexercised Company stock option, whether vested or not, will be cancelled, and each holder will be entitled to receive an amount of cash, without interest, equal to the product of (x) the total number of shares of QuadraMed common stock subject to such Company stock option multiplied by (y) the excess (if any) of $8.50 over the exercise price per share of QuadraMed common stock under such Company stock option, less applicable taxes. In addition, to the extent that a purchase interval under the Company s 2008 Employee Stock Purchase Plan (the ESPP) is ongoing immediately prior to the effective time of the merger, the ongoing purchase interval will terminate immediately prior to the effective time of the merger and each ESPP participant s payroll deductions will be applied to the purchase of QuadraMed common stock in accordance with the terms of the ESPP.

Voting Agreements (page [ ])

Voting Agreements were entered into by the Parent and each Board member and executive officers Duncan W. James, David L. Piazza, Michael J. Simpson and Brook A. Carlon concurrently with the Company s execution of the Merger Agreement and as an inducement to the Parent to enter into the Merger Agreement. The Voting Agreements obligate these individuals, solely in their capacity as stockholders of the Company, to vote their shares of common stock, if any, in favor of the adoption of the Merger Agreement and

approval of the merger and against any proposal that is intended, or could reasonably be expected to, impede, interfere with, delay, postpone, discourage, frustrate or adversely affect the consummation of the merger and other transactions contemplated by the Merger Agreement, and against any Acquisition Proposal (as defined in the Merger Agreement). The Parent did not pay additional consideration to such persons in connection with the execution and delivery of their respective Voting Agreements. Collectively, the Voting Agreements cover [ ]% of the issued and outstanding shares of the common stock of the Company as of the record date for the Special Meeting.

Conditions to Completion of the Merger (page [ ])

The merger will be completed only if certain conditions are satisfied or waived, including the following:

- adoption of the Merger Agreement by the Company s stockholders;

- no court or governmental entity of competent jurisdiction shall have enacted any law, statute, rule, regulation or order prohibiting the consummation of the merger and the other transactions contemplated by the Merger Agreement;

- receipt of all regulatory clearances, other than those waived by Merger Sub;

- the Company s representations and warranties in the Merger Agreement regarding capital structure, Company stock plans, obligations with respect to capital stock, corporate authority, compliance with charter, no liquidation, the absence of a Company material adverse effect, anti-takeover statutes, required votes, and the opinion of the Company s financial advisor being true and correct in all respects as of the date of the Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger;

- the Company s representations and warranties in the Merger Agreement regarding capital stock and option information being true and correct (without regard to any materiality or material adverse effect qualifications contained in such representations and warranties), as of the date of the Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger (other than representations and warranties that by their terms speak as of another date), except to the extent that the failure of such representations and warranties to be true and correct, individually or in the aggregate, does not increase or would not reasonably be expected to increase the merger consideration by more than $85,000;

- all other representations and warranties of the Company, the Parent and Merger Sub in the Merger Agreement being true and correct (without regard to any materiality or material adverse effect qualifications contained in such representations and warranties), as of the date of the Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties to be true and correct, individually or in the aggregate, does not have or would not reasonably be expected to have a material adverse effect on the Company, the Parent or Merger Sub, as the case may be;

- the Company, the Parent and Merger Sub s performance of all obligations in all material respects and compliance with all covenants required by the Merger Agreement to be performed or complied with by such party prior to the closing of the merger;

- as of the closing of the merger, the Company and its subsidiaries possessing on a consolidated basis in bank or brokerage located accounts in the United States (other than cash in an amount not to exceed $2,000,000 in the aggregate which may be located in operating accounts of the Company s Canadian

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and United Kingdom subsidiaries) cash and marketable securities totaling at least $15,000,000, of which not less than $7,500,000 shall be in cash (treating all fees and expenses incurred by the Company in connection with the Merger Agreement and the transactions contemplated thereby, whether or not paid, as if they were paid in cash prior to the closing of the merger, and none of which marketable securities shall be an auction rate or similar security or involved or potentially involved in a Securities Investors Protection Act action or claim);

the Company s entrance into and maintenance of a specified agreement with a specified business partner; and

the Company and the Parent s delivery to each other of a certificate, dated as of the closing of the merger and signed by a senior officer, certifying to the effect that the above relevant conditions have been satisfied.

The Parent s ability to secure any necessary merger financing is not a condition of the Parent or Merger Sub to consummate the merger, and the Parent or Merger Sub s failure to obtain any such financing in and of itself shall not affect the Parent or Merger Sub s obligations under the Merger Agreement (provided that the underlying causes of any such failure may be considered in determining whether the conditions of the Parent s obligation to consummate the merger have been satisfied, if such underlying causes would independently result in such conditions not having been met).

Termination of the Agreement and Plan of Merger (page [ ])

QuadraMed, the Parent and Merger Sub may terminate the Merger Agreement by mutual written consent at any time prior to the closing of the merger. QuadraMed, the Parent or Merger Sub may also terminate the Merger Agreement if:

QuadraMed s stockholders do not approve the proposal to adopt the Merger Agreement at the Special Meeting or at any postponements or adjournments thereof;

the merger has not been consummated by May 6, 2010, provided that the terminating party has not breached in any material respect its covenants or obligations under the Merger Agreement in any manner that has been the proximate cause of the failure of the merger to be consummated by such date; or

a governmental order permanently restraining, enjoining or prohibiting the consummation of the merger becomes final and non-appealable after the parties have used their reasonable best efforts to have such order removed, repealed or overturned; provided that the terminating party has not breached its covenants or obligations under the Merger Agreement in any manner.

The Company may also terminate the Merger Agreement if:

prior to QuadraMed s stockholders adoption of the Merger Agreement, the Company s Board of Directors (the Board) or a special committee of the Board comprised entirely of independent and disinterested directors (the Special Committee) approves or enters into an alternative acquisition agreement relating to a superior acquisition proposal; provided, that QuadraMed is not then in material breach of its non-solicitation obligations as set forth in the Merger Agreement and pays the Parent the applicable termination fee; or

prior to the closing of the merger, the Parent or Merger Sub breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that QuadraMed gives the Parent written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010), stating QuadraMed s intention to terminate the Merger Agreement and the basis for such termination.

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The Parent may also terminate the Merger Agreement at any time prior to the closing of the merger if:

- QuadraMed, the Board or Special Committee accepts, approves, endorses or recommends an alternative acquisition agreement relating to a superior acquisition proposal;
- the Board or Special Committee, prior to the adoption of the Merger Agreement by QuadraMed s stockholders, withdraws, modifies or qualifies or proposes publicly to withdraw, modify or qualify, in a manner adverse to the Parent or Merger Sub, its recommendation that QuadraMed s stockholders adopt the Merger Agreement and approve the transactions contemplated thereby; approves, recommends or endorses another acquisition proposal; or makes other statements that are reasonably calculated or expected to have the same effect;
- any person or group (other than the Parent, its affiliates and certain other excluded owners) becomes a beneficial owner (as such terms are defined under Regulation 13D under the Securities Exchange Act of 1934, as amended) of 10% or more of the outstanding shares of QuadraMed s common stock, or any excluded owner individually acquires an additional 5% or more of the outstanding shares of QuadraMed s common stock; or
- QuadraMed breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that the Parent gives QuadraMed written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010), stating the Parent s intention to terminate the Merger Agreement and the basis for such termination.

Termination Fees and Expenses (page [ ])

The Merger Agreement provides that, in general, regardless of whether the merger is consummated, all fees and expenses incurred by the parties in connection with the Merger Agreement and the merger will be borne by the party incurring such fees and expenses.

The Merger Agreement provides that QuadraMed will pay the Parent a termination fee of $4.0 million if:

- QuadraMed terminates the Merger Agreement prior to adoption of the Merger Agreement by QuadraMed s stockholders because the Board or Special Committee approves or enters into an alternative acquisition agreement relating to a superior acquisition proposal; or
- the Parent terminates the Merger Agreement because QuadraMed, the Board or Special Committee accepts, approves, endorses or recommends an alternative acquisition agreement relating to a superior acquisition proposal; or
- the Parent terminates the Merger Agreement because the Board or Special Committee, prior to the adoption of the Merger Agreement by QuadraMed s stockholders, withdraws, modifies or qualifies, or proposes publicly to withdraw, modify or qualify, in a manner adverse to the Parent or Merger Sub, its recommendation that QuadraMed s stockholders adopt the Merger Agreement and approve the transactions contemplated thereby; approves, recommends or endorses another acquisition proposal; or makes other statements that are reasonably calculated or expected to have the same effect.

The Merger Agreement also provides that QuadraMed will pay the Parent a termination fee of $4.0 million if:

either the Parent or QuadraMed terminates the Merger Agreement because QuadraMed s stockholders failed to adopt the Merger Agreement;

either the Parent or QuadraMed terminates the Merger Agreement because the merger has not been consummated by May 6, 2010; provided that the terminating party has not breached in any material respect its covenants or obligations under the Merger Agreement in any manner that has been the proximate cause of the failure of the merger to be consummated by such date;

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- the Parent terminates this Agreement because a person or group (other than the Parent, its affiliates and certain other excluded owners) becomes a beneficial owner (as such terms are defined under Regulation 13D under the Securities Exchange Act of 1934, as amended) of 10% or more of the outstanding shares of QuadraMed s common stock, or any excluded owner individually acquires an additional 5% or more of the outstanding shares of QuadraMed s common stock; or

- the Parent terminates this Agreement because QuadraMed breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that the Parent gives QuadraMed written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010), stating the Parent s intention to terminate the Merger Agreement and the basis for such termination;

and, in any such case, an acquisition proposal (which, for the purposes of this provision, shall mean a transaction involving 50% or more of the Company and/or its assets, rather than 15%) has been publicly announced and not withdrawn, or otherwise becomes publicly known after the date of the Merger Agreement, and, within 12 months after such termination, QuadraMed either enters into a definitive agreement relating to an acquisition proposal or an acquisition proposal is consummated.

The Merger Agreement provides that QuadraMed will reimburse each of the Parent and Merger Sub, up to $800,000 in the aggregate, for all out-of-pocket expenses and fees actually incurred by the Parent, Merger Sub and their affiliates in connection with the Merger Agreement in the event of a termination of the Merger Agreement pursuant to the first, second or fourth bullet point immediately set forth above if neither the Parent nor Merger Sub is in material breach of its material covenants and agreements contained in the Merger Agreement, regardless of whether or not an acquisition proposal is publicly announced or known, or consummated by QuadraMed within 12 months of termination. The amount of such expenses and fees paid by QuadraMed would serve to reduce the amount of any termination fee otherwise payable by QuadraMed.

The effect of the termination fee described above could be to discourage other companies from seeking to acquire or merge with us prior to completion of the merger, and could cause us to reject any acquisition proposal from a third-party that does not take into account the termination fee.

The Merger Agreement provides that the Parent will pay QuadraMed a termination fee of $4.5 million if:

- QuadraMed terminates the Merger Agreement prior to the closing of the merger, because the Parent or Merger Sub breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that QuadraMed gives the Parent written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010), stating QuadraMed s intention to terminate the Merger Agreement and the basis for such termination; or

- either the Parent or QuadraMed terminates the Merger Agreement because the merger has not been consummated by May 6, 2010; provided that the terminating party has not breached in any material respect its covenants or obligations under the Merger Agreement in any manner that has been the proximate cause of the failure of the merger to be consummated by such date;

if, in either such case, all of the conditions to the Parent s and Merger Sub s obligation to consummate the merger set forth in the Merger Agreement are satisfied as if the date of such satisfaction was the closing date of the merger and the merger shall not have occurred due to a breach of the Merger Agreement by the Parent or Merger Sub (which shall be deemed to have occurred if the Parent has not closed as of May 6, 2010 and all of the conditions to the Parent s and Merger Sub s obligation to consummate the merger are satisfied as of the business day prior to May 6, 2010). In the event that the Parent is required to pay a termination fee under the Merger Agreement, the Parent would have no right to receive any termination fee otherwise payable by QuadraMed under the Merger Agreement.

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Acquisition Proposals from Third Parties (page [ ])

Subject to certain exceptions, QuadraMed has agreed not to initiate, solicit or knowingly encourage any inquiries, proposals or offers from any third party relating to an acquisition of QuadraMed; engage in any discussions or negotiations regarding any such acquisition proposal; approve or recommend, or publicly propose to approve or recommend any such acquisition proposal; or enter into an agreement relating to any such acquisition proposal or requiring QuadraMed to terminate the Merger Agreement or fail to consummate the merger.

Notwithstanding these restrictions, however, the Merger Agreement provides that, under specified circumstances and prior to the adoption of the Merger Agreement by QuadraMed s stockholders, if QuadraMed, without knowingly, intentionally or materially breaching its non-solicitation obligations, receives a bona fide acquisition proposal from a third party and the Board or Special Committee determines in good faith, after consultation with its financial advisors and outside counsel, that such acquisition proposal constitutes or would reasonably be expected to result in a superior acquisition proposal and that failure to take such action would be inconsistent with its fiduciary duties to QuadraMed s stockholders, then QuadraMed may furnish certain information to the third party making such acquisition proposal and participate in discussions or negotiations with such third party regarding such acquisition proposal.

Also, notwithstanding the above restrictions, the Merger Agreement provides that, upon satisfying specified conditions (including QuadraMed giving the Parent an opportunity to negotiate adjustments to the terms of the Merger Agreement and paying any applicable termination fee if it terminates the Merger Agreement), the Board or Special Committee may withdraw, modify or qualify its recommendation that QuadraMed s stockholders adopt the Merger Agreement; approve, recommend or endorse another acquisition proposal; or terminate the Merger Agreement and enter into a definitive agreement with respect to another acquisition proposal which they conclude in good faith, after consultation with outside counsel and its financial advisors, constitutes a superior acquisition proposal, if the Board or Special Committee determines in good faith, after consultation with outside counsel, that the failure to take any such action would be inconsistent with its fiduciary duties to QuadraMed s stockholders.

Limited Guarantee (page [ ])

Pursuant to a limited guarantee delivered by Francisco Partners II, L.P. and Francisco Partners Parallel Fund II, L.P., which we refer to collectively as Francisco Partners, in favor of the Company, dated December 7, 2009, Francisco Partners has agreed to guarantee the punctual performance and discharge of the Parent s payment obligations under the Merger Agreement in the event of a termination or breach of the Merger Agreement under circumstances in which the Parent s obligation to pay a termination fee of $4.5 million to the Company is triggered.

Financing (page [ ])

In connection with the merger, Francisco Partners has entered into a debt commitment letter dated November 24, 2009, with Wells Fargo Foothill, LLC and Silicon Valley Bank for up to $60 million in a senior secured credit facility. Consummation of the merger is not subject to a financing condition, but is subject to customary conditions to closing, as further discussed in **The Agreement and Plan of Merger Conditions to Closing.**

Regulatory Approvals (page [ ])

The HSR Act and rules thereunder prohibit the Company, the Parent and Merger Sub from completing the merger until the parties have furnished certain information and materials to the Antitrust Division of the Department of Justice and the Federal Trade Commission and the applicable waiting periods have terminated. The Company and the Parent filed the requisite notifications on December 23, 2009. On January 14, 2010, the Company and Francisco Partners received an early termination notice from the Federal Trade Commission, specifying that the waiting period required under the HSR Act was terminated early on January 14, 2010.

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Interests of Certain Persons in the Merger (page [ ])

In considering the merger, stockholders should be aware that the Company s executive officers and directors may have interests in the merger that may be different from, or in addition to, your interests as a stockholder. The Special Committee and the Board were aware of and considered these interests, among other matters, in evaluating and negotiating the Merger Agreement and the merger, and in recommending that the Merger Agreement be adopted by the common stockholders of the Company. These interests include the following:

- the automatic cash-out of all Company stock options, including those held by our executive officers and directors, upon a change in control;

- the termination of the then-current purchase interval under the QuadraMed 2008 Employee Stock Purchase Plan (the ESPP) immediately prior to the effective time of the merger and the application of each participant s payroll deductions for such purchase interval to the purchase of QuadraMed common shares at the applicable purchase price and in accordance with the terms of the ESPP;

- severance payments for certain terminations of employment in connection with or following a change in control that may occur in connection with the merger, although certain executive officers waived certain of their rights to these severance amounts in connection with the merger;

- the receipt by David L. Piazza, the Company s Executive Vice President, Chief Financial Officer and Chief Operating Officer, of a $60,000 discretionary bonus approved by the Compensation Committee of the Board in recognition of Mr. Piazza s effort and service to the Company at the direction of the Special Committee during its negotiation and related due diligence effort of the merger;

- discussions between the Parent and its affiliates and certain executive officers about possible participation in equity compensation plans of the surviving corporation following the closing of the merger, as discussed below under **Arrangements with the Surviving Corporation** ;

- the receipt by the Chairman of the Special Committee and other independent and disinterested directors of certain fees for their respective services on the Special Committee for a period of three months; and

- the rights to indemnification and directors and officers liability insurance for the benefit of QuadraMed s executive officers and directors that will survive consummation of the merger.

Arrangements with the Surviving Corporation (page [ ])

The Parent has indicated its belief that the continued involvement of the Company s executive officers is integral to the Company s future success. Concurrently with the execution of the Merger Agreement certain executive officers executed letters with the Parent (the Waiver Letters) under which each such executive waived his or her ability to voluntarily terminate his or her employment with the Company and claim an involuntary termination as a result of merger alone, or any change in the executive s position with the Company that materially reduces under his or her existing employment agreements with QuadraMed his or her level of responsibility and that results from the delisting of the Company s shares from the NASDAQ Global Market, the termination of the Company s obligations to file periodic and current reports with the SEC or the Company becoming a wholly owned subsidiary of the Parent. In addition, pursuant to his Waiver Letter, Duncan W. James, the Company s Chief Executive Officer, waived the right to voluntarily terminate his employment in connection with or within three months following a change in control and claim severance benefits. The Waiver Letters provide that the Parent will cause the executives employment agreements to remain in continued effect without any other waiver of rights following the consummation of the merger.

Except as provided in the Waiver Letters, as of the date of this proxy statement, no specific discussions have occurred between the Company s executive officers and the Parent with respect to employment, compensation, Board service or other matters relating to the executive s role in the surviving corporation, except that the Parent has stated that it plans, in general, to continue the employment terms and conditions of Messrs. James, David Piazza, Michael Simpson and Ms. Brook Carlon as set forth in their existing employment agreements (as modified by their Waiver Letters), as noted in the preceding paragraph, that it may grant options to purchase equity in the surviving corporation to Mr. James in an amount equal to 4% of the surviving corporation s common stock on a fully diluted basis and Mr. Piazza in an amount of approximately 1-1.5% of such stock.

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Market Price and Dividend Data (page [ ])

The Company s common stock is listed on the NASDAQ Global Market under the symbol QDHC. On December 7, 2009, the last full trading day prior to the public announcement of the merger, the closing price for our common stock was $6.41 per share. On [ ], 2010, the last practicable trading day prior to the date of this proxy statement, our common stock closed at $[ ], and the high and low prices for our common stock were $[ ] and $[ ], respectively.

Material U.S. Federal Income Tax Consequences of the Merger (page [ ])

The receipt of cash pursuant to the merger will be a taxable transaction for U.S. holders for U.S. federal income tax purposes, and may also be a taxable transaction under applicable state, local or foreign income or other tax laws. Generally, for U.S. federal income tax purposes, a stockholder will recognize gain or loss equal to the difference between the amount of cash received by the stockholder pursuant to the merger and the stockholder s adjusted tax basis in the shares of the Company s common stock or Series A Preferred Stock, as the case may be, exchanged for cash in the merger. If the shares of the Company s common stock or Series A Preferred Stock, as the case may be, are held by a stockholder as capital assets, gain or loss recognized by such stockholder will be capital gain or loss, which will be long-term capital gain or loss if the stockholder s holding period for the shares of QuadraMed common stock or Series A Preferred Stock exceeds one year. There are limits on the deductibility of capital losses. Because individual circumstances may differ, you should consult your own tax advisor to determine the particular tax effects of the merger to you.

Claims and Litigation Related to the Transaction (page [ ])

On December 17, 2009, a purported stockholder class action was filed by an individual common stockholder in the Delaware Court of Chancery against members of the Board, the Company, the Parent and Merger Sub styled as Vincent Pirrello v. Duncan James, et al., C.A. No. 5149-VCS. The complaint seeks certification of a class of all of the Company s common stockholders who have been allegedly harmed by the defendants actions challenged in the complaint. In particular, the complaint alleges that the defendant directors have breached their fiduciary and other duties, and that the Company and Francisco Partners have aided and abetted such breaches of those fiduciary and other duties owed to the common stockholders. The complaint seeks entry of an order temporarily and permanently enjoining the proposed transaction, compensatory damages, costs and disbursements, including plaintiff s counsel s fees and experts fees, and other relief. On January 21, 2010, following the filing of the Company s preliminary proxy statement with the SEC, an amended complaint was filed, repeating substantially the same allegations as the original complaint and further alleging that certain of the Company s disclosures in its preliminary proxy statement were misleading or deficient. The Company, Board, the Parent, and Merger Sub believe this lawsuit is without merit and intend to defend the claims raised against them in the lawsuit vigorously.

On January 19, 2010, a purported stockholder class action was filed by a holder of Series A Preferred Stock in the Delaware Court of Chancery against members of the Board, the Company, Francisco Partners, the Parent and Merger Sub styled as LC Capital Master Fund, Ltd. v. Duncan James, et al., C.A. No. 5214-VCS. The complaint seeks certification of a class of all holders of the Company s Series A Preferred Stock who have allegedly been harmed by the defendants actions challenged in the complaint. In particular, the complaint alleges that the defendant directors have breached their fiduciary and other duties, that the defendant directors and the Company have breached their duty of disclosure, and that the Company and Francisco Partners have aided and abetted such breaches of those fiduciary and other duties owed to the holders of the Company s Series A Preferred Stock. The complaint seeks entry of an order temporarily and permanently enjoining the proposed transaction, compensatory damages, costs and disbursements, including plaintiff s counsel s fees and experts fees, and other relief. The Company, Board, Francisco Partners, the Parent, and Merger Sub believe this lawsuit is without merit and intend to defend the claims raised against them in the lawsuit vigorously.

On January 23, 2010, the Board and Francisco Partners received a letter dated January 22, 2010 from a law firm purporting to represent MacKay Shields LLC, Zazove Associates, LLC and Concordia Partners, L.P., whose clients purportedly collectively own approximately 91% of the Series A Preferred Stock. The letter alleges that the terms of the Series A Preferred Stock do not permit the Company to cash out the Series A Preferred Stock in the merger in the manner proposed by the Merger Agreement, specifically in treating the Series A Preferred Stock on an as-converted basis, resulting in merger consideration of $13.7097 per share of Series A Preferred Stock. The letter further alleges that the Company s Board has breached its fiduciary duties to the holders of the Series A Preferred Stock, that the holders of Series A Preferred Stock are not receiving adequate consideration in the merger and that the fair value of the Series A Preferred Stock is higher than the as-converted consideration to be received by the holders of the Series A Preferred Stock in the merger. The Board and Francisco Partners believe that these threats are without merit and will defend vigorously any claims raised against such parties in any related lawsuit.

Delisting and Deregistration of QuadraMed Common Stock (page [ ])

If the transaction is completed, the Company will no longer be a public company. The Company s common stock will no longer be traded on the NASDAQ Global Market and will be deregistered or suspended under the Exchange Act. Accordingly, the Company would cease making reports pursuant to Section 13 or Section 15(d) under the Exchange Act.

Adjournments and Postponements (page [ ])

Although it is not currently expected, the Special Meeting may be adjourned or postponed for the purpose of soliciting additional proxies if there are insufficient votes at the time of the Special Meeting to approve the proposal to adopt the Merger Agreement. Other than an announcement to be made at the Special Meeting of the time, date and place of an adjourned meeting, any adjournment may be made without notice (if the adjournment is not for more than 30 days and a new record date has not been fixed). Any adjournment or postponement of the Special Meeting for the purpose of soliciting additional proxies will allow the Company s stockholders who have already sent in their proxies to revoke them at any time prior to their use at the Special Meeting as adjourned or postponed.

THE SPECIAL MEETING

The Company is furnishing this proxy statement to our stockholders as part of the solicitation of proxies by the Board for use at the Special Meeting, and at any adjournments or postponements of the Special Meeting.

Date, Time and Place

The Special Meeting will be held at 9:00 AM local time on [ ], 2010, at the Hyatt Regency Reston located at 1800 Presidents Street, Reston, Virginia 20190.

Purpose of Special Meeting

At the Special Meeting, we will ask holders of the Company s common stock to adopt the Merger Agreement and approve the merger contemplated thereby. The Board has unanimously resolved that the execution of the Merger Agreement and the merger are advisable, fair to, and in the best interests of the Company s stockholders and has unanimously recommended the adoption of the Merger Agreement and approval of the merger by the Company s common stockholders at the Special Meeting.

The Board unanimously recommends that all of the Company s common stockholders vote FOR the adoption of the Merger Agreement and approval of the merger.

The Board also unanimously recommends that the Company s common stockholders vote FOR approval of adjournments of the Special Meeting to a later date or time, if necessary, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to adopt the Merger Agreement.

Record Date; Stock Entitled to Vote; Quorum; Adjournment

Only holders of record of the Company s common stock at the close of business on [ ], 2010, the record date for the Special Meeting, are entitled to vote at the Special Meeting. As of the record date, [ ] shares of the Company s common stock were issued and outstanding and held by approximately [ ] holders of record.

A quorum will be present at the Special Meeting if a majority of the shares of the Company s common stock that are issued and outstanding and entitled to vote on the record date are represented in person or by proxy at the Special Meeting. Shares of the Company s common stock represented at the Special Meeting but not voting, including shares of the Company s common stock for which proxies have been received but for which stockholders have abstained from voting, will be treated as present at the Special Meeting for purposes of determining the presence or absence of a quorum for the transaction of all business at the Special Meeting. The Company s bylaws provide that any meeting of stockholders may be adjourned to another time and to any other place at which a meeting of stockholders may be held under the bylaws by those stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as secretary of such meeting. It is not necessary to notify any stockholder of any adjournment of less than 30 days if the time and place of the adjourned meeting are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the Company may transact any business which might have been transacted at the original meeting. However, if the adjournment is to a date that is more than 30 days after the original meeting date, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting must be given to each stockholder of record entitled to vote at the meeting.

Under the terms of the Merger Agreement, the Company may adjourn or postpone the Special Meeting with the Parent s consent, and must adjourn or postpone the Special Meeting if the Parent requests, to the extent necessary to ensure that any required supplement or amendment to this proxy statement is provided to the Company s stockholders or, if as of the time the Special Meeting is scheduled, there are insufficient shares of the Company s common stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business at the Special Meeting.

In addition, the Board is seeking approval of adjournments of the Special Meeting to a later date or time, if necessary, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to adopt the Merger Agreement.

Votes Required

Proposal 1 to adopt the Merger Agreement and approve the related merger requires the affirmative vote of the holders of a majority of the shares of the Company s common stock issued and outstanding on the record date. If a holder of the Company s common stock abstains from voting or does not vote, either in person or by proxy, it will have the effect of a vote against Proposal 1. If a common stockholder holds shares in street name through a broker, bank or other nominee, such stockholder must direct its broker, bank or other nominee to vote in accordance with the instructions it has received from its broker, bank or other nominee. Brokers, banks or other nominees who hold shares of the Company s common stock in street name for customers who are the beneficial owners of those shares may not give a proxy to vote those customers shares in the absence of specific instructions from those customers. These broker non-votes will have the effect of votes against the adoption of the Merger Agreement and approval of the related merger.

Proposal 2 to approve adjournments of the Special Meeting to a later date or time, if necessary, to facilitate the adoption of the Merger Agreement by permitting the solicitation of additional proxies if there are not sufficient votes at the time of the Special Meeting to adopt the Merger Agreement, requires the affirmative vote of a majority of the shares of the Company s common stock represented in person or by proxy at the Special Meeting and entitled to vote thereon, even if less than a quorum. Accordingly, broker non-votes and not voting at the Special Meeting will have no effect on the outcome of this proposal, but abstentions will have the effect of a vote against this proposal.

Holders of record of the Company s common stock on the record date are entitled to one vote per share on each matter to be considered at the Special Meeting.

As of the record date, the Company s directors and executive officers, and their affiliates, had the right to vote [ ] shares of the Company common stock, or [ ]% of the Company s issued and outstanding common stock at that date. These shares were previously committed to be voted in favor of adoption of the Merger Agreement and against any competing solicitation in Voting Agreements executed between such directors and executive officers and the Parent.

Voting Agreements

Contemporaneously with the execution of the Merger Agreement and as an inducement to the Parent to enter into the Merger Agreement, each member of the Board and executive officers Duncan W. James, David L. Piazza, Michael J. Simpson and Brook A. Carlon entered into voting agreements with the Parent (the Voting Agreements), pursuant to which each such person, in his or her capacity as a stockholder of the Company agreed to vote any shares of common stock held by such person, if any: (i) in favor of adoption of the Merger Agreement and approval of the merger, and any actions required in furtherance of the Merger Agreement and merger, and (ii) against any proposal that is intended, or could reasonably be expected to, impede, interfere with, delay, postpone, discourage, frustrate or adversely affect the consummation of the merger and other transactions contemplated by the Merger Agreement, and against any acquisition proposal (as defined in the Merger Agreement). Pursuant to the Voting Agreements, each such person also granted to the Parent a proxy to vote the common stock owned by such person, as well as any and all other shares of the Company s common stock which such person may own of record after the date of the Voting Agreement to which such person is a party, with respect to any of the foregoing matters at any meeting of the Company s stockholders and in any action by written consent of the Company s stockholders. Pursuant to the Voting Agreements, each such person has also agreed (a) not to transfer any of his or her shares of the Company s common stock or make any offer to transfer any of its shares of the Company s common stock, (b) not to make any press release or public announcement with respect to the Company s business or affairs, subsidiaries, the Parent or Merger Sub without the prior written consent of the Parent, (c) to waive any rights of appraisal pursuant to Section 262 of the DGCL and any similar rights, in each case to the extent relating to the merger or

any related transaction, and (d) not to enter into any other agreement inconsistent with the terms and conditions of the Voting Agreement or related proxy, or that addresses any of the subject matters addressed in the Voting Agreement and related proxy. Each Voting Agreement expires upon the earliest to occur of (i) such date and time as the merger shall become effective in accordance with the terms of the Merger Agreement, (ii) such date and time as the Merger Agreement shall have been terminated in accordance with its terms, or (iii) such date and time as written notice has been provided by Parent to such stockholder of the termination of the Voting Agreement.

Voting of Proxies

All shares of common stock represented by properly executed proxies received in time for the Special Meeting will be voted at the Special Meeting in the manner specified by such stockholders. Properly executed proxies that do not contain voting instructions will be voted for the adoption of the Merger Agreement and for approval of adjournments of the Special Meeting to a later date or time, if necessary, if there are not sufficient votes at the time of the Special Meeting to adopt the Merger Agreement. Pursuant to Delaware law, the Company s bylaws and the Merger Agreement, no matter other than the proposals to adopt the Merger Agreement and to adjourn the Special Meeting, if necessary, will be brought before the Special Meeting.

Revocability of Proxies

A holder of our common stock who has granted a proxy on the enclosed form of proxy may revoke the proxy at any time prior to its exercise by:

- filing with the Company s Secretary a duly executed revocation of proxy;
- submitting a duly executed proxy to our Secretary bearing a later date; or
- appearing at the Special Meeting and voting in person; however, attendance at the Special Meeting will not in and of itself constitute revocation of a proxy.

If a stockholder has instructed its broker to vote its common shares, the stockholder must follow directions received from its broker to change these instructions.

Solicitation of Proxies

The Company will bear all costs related to the solicitation of proxies, including the printing and mailing of this proxy statement. The Company has retained [ ] to aid in the solicitation of proxies and to verify records relating to the solicitation. The Company will pay [ ] a fee for its services of $[ ], fees per call to stockholders and expense reimbursement. In addition, the Company s directors, officers and employees may, without additional compensation, solicit proxies from the Company s common stockholders by mail, telephone, facsimile, or in person. However, the Company notes that certain members of the Board and the Company s officers may have interests in the merger that may be different from, or in addition to, the Company s common stockholders. Please refer to **The Merger Interests of Certain Persons in the Merger.**

Stockholders are encouraged to submit their proxies by mail, telephone or internet without delay. The Company will reimburse brokers and other custodians, nominees and fiduciaries for their expenses in sending these materials to the Company s common stockholders and getting voting instructions.

Stock Certificates

Stockholders should not send stock certificates with their proxies. **A letter of transmittal with instructions for the surrender of our common stock certificates will be mailed to the Company s stockholders as soon as practicable after completion of the merger.**

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Questions and Additional Information

QuadraMed stockholders may contact the Company or our proxy solicitor [ ] at [ ] with questions about proxies.

Availability of Documents

You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under **Where You Can Find More Information** beginning on page [ ]. For ten days prior to the Special Meeting, the list of QuadraMed stockholders entitled to vote at the Special Meeting will be available for inspection at QuadraMed s offices located at 12110 Sunset Hills Road, Suite 600, Reston, Virginia 20190.

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ADOPTION OF THE MERGER AGREEMENT

(Proposal 1)

THE MERGER

Description of the Merger

The Board, based on the unanimous recommendation of its Special Committee, which is comprised of all of the independent and disinterested members of the Board, has unanimously approved the Merger Agreement and merger in which QuadraMed will become a wholly owned subsidiary of the Parent. If a majority of the outstanding shares of the Company s common stock are voted to adopt the Merger Agreement, and the other closing conditions under the Merger Agreement have been satisfied or waived, Merger Sub, a wholly owned subsidiary of the Parent, will merge with and into the Company, with the Company remaining as the surviving company in the merger and continuing to do business following the transaction. Each of the Parent and Merger Sub are newly formed affiliates of Francisco Partners, one of the world s largest technology-focused private equity funds.

If the merger is consummated, you will be entitled to receive merger consideration in the amount of $8.50, without interest and less any applicable withholding tax, in exchange for each share of Company common stock you hold at the effective time of the merger. Holders of the Series A Preferred Stock will be entitled to receive $13.7097, without interest and less any applicable withholding tax, in exchange for each share of the Company s Series A Preferred Stock they hold at the effective time of the merger. The per-share consideration to the Series A Preferred Stock represents the common-equivalent consideration for such Series A Preferred Stock based on its current conversion ratio and the per common share merger consideration of $8.50. Following consummation of the merger, you will have the right to the applicable merger consideration, but all of your other rights as a QuadraMed stockholder will cease and you will not own any shares of capital stock of the surviving corporation. Your receipt of the merger consideration requires that you exchange your stock certificates or book entry shares in accordance with the instructions to be contained in a letter of transmittal that will be sent to you or your broker shortly after consummation of the merger.

As a result of the merger, the Company will cease to be a public company. While the Company s common stock is currently registered under the Exchange Act, and trades on the NASDAQ Global Market under the symbol QDHC, following the merger, QuadraMed common stock will be delisted from the NASDAQ Global Market, and its registration under the Exchange Act will be terminated or suspended.

This discussion of the merger and Merger Agreement in this proxy statement is qualified in its entirety by reference to the Merger Agreement, which is attached as Appendix A to this proxy statement. You are encouraged to read the Merger Agreement in its entirety, as its terms govern the merger.

Background of the Merger

The Company s Board and senior management have periodically reviewed the Company s business plans and strategic opportunities, considering QuadraMed s competitive market, growth and revenue potential, and the possibility and viability of potential strategic alternatives, such as mergers, acquisitions and financings, each with a goal toward maximizing stockholder value.

The Company has received unsolicited oral inquiries and written indications of interest over the last several years from a number of parties, including Francisco Partners, regarding a possible acquisition of the Company. Except as specified below, none of these inquiries or letters resulted in more than preliminary discussions or involved the Company s provision of nonpublic information.

The Company has engaged Crowell & Moring LLP (Crowell & Moring) as its outside corporate counsel since August 2005, and has worked with certain representatives of Crowell & Moring since October 2003, when such representatives were affiliated with a previous law firm.

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Previous Discussions

In the spring of 2005, the Company engaged a financial advisor (which engagement terminated in 2007) to assist the Company in connection with a potential change of control transaction. The Company s former financial advisor coordinated the solicitation of a number of potential bidders, both strategic and financial, and the Company engaged in discussions with several interested parties, including Francisco Partners and another private equity firm (Bidder A). These discussions did not result in transaction proposals that were acceptable to the Company and were terminated in the summer of 2005.

In the spring of 2006, the Company received an unsolicited offer to purchase the Company from another private equity firm (Bidder B). The Company engaged in discussions with Bidder B, but these discussions did not result in a transaction proposal that was acceptable to the Company and were terminated in the fall of 2006.

In the spring of 2007, Mr. Keith B. Hagen, the Company s then Chief Executive Officer, informed the Board that a company was soliciting offers for the acquisition of one of its wholly-owned business units (Target X). In connection with these discussions, the Company retained Piper Jaffray & Co. (Piper Jaffray) to advise the Company in its review of the acquisition and explored potential ways of financing the acquisition. The Company met with potential sources of equity financing, including Francisco Partners, regarding the Company s potential issuance of a new Series B preferred stock that would permit the Company to make a viable offer for Target X and help finance the acquisition, if necessary. From the spring to early summer of 2007, the Company negotiated the terms of a Series B Preferred Stock financing with Francisco Partners in order to finance the acquisition of Target X, with the offering contingent upon the Company s successful bid for Target X. The Company was outbid by another participant in the second round of bidding, and the Company did not proceed with the potential Target X acquisition.

Between October 10 and 16, 2008, a representative from Francisco Partners contacted multiple members of the Board and indicated that Francisco Partners was reviewing the Company, based on publicly available information, and was preparing to submit an offer to acquire the Company. These Board members directed the representative from Francisco Partners to contact then Board Chairman, Robert L. Pevenstein.

On October 27, 2008, Francisco Partners submitted to the Board, via Mr. Pevenstein, an unsolicited non-binding indicative offer, in the form of a letter of intent, to purchase the Company for a price of $11.00 per share of the Company s common stock. The offer specified that it was neither contingent on Francisco Partners ability to raise any debt or other capital from third party sources nor on any specific course of action by the holders of the Company s Series A Preferred Stock. The offer further specified that because of its familiarity with the Company, Francisco Partners was prepared to complete its due diligence for a potential transaction quickly and on a limited basis. Mr. Pevenstein informed Francisco Partners that he was in receipt of the indicative offer and the Board would discuss it at its regularly scheduled meeting on November 6, 2008.

On November 6, 2008, the Board met in person at the Company s headquarters for a regularly scheduled meeting, and a representative of the Company s outside counsel, Crowell & Moring, was in attendance. Following transaction of regular Board business and discussion of the Company s third quarter 2008 performance and fourth quarter 2008 forecast, the Board members discussed the Francisco Partners non-binding indication of interest that Mr. Pevenstein had circulated to the Board members in advance of the meeting. The Board discussed the Company s strategic alternatives and the attractiveness of the offer in light of then-current Company performance, earnings and forecasts, including the adequacy of the $11.00 per common share offer price from Francisco Partners and the other material elements of the indicative offer. In light of the Company s 2005, 2006 and 2007 negotiations, possible transactions and related due diligence, as described above, the Board discussed its concerns that previous potential transactions had diverted the attention and efforts of the Company s

management away from the conduct of the Company s business. Accordingly, the Board indicated that it viewed Francisco Partners statement regarding its ability to complete its due diligence for the proposed transaction quickly and on a limited basis to be a positive factor.

After determining that the Francisco Partners nonbinding indication of interest was sufficiently compelling to merit further negotiation, the Board unanimously determined that it was in the best interests of the Company and its stockholders to establish a special committee comprised solely of independent and disinterested members of the Board (the Committee). All of the Company s then-current independent and disinterested directors, Robert W. Miller, James E. Peebles, Julian A. L. Allen and Mr. Pevenstein, were appointed to this Committee, and Mr. Pevenstein was appointed to serve as chairman of the Committee. The newly formed Committee directed Mr. Pevenstein to respond to Francisco Partners that the Committee would consider an offer of $13.00 per share of common stock and that in light of the solicited and unsolicited acquisition offers received by the Company in recent years, the Committee would forego a solicitation for other bidders at that time and instead seek to discharge its fiduciary duty in an acquisition transaction by use of a customary go-shop period following execution of a definitive merger agreement, during which the Committee and its financial advisor would solicit and explore other potential acquisition proposals. Mr. Pevenstein contacted Francisco Partners on November 7, 2008 and, during this conversation, also requested more clarity with respect to various aspects of Francisco Partners proposal, and discussed with Francisco Partners the timing for the negotiation of a definitive merger agreement and completion of due diligence and the circumstances under which Francisco Partners would be permitted to communicate directly with the holders of the Series A Preferred Stock prior to consummation of a potential transaction.

On November 11, 2008, Bidder B submitted an unsolicited letter of intent to Mr. Pevenstein, offering to purchase all of the Company s common stock at $8.00 per share and requesting exclusivity for a period of 20 business days.

On or about November 16. 2008, a representative of Francisco Partners informed Mr. Pevenstein that Francisco Partners could not increase its offer price above $11.00 per common share.

On November 17, 2008, the Committee conducted a meeting with representatives of Crowell & Moring and Lawrence P. English, a disinterested Board member not on the Committee, in attendance. At this meeting, the Committee discussed its fiduciary duties in light of the offers the Company had received, and Francisco Partners response that it could not increase its bid above $11.00 per common share. The Committee heard presentations and proposals by two financial advisors and, after discussion, resolved to retain Piper Jaffray as the Committee s financial advisor in connection with the proposed transaction.

On November 19, 2008, William K. Jurika, a former and future member of the Company s Board and holder of approximately 8% of the Company s outstanding common stock, was retained as an unpaid consultant to the Committee and executed a non-disclosure agreement.

At the December 10, 2008 Committee meeting conducted by conference call, which was also attended by Messrs. English and Jurika, representatives of Crowell & Moring and Piper Jaffray, a representative of Piper Jaffray reported on the offers from Francisco Partners and Bidder B, each of which represented a premium over the Company s then-current trading price, and the Company s historical valuation and preliminary valuation summary. The Committee discussed the possible consideration payable in respect of the Series A Preferred Stock in a transaction not constituting a liquidation of the Company under the terms of the Series A Preferred Stock. The Committee discussed the offers from each of Francisco Partners and Bidder B and resolved to pursue a non-binding letter of intent with Francisco Partners reaffirming the $11.00 per share stock price, with a go shop solicitation provision allowing the Company a period to actively solicit other bids following the entry into a merger agreement with Francisco Partners, and setting terms and timelines for the negotiation and due diligence process to minimize the disruption to the Company and management. The letter of intent also provided for an exclusivity period having an expiration date of January 21, 2009.

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Following this meeting, on December 12, 2008, the Committee presented to Francisco Partners a proposed letter of intent. The parties negotiated this letter of intent, and it was executed by Mr. Pevenstein on behalf of the Committee on December 17, 2008; the letter of intent specified an $11.00 per common share offer price, that Francisco Partners offer was not contingent on debt or other third-party financing or any specific course of action with respect to the Series A Preferred Stock, and that the due diligence process would be streamlined and expedited in light of Francisco Partners previous due diligence on the Company.

The Company and Francisco Partners entered into a non-disclosure agreement, including a one year standstill provision, on December 31, 2008.

Francisco Partners legal counsel, Shearman & Sterling LLP (Shearman & Sterling), distributed a draft merger agreement to representatives of Crowell & Moring on January 6, 2009. Representatives of Shearman & Sterling and Crowell & Moring drafted, revised and negotiated the provisions of the merger agreement and associated transaction documents and coordinated on due diligence from January 6 through March 4, 2009.

The Company s senior executive team presented a two-day management presentation to representatives of Francisco Partners on January 7 and 8, 2009, at which presentation representatives of Piper Jaffray and Crowell & Moring and potential lenders to Francisco Partners were also in attendance. An electronic diligence dataroom was made available to Francisco Partners and its representatives shortly after these meetings.

On January 16, 2009, the Committee met by telephonic conference call, with Mr. Jurika and representatives from Crowell & Moring and Piper Jaffray in attendance. Mr. English, who had previously been determined to be disinterested, became independent under the Company s guidelines as of January 1, 2009, with the passage of three years since his service as the Company s chief executive officer, and was added to the Committee. The Committee reviewed the status of the negotiations and the issues of significance in the proposed merger agreement identified by the representatives of Crowell & Moring, including the treatment of the Series A Preferred Stock in light of Francisco Partners letter of intent.

On January 22, 2009, a Committee meeting was held by telephonic conference call with representatives of Crowell & Moring in attendance, in respect of the expiration of and Francisco Partners request for extension of the exclusivity period in its letter of intent. The Committee discussed the current status of negotiations and indicated that an extension would be granted until January 27, 2009, conditioned upon Francisco Partners reaffirming that it currently foresaw no reduction in its $11.00 per share offer and an affirmation of no financing contingency. A representative of Francisco Partners agreed to these conditions in writing on January 23, 2009, and indicated that he envisioned that due diligence and finalization of a merger agreement would be completed by February 4, 2009. Accordingly, the Committee agreed to extend Francisco Partners exclusivity period to January 27, 2009.

With the expiration of the January 27, 2009 exclusivity period, the Committee met on January 27, 2009, along with representatives from Piper Jaffray and Crowell & Moring to discuss the status of negotiations. After discussion about whether or not to proceed with a transaction, on January 27, 2009, at the Committee s request, Mr. Pevenstein sent a letter to Francisco Partners on behalf of the Committee indicating that Francisco Partners extended exclusivity period had expired, that Francisco Partners had been provided with all necessary due diligence materials to finalize the transaction and that discussions between the parties regarding a possible transaction would terminate if the parties did not execute a definitive agreement by February 13, 2009.

On January 30, 2009, Committee member Mr. Allen met with a representative of Francisco Partners, at such representative s request. At this meeting, the representative briefed Mr. Allen on the status of its transaction diligence and informed Mr. Allen that Francisco Partners would require that the Series A Preferred Stock be cashed out in a merger, although the exercise of appraisal rights by the holders of Series A Preferred Stock would not be a condition of closing under the merger agreement. The representative indicated that Francisco Partners investment committee s final approval would be necessary to approve the transaction.

On February 4, 2009, representatives from Crowell & Moring and Shearman & Sterling discussed the open items in the draft merger agreement. The Shearman & Sterling representatives indicated that because the holders of Series A Preferred Stock have the right to convert to common stock at any time, allowing the Series A Preferred Stock to remain outstanding presented an unacceptable uncertainty to Francisco Partners regarding its cash needs at any given time prior to, upon or following the closing of an acquisition. As a result, they said, Francisco Partners was requiring that the stock be converted into the right to receive cash consideration at the as-converted rate upon the closing of the transaction in a merger, and confirmed that the exercise of appraisal rights by the holders of Series A Preferred Stock would not be a condition of closing under the merger agreement.

At a February 5, 2009 Committee meeting held by teleconference, at which representatives of Crowell & Moring were in attendance, the Committee members discussed Francisco Partners requirement that the Series A Preferred Stock be cashed out at closing.

On February 9, 2009, Mr. Hagen delivered a presentation to Francisco Partners investment committee and proposed lenders on the Company and its go-forward business plan. On February 10, 2009, a representative of Piper Jaffray communicated to the Committee that on the evening of February 9, 2009, a representative of Francisco Partners informed him that its investment committee declined to provide final approval for the proposed transaction at the $11.00 offer price, due primarily to their due diligence review, including their discomfort with the Company s near-term challenges and the risks to the Company s 2009 budget, Department of Veterans Affairs contract renewal, and the ability of the Company to achieve the cost-cutting objectives identified by Francisco Partners. At this time, the conversation terminated as the representative from Piper Jaffray cited the language of the letter of intent regarding price reductions, and Francisco Partners access to the electronic dataroom was terminated. The representative from Francisco Partners detailed other risks to the Company s business in a subsequent conversation, including declines in the Company s Quantim business and conversions to QCPR, and lack of ICD-10 and CCHIT certification compared to key competitors. In a follow-up conversation between the representative of Francisco Partners and Mr. Hagen, the Company s then-current Chief Executive Officer, the Francisco Partners representative indicated his belief that the Francisco Partners investment committee would have approved a transaction in the $9.50-$10.00 range.

The Committee discussed these developments at a meeting by telephonic conference call attended by representatives of Crowell & Moring and Piper Jaffray on February 12, 2009. After discussion, the Committee members unanimously resolved to terminate discussions with Francisco Partners and instructed Mr. Pevenstein to deliver a letter to Francisco Partners formally terminating exclusivity for the proposed transaction.

On February 17, 2009, a representative of Francisco Partners contacted Committee member Mr. English seeking to reestablish negotiations on a transaction. Mr. English stated that all communications should be conducted through Piper Jaffray. On February 19, 2009, the representative from Francisco Partners submitted an amended offer letter with a revised price of $9.50 per common share to Piper Jaffray, stating that the Francisco Partners investment committee had given authorization for a transaction at this price, subject to the satisfactory completion of open due diligence items and negotiation of the proposed merger agreement, and with a requirement that the Series A Preferred Stock be cashed out at closing. On February 20, 2009, Piper Jaffray circulated an updated valuation analysis to the Committee to reflect Francisco Partners initial and revised proposals.

On February 22, 2009, the Committee met via teleconference, with Mr. Jurika and representatives from Crowell & Moring in attendance. The Committee discussed at length the revised Francisco Partners offer in light of the Company s present situation, including the Company s operating challenges and the Board s recent decision to make changes in the Company s executive management. The Committee members resolved to reject the February 19, 2009 offer letter and grant Francisco Partners an additional period of due diligence and agree to the cash-out of the Series A Preferred Stock at the time of the merger, if Francisco Partners presented a revised offer letter with a firm price of $11.00 per common share by February 23, 2009. At the Committee s instruction, Mr. Pevenstein submitted these requirements in writing to Francisco Partners on February 22, 2009.

On February 23, 2009, Francisco Partners submitted to the Committee a revised offer letter that increased the offer price to $11.00 per share, provided for a week of additional due diligence and made the offer contingent on the completion of certain due diligence items, but lacked a commitment that Francisco Partners investment committee had approved the proposed offer.

The Committee met in person on February 23, 2009, along with representatives of Crowell & Moring. Representatives of Piper Jaffray participated in the meeting by teleconference. A representative from Piper Jaffray reported that Francisco Partners February 23, 2009 offer letter lacked investment committee approval because the investment committee had declined to consider approving the revised offer until Francisco Partners had completed all of its due diligence. The Committee discussed the elements of the February 23, 2009 offer letter. The Committee members resolved to inform Francisco Partners that its February 23, 2009 offer letter was rejected, but that the Committee would grant Francisco Partners until March 4, 2009 to submit an amended offer letter revised only to indicate that investment committee approval had been obtained for the terms of the offer letter and that no further due diligence items were open, a merger agreement in final form and a commitment to execute the merger agreement no later than March 11, 2009. Mr. Pevenstein submitted a letter to this effect to Francisco Partners on February 24, 2009, which was countersigned by a representative of Francisco Partners on that same day.

On March 4, 2009, the Committee received an offer letter from Francisco Partners for $9.50 per share of common stock. The letter indicated the offer had been approved by its investment committee and due diligence was complete and included a revised draft of the proposed merger agreement. The Committee discussed this new offer letter at a telephonic meeting on March 5, 2009, which was also attended by representatives of Crowell & Moring and Piper Jaffray. The members reviewed the open items in the draft merger agreement, but focused their attention on the lowered offer price of $9.50 per share of common stock. In light of the reduced offer price and concerns about (i) the parties ability to reach agreement on the final terms of the definitive merger agreement by the Committee s March 11, 2009 deadline, (ii) the continued diversion of the time and attention of the Company s management caused by the potential transaction, and (iii) the continuation of negotiations into a fifth month following Francisco Partners October 2008 offer that had proposed an expedited diligence and negotiation process for the transaction, the Committee determined to not engage in any further discussions with Francisco Partners, unless Francisco Partners committed to a price above $9.50 per share of common stock. At the Committee s instruction, Mr. Pevenstein sent a letter to Francisco Partners terminating discussions of a proposed acquisition of the Company. From March 15 to March 20, 2009 representatives of Francisco Partners and its financial advisor contacted members of the Committee in an attempt to reopen negotiations. The Committee resolved in an executive session of a March 20, 2009 Board meeting, at which representatives of Crowell & Moring were present, to insist that all further communications be directed to Mr. Pevenstein and reiterate that any further Francisco Partners offers or negotiations needed to be in writing. On March 20, 2009, Mr. Pevenstein communicated this message to representatives of Francisco Partners financial advisor and stated that if any improved offer was to be made, considering contemplated executive changes and other strategic actions deemed by the Committee to be mutually exclusive with the Francisco Partners conversations, it needed to be submitted by March 23, 2009. On March 23, 2009, a representative of Francisco Partners contacted Mr. Pevenstein and indicated that no further offer would be forthcoming from Francisco Partners.

On June 12, 2009, a strategic party who had contacted the Company on an unsolicited and preliminary basis in the past (Bidder C) submitted a nonbinding proposal letter to Mr. Pevenstein, based on publicly available information regarding the Company, offering to acquire the Company for $8.00 $8.50 per share of the Company s common stock and an equivalent amount for the Series A Preferred Stock on an as-converted basis. This nonbinding proposal specified that Bidder C proposed an all-cash offer to be paid entirely from Bidder C s existing cash, but that Bidder C would also be willing to consider a mix of cash and Bidder C stock for the transaction consideration. The Board discussed the offer and instructed Mr. Pevenstein to inform Bidder C that the Company appreciated the interest, but was not currently in a position to entertain the offer because of its search for a new chief executive officer and other strategic actions as noted above.

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The Merger

On August 31, 2009, a private equity firm (Bidder D) submitted a nonbinding indication of interest to all members of the Board, offering $10.00 per share for the Company s common stock and the $25.00 face value per share for the Series A Preferred Stock, for an estimated total enterprise value of $183.6 million. In response to this indication, the recently appointed Board Chairman Mr. Peebles called a meeting of the Board on September 2, 2009. At the September 2, 2009 Board meeting, which was attended by all members of the Board, in addition to representatives of Crowell & Moring and Piper Jaffray, Duncan W. James, the Company s newly appointed Chief Executive Officer, informed the Board that based on his preliminary review of the Company, which was still ongoing, the Company s near- and mid-term outlook was not strong, particularly in light of what the Company s competitors were believed to be doing. The Board considered the proposed enterprise value reflected in Bidder D s indication letter and determined that it was an attractive offer; however the Board also determined that more information would be necessary from Bidder D to more fully understand the offer and to assess whether the total enterprise value would be apportioned equally across all shares. Mr. Pevenstein informed the Board that he had received recent calls from other financial and strategic buyers, but no bona fide offers or offers as attractive as Bidder D s had been communicated.

At the end of the September 2, 2009 Board meeting, the Board resolved to form a special committee comprised of all of the independent members of the Board (the Special Committee), consisting of Messrs. Miller, Peebles, English, Jurika (who joined the Board on April 29, 2009) and Pevenstein, all of whom were determined to be disinterested, and appointed Mr. Pevenstein chairman of the Special Committee. The Board further resolved to delegate to the Special Committee the authority to consider, negotiate, and recommend to the Board the terms of any potential transaction involving a change in control of the Company and, subject to any approval of the Board and the Company s stockholders required by the DGCL, to approve any other actions the Special Committee deemed necessary to consider, negotiate, recommend, and effect a potential transaction. The committee members discussed the various market check mechanisms available to the Company, including go shop provisions and fiduciary outs. The Special Committee discussed the appropriate timing for entertaining any acquisition offers, as Mr. James had not yet completed his planned initial review of the Company, but concluded that Mr. James preliminary impressions about the Company s near term prospects as an independent company suggested that the Special Committee should explore serious and compelling offers. At the Special Committee s instruction, Mr. Pevenstein contacted Bidder D on November 8, 2009 to discuss follow-up issues for continued discussions regarding Bidder D s offer for a proposed transaction, including allocation of the total offered enterprise value between the Company s common stock and Series A Preferred Stock on an as-converted basis, financing needs, valuation assumptions, diligence and contact with the Company s management.

On September 9, 2009, Mr. Pevenstein met in person with representatives of another private equity firm (Bidder E) who had previously communicated a general and preliminary interest in a transaction with the Company to Mr. Pevenstein. During this conversation, Bidder E discussed its general interest in an acquisition of the Company and its desire to gain more detailed information about the Company in order to present a formal offer; however, at this meeting, no formal offer was submitted and no offer price was proposed.

On September 10, 2009, Mr. James, assisted by other members of the Company s executive management team, presented Mr. James interim report on his review of the Company at a meeting of the Board. This report included information on the Company s lower-than-expected QCPR sales due in part to lower-than-expected conversions of the Company s Affinity customers to QCPR, decreases in average QCPR contract values for 2009 and 2010, risks to future sales, decreases in 2009 forecasted revenue and adjusted EBITDA due to customer delays and lower-than-expected QCPR sales bookings, weakened competitive position, and customer attrition.

Immediately following the September 10, 2009 Board meeting, the Special Committee held a meeting via teleconference with Mr. James and representatives of Crowell & Moring in attendance. The Committee discussed the earlier Board presentation and concluded that, in light of the challenges discussed, the Committee should evaluate the Company s possible alternatives to remaining independent. Mr. Pevenstein briefed the Special Committee on conversations he and a representative of Piper Jaffray had held with a representative of Bidder D, where the representative had confirmed that the offer price per common share was $10.00, and the consideration

referenced for the Series A Preferred Stock was not a cash amount, but rather the face value of a new debt security for which the Series A Preferred Stock would be exchanged. Mr. Pevenstein informed the Special Committee that Bidder E had requested access to the Company s management team in order to facilitate an offer, which Mr. Pevenstein had declined because of the frequency and distraction of such requests. Mr. Pevenstein also informed the Special Committee that a representative of a holder of Series A Preferred Stock had called and stated that both Bidders D and E had contacted him regarding a possible acquisition.

On September 16, 2009, Bidder D submitted a letter to Mr. Pevenstein clarifying its August 31, 2009 indication of interest, specifying that the offer price per common share was $10.00 and that Bidder D intended to offer the Series A Preferred Stock a new debt security, but that Bidder D would also pursue traditional debt financing if unable to negotiate an acceptable security with the holders of the Series A Preferred Stock.

On September 18, 2009, Bidder E submitted a nonbinding indication of interest, proposing to acquire the Company for $9.50 $10.00 per share of the Company s common stock and an equivalent amount for the Series A Preferred Stock on an as-converted basis. This indication of interest specified that Bidder E anticipated using debt to finance a portion of its offer and completing due diligence and negotiation of a definitive agreement within approximately 30 days.

On September 21, 2009, the Special Committee discussed the new offer from Bidder E and the clarified offer from Bidder D at a telephonic meeting which was also attended by representatives of Crowell & Moring and Piper Jaffray. The representative from Piper Jaffray indicated that he had received recent new telephonic inquiries regarding the Company from another private equity firm (Bidder F) and an advisor on behalf of an unidentified financial buyer. The Piper Jaffray representative also discussed interest of strategic buyers generally, including Bidder C, the strategic party who had contacted the Company in the past and had submitted the nonbinding proposal in June 2009 discussed above. The Special Committee discussed the Company s prospects as a stand-alone Company and expressed concern over past disruptions caused by due diligence and transaction negotiations on the Company management s time and attention and the Company s resources. In light of the strong interest in the Company from a number of potential bidders, the Special Committee determined that it was advisable and in the best interests of the Company and its stockholders to approach a number of potential acquirors on a specific and limited timetable in order to determine the level of interest in an acquisition of the Company, while minimizing disruption of the Company s senior management s time. After discussion, the Special Committee determined that Piper Jaffray should contact the parties that had previously expressed unsolicited interest in the Company as well as a mix of strategic parties that Piper Jaffray viewed as the best fit to present acquisition proposals in advance of the Board s October 27 and 28, 2009 regular meetings.

Following the September 21, 2009 meeting, representatives of Piper Jaffray prepared a process letter for potential bidders with input from the Special Committee and representatives of Crowell & Moring, which process letter was distributed only to potential bidders who executed a non-disclosure agreement with the Company. Mr. Pevenstein and representatives of Piper Jaffray contacted 11 potential bidders, including Francisco Partners, Bidders A, B, C, D, E, F, and four additional potential strategic buyers (Bidders G, H, I and J). On September 25, 2009, Francisco Partners and Mr. Pevenstein, on behalf of the Company, executed a new non-disclosure agreement, including standstill provisions. From September 28 to October 13, 2009, representatives from Crowell & Moring negotiated non-disclosure agreements, including standstill provisions, with each of the other ten identified parties. During negotiation of the non-disclosure agreements, three strategic buyers, Bidders H, I and J, indicated that, because their primary interest in the Company was to purchase only a portion of the Company s business, they did not want to execute a non-disclosure agreement or proceed further with acquisition discussions. Non-disclosure agreements were executed with the other eight bidders, including Francisco Partners, and from October 13 through October 20, 2009, half-day management presentations were delivered to these eight bidders by Messrs. James, Piazza (the Company s Chief Financial Officer and Chief Operating Officer) and Steven Russell (the Company s then-Senior Vice President of Corporate Development). Furthermore, these eight bidders were granted access to an electronic data room with non-public Company financial, operational and legal due diligence materials. At various points in the diligence process following the completion of management presentations, five of the bidders informed representatives of Piper Jaffray that they would not be submitting offers due to concerns over the Company s growth potential, profitability and customer risk, or desired to purchase only certain assets from the Company.

In the late evening of October 26, 2009, the due date for the submission of bids under the process letter, Piper Jaffray received acquisition proposals from three bidders: Francisco Partners, Bidder D and Bidder E. Francisco Partners acquisition proposal offered a price per common share of $8.50 and an equivalent price on an

as-converted basis for each share of Series A Preferred Stock. Francisco Partners proposal also specified that its proposed transaction was not subject to contingencies related to the Series A Preferred Stock or external financing, although it anticipated using a senior secured credit facility to finance the acquisition, and an unsigned copy of a lender commitment letter was appended to the proposal. Francisco Partners proposal indicated its desire to resume negotiations of the legal terms of the proposed transaction based on its draft merger agreement previously provided to Crowell & Moring in March 2009.

Bidder D s acquisition proposal offered a price of $10.00 per common share and specified that it was not subject to or contingent upon debt financing. The proposal stated that Bidder D would continue to pursue its efforts to finance its acquisition by offering the holders of the Company s Series A Preferred Stock a new debt security in exchange for their Series A Preferred Stock. If a negotiation with the holders of the Series A Preferred Stock were not successful, Bidder D indicated it would finance the acquisition with its own equity and a senior secured credit facility. Bidder D s proposal requested a 30-day exclusivity period during which it would evaluate the Company, conduct due diligence and negotiate a transaction.

Bidder E s acquisition proposal included a reduced offer price of $8.00 per common share and an equivalent price on an as-converted basis for each share of Series A Preferred Stock. This represented a reduction of $1.50 $2.00 per share of the Company s common stock from its September 18, 2009 proposal, which Bidder E expressly attributed to a projected reduction in the Company s profitability for 2009 and the corresponding reduction on the Company s 2009 year end projected cash. Bidder E s proposal specified certain customer and financial performance assumptions underlying its offer. Bidder E did not indicate that its proposed acquisition was contingent on securing financing, but it did specify that it intended to seek external debt financing. Bidder E s proposal also stated that they anticipated completing due diligence within three to four weeks.

On October 28, 2009, the Special Committee met in person at the Company s offices in Reston, VA, along with representatives from Crowell & Moring. Mr. Jurika, a Special Committee member, and representatives of Piper Jaffray attended the full meeting by teleconference. A representative of Piper Jaffray summarized the transaction solicitation process conducted during October 2009, including the number of potential financial and strategic buyers contacted, the number of non-disclosure agreements executed, and the number and nature of management presentations conducted. He summarized the reasons why other process participants indicated they were not submitting offers, including the perceived lack of near term growth prospects for the Company, the Company s market position with respect to its competitors, their interest in acquiring only certain assets of the Company, or their inability to achieve a valuation attractive to the Special Committee. He summarized the terms of the three proposals that had been received from Francisco Partners, Bidder D and Bidder E. He also reported that Piper Jaffray and Mr. James had received inquiries from other interested parties late in the process, but indicated these parties had performed very little review of the Company and had not submitted a specific written or oral indication of value. After discussion, the Special Committee resolved to proceed with Bidder D because of the strength of its offer price and Francisco Partners because of the certainty of its proposal, but declined to sign a letter of intent or grant exclusivity to either party. The Special Committee considered Bidder D s need to proceed with further negotiations with the holders of the Series A Preferred Stock in authorizing further consideration of Bidder D s offer. The Special Committee determined to dismiss Bidder E because of the weakness of and significant drop in its offer price.

Following this meeting, at the instruction of the Special Committee, the representatives from Crowell & Moring instructed Mr. James that he and management were not to engage in conversations with any bidder regarding employment, compensation or other similar matters until permitted by the Special Committee.

On October 29 and 30, 2009, the Special Committee and representatives from Piper Jaffray finalized and communicated their responses to representatives of Bidder D, Bidder E and Francisco Partners.

Diligence discussions and negotiations of the Merger Agreement and related transaction agreements between Crowell & Moring and Shearman & Sterling commenced on October 30, 2009, based on the status of

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due diligence and negotiations from March 2009, and continued through the date of signing the Merger Agreement. A representative of Shearman & Sterling noted that in light of the Company s ongoing active pre-signing solicitation process, the go shop provisions from the March 2009 draft Merger Agreement were no longer appropriate, but that the fiduciary out provisions would be retained.

From November 2 through November 5, 2009, representatives from Crowell & Moring and Bidder D s counsel discussed the Company s Series A Preferred Stock and related issues. On November 5, 2009, representatives for Bidder D informed Mr. Pevenstein and a representative from Crowell & Moring that Bidder D had engaged in separate preliminary conversations that day with two major holders of the Series A Preferred Stock regarding entry into nondisclosure agreements and high-level discussions about such stockholders amenability to an exchange of their Series A Preferred Stock for a new debt security. Based on a summary of these discussions between Bidder D and these holders of the Series A Preferred Stock as reported by each to Mr. Pevenstein and representatives of Crowell & Moring, the holders of the Series A Preferred Stock claimed that they opposed any business transaction in which they would not receive the $25 face value for each share of their Series A Preferred Stock in the form of a liquidation preference (notwithstanding the fact that, under the express terms of the instruments creating such shares, no liquidation preference would be payable to the holders of the Series A Preferred Stock upon a transaction comparable to the merger being negotiated) and would, instead, receive consideration equal to the Company s common stock on as-converted basis. Between November 5, 2009 and November 13, 2009, Mr. Pevenstein and representatives from Richards, Layton & Finger, P.A., the Company s special Delaware counsel, and Crowell & Moring engaged in general telephonic discussions with these holders of the Series A Preferred Stock and representatives from Bidder D to explain that the terms of the Series A Preferred Stock provided in the Company s certificate of incorporation and applicable Delaware law permitted the Series A Preferred Stock to be treated on an as-converted basis in any merger agreement. Following this period of discussion, representatives of Bidder D informed representatives of Piper Jaffray that they believed it would be extremely difficult to secure the consent of the Company s major holders of the Series A Preferred Stock to voluntarily exchange their stock for a new debt security and would likely need to pursue traditional debt financing for a proposed transaction.

Early on November 10, 2009, representatives from Crowell & Moring provided a draft definitive merger agreement to Bidder D s legal representatives.

On November 10, 2009, the Special Committee met via teleconference with representatives of Crowell & Moring and Piper Jaffray to discuss the status of negotiations with Francisco Partners and Bidder D, as well as Bidder D s discussions of a transaction with certain key holders of the Series A Preferred Stock and Mr. Pevenstein s conversations with these stockholders regarding their concerns about the treatment of their securities in a transaction. After discussion, the Special Committee confirmed its commitment to treat the Series A Preferred Stock on an as-converted basis with the Company s common stock in a proposed transaction, unless Bidder D could reach satisfactory agreement with holders of the Series A Preferred Stock to exchange their securities for a debt instrument voluntarily.

On November 19, 2009, the Special Committee met via teleconference with representatives of Crowell & Moring and Piper Jaffray in attendance. In addition, Mr. James was asked to join the meeting briefly at its beginning to brief the Special Committee on management s due diligence work with Francisco Partners and Bidder D. He was excused after this briefing. At this meeting, Mr. Pevenstein and representatives from Crowell & Moring detailed discussions with certain key holders of Series A Preferred Stock and their counsel regarding the treatment of the Company s Series A Preferred Stock under the terms of the Company s certificate of incorporation and under Delaware law. A representative from Piper Jaffray informed the Special Committee of the status of negotiations with Francisco Partners, noting that Mr. James had made a presentation to the Francisco Partners investment committee earlier in the week. With respect to Bidder D, the Piper Jaffray representative reported that their accounting advisors had just begun their quality of earnings analysis of the Company within the previous few days and that Bidder D noted they did not believe that they could complete their due diligence before the November 30, 2009 deadline for submission of the second round of bids. Representatives of

Crowell & Moring reported that negotiations of the merger agreement and related transaction agreements, along with the legal due diligence, with Francisco Partners were progressing quickly, but that Bidder D had submitted only a summary list of high-level comments on the draft merger agreement that afternoon and had not appeared to have begun any legal due diligence. In addition, the representatives of Crowell & Moring informed the Special Committee, and the Special Committee discussed, that the Francisco Partners proposed merger agreement required the concurrent execution by certain executive officers of letters waiving certain termination rights under their existing employment agreements (the Waiver Letters). As Crowell & Moring explained, the proposed Waiver Letters specified that (i) a material reduction in the executive officer s duties would not be grounds for the executive officer to claim an involuntary termination of his/her employment and (ii) Mr. James would waive his right to resign within three months of the proposed change in control and claim severance benefits.

Also at this meeting, a representative of Piper Jaffray indicated that he had spoken with four new parties who had contacted Mr. James to express an interest in discussing a potential transaction with the Company. The representative of Piper Jaffray stated that while each of these parties had been looking generally at the healthcare information technology industry, each of these conversations was very preliminary and each appeared to have only a limited knowledge of QuadraMed specifically and had completed only a limited review of publicly available information on Company. The Special Committee discussed these inquiries and determined that, in light of the process conducted to date by the Special Committee with the assistance of its financial advisors, these parties lack of specific knowledge about the Company or a lack of high probability of submitting a formal acquisition proposal that was superior to the existing offers, and the fact that fully diligenced final offers were being negotiated and were due from the two final bidders on or before November 30, 2009 such interest, each of these inquiries appeared too speculative and late in the process to risk or otherwise disrupt negotiations with Bidder D or Francisco Partners.

On the afternoon of November 20, 2009, representatives of Crowell & Moring and Bidder D s legal counsel discussed Bidder D s counsel s preliminary issues list on the proposed merger agreement with Bidder D, and Bidder D s counsel indicated that their comments on the merger agreement would be forthcoming shortly.

In the evening of November 20, 2009, representatives of Bidder D contacted Mr. Pevenstein to inform the Special Committee that they were withdrawing from negotiations to acquire the Company. These representatives explained that (i) Bidder D still had a significant amount of financial and legal due diligence remaining, which it would not be able to complete by the designated November 30, 2009 deadline in the bid process letter, and (ii) based on the diligence it had conducted, it could no longer reaffirm its original offer of $10.00 per common share. Bidder D concluded by stating that if the Special Committee did not reach an agreement with another bidder, it might still be interested in acquiring the Company on different terms.

Mr. Pevenstein briefed representatives of Piper Jaffray and Crowell & Moring later that evening and informed the Special Committee about Bidder D s withdrawal on November 22, 2009. Bidder D s access to the electronic dataroom was terminated by the Company on the morning of November 24, 2009.

On November 23, 2009, representatives of Crowell & Moring and Shearman & Sterling discussed the open items in the Francisco Partners proposed merger agreement and other transaction agreements, status of revised disclosure schedules and remaining legal due diligence. At the request of Mr. Pevenstein, a representative of Crowell & Moring informed the Shearman & Sterling representative that because the proposed merger agreement between the parties required concurrent signing of Waiver Letters with certain executive officers and because the negotiation of the merger agreement was almost final, the Special Committee Chairman Pevenstein was authorizing Francisco Partners to discuss the Waiver Letters directly with executive officers Messrs. James, Piazza, and Simpson and Brook Carlon. Shortly following this meeting, draft Waiver Letters were distributed by Francisco Partners to these executive officers.

On the afternoon of November 24, 2009, a representative of Francisco Partners contacted each of Mr. Pevenstein and a representative of Piper Jaffray and instructed each that Francisco Partners had completed its review of the Company and that the Francisco Partners investment committee had approved the offer price of $8.50 per share of common stock.

In the late evening of November 24, 2009, Francisco Partners submitted a letter to Piper Jaffray indicating that Francisco Partners had completed its due diligence on the Company, that its investment committee had

provided its final approval of the proposed acquisition of the Company and that it was reaffirming the offer price of $8.50 per share of the Company s common stock and lack of any contingency or closing condition related to the Series A Preferred Stock originally presented in its October 26, 2009 proposal. This November 24, 2009 letter included a revised draft of the merger agreement and stated that the only item remaining in order for Francisco Partners to execute the merger agreement was the satisfactory finalization of the disclosure schedules to the merger agreement and the satisfactory resolution of the remaining legal due diligence items. This letter was accompanied by a final acquisition financing commitment letter from Wells Fargo Foothill and Silicon Valley Bank for up to $60 million in a senior secured credit facility, although the letter reiterated that the merger agreement did not include a contingency or closing condition related to financing.

On December 1, 2009, the Special Committee met via teleconference along with representatives of Crowell & Moring and Piper Jaffray to discuss the November 24, 2009 proposal letter from Francisco Partners and the open items in negotiation, including the Waiver Letters with certain executives of the Company, setting the amount of the termination fees payable by the Company and the Parent, setting the amount of expenses payable by the Company to the Parent upon certain terminations of the Merger Agreement, and setting a date by which the transaction needed to be consummated or either party could terminate the Merger Agreement. After discussion, the Special Committee instructed Mr. Pevenstein and a representative of Piper Jaffray to negotiate the open points.

From December 1, 2009 until the signing of the Merger Agreement and the other transaction agreements on December 7, 2009, representatives of Crowell & Moring and Shearman & Sterling, on behalf of the Company and Francisco Partners, respectively, continued to negotiate and exchange revised drafts of the Merger Agreement and other transaction agreements, while Francisco Partners completed its remaining legal due diligence.

On December 3 and 4, 2009, executive officers Messrs. James, Piazza and Simpson and Ms. Carlon signed their respective Waiver Letters with Francisco Partners.

On December 7, 2009, the Special Committee met in person at the Company s offices in Reston, VA, along with representatives from Crowell & Moring and Piper Jaffray, with Mr. Jurika attending the full meeting by teleconference. The representatives from Crowell & Moring briefed the Special Committee on the terms of the final version of the proposed Merger Agreement and the other transaction agreements and answered the members remaining questions about the Merger Agreement and the merger. The representatives also reviewed the resolution of open items previously remaining in the Merger Agreement, including setting the amount of the termination fees payable by the Company and the Parent, the amount of expenses reimbursable by the Company to the Parent upon certain terminations of the Merger Agreement and the date by which the transaction needed to be consummated or either party could terminate the Merger Agreement; finalization of the related disclosure schedules; final negotiation of the limited guarantee from Francisco Partners in favor of the Company for the Parent and Merger Sub s termination fee obligations under the Merger Agreement; and reviewing the signed Waiver Letters from Messrs. James, Piazza, and Simpson and Ms. Carlon.

Also at this meeting, a representative of Piper Jaffray reviewed with the Special Committee in detail Piper Jaffray s financial analysis of the merger consideration of $8.50 per share of the Company s common stock and delivered an oral opinion, in addition to a written opinion dated December 7, 2009, to the effect that, as of December 7, 2009, and based on and subject to the various assumptions, considerations and limitations described in its opinion, the $8.50 merger consideration per share of the Company s common stock was fair, from a financial point of view, to the Company s common stockholders. The Special Committee discussed the fairness opinion and merger and unanimously resolved that the Merger Agreement and transactions contemplated thereby were advisable, fair to, and in the best interests of the Company s stockholders. The Special Committee then approved the recommendation of the Merger Agreement and related documents to the full Board for approval and execution.

The Special Committee meeting was adjourned and a meeting of the full Board was immediately convened, and Mr. James, the only Board member not on the Special Committee, called into the meeting via teleconference. Mr. Pevenstein informed Mr. James that the Special Committee had met, discussed the Merger Agreement and

other merger-related matters, Piper Jaffray had presented its analysis and fairness opinion, and the Special Committee had unanimously approved for recommendation that the Company enter into the Merger Agreement. In light of the Special Committee s recommendation and its review, the Board unanimously resolved that the execution of the Merger Agreement and entry into the transactions contemplated thereby were advisable, fair to, and in the best interests of the Company s stockholders, authorized Board Chairman Peebles to execute the Merger Agreement and other transaction agreements on behalf of the Company, and unanimously recommended the adoption of the Merger Agreement by the Company s common stockholders at a special meeting of the Company s common stockholders.

Following the December 7, 2009 Board meeting, each of the directors and executive officers Messrs. James, Piazza, and Simpson and Ms. Carlon executed their Voting Agreements with the Parent, committing to vote their shares in favor of the Merger Agreement and related merger and against any proposal or action that could hinder or impair the transaction with the Parent. Mr. Pevenstein and a representative of Piper Jaffray contacted a representative of Francisco Partners regarding the Board s approval.

In the evening of December 7, 2009, QuadraMed, Bavaria Holdings Inc. and Bavaria Merger Sub, Inc. executed the Merger Agreement and related transaction agreements.

On December 8, 2009, the Company and Francisco Partners issued a joint press release announcing the entry into the Merger Agreement and the merger.

Reasons for the Merger; Recommendation of the Board of Directors

The Special Committee

The Special Committee was formed by the Board on September 2, 2009 to evaluate a potential transaction involving a change in control of the Company, including a review of an unsolicited offer to acquire the Company. The Board granted the Special Committee full power and authority to direct the strategic review process, to consider, negotiate, recommend to the Board and effect a potential transaction involving a change in control of the Company and, subject to any approval of the Board and the Company s stockholders required by the DGCL, to approve any other actions the Special Committee deemed necessary to consider, negotiate, recommend, and effect a potential transaction. Each Board member other than Duncan W. James, each of whom was independent and determined to be disinterested, was appointed to the Special Committee: Robert W. Miller, James E. Peebles, Lawrence P. English, William K. Jurika and Robert L. Pevenstein, with Mr. Pevenstein serving as Chairman of the Special Committee.

At a meeting on December 7, 2009, the Special Committee unanimously resolved that the Merger Agreement and transactions contemplated in the Merger Agreement were advisable, fair to, and in the best interests of the Company s stockholders and unanimously approved the recommendation of the Merger Agreement and related documents to the full Board for approval, execution and recommendation to the Company s holders of common stock. For more information, please refer to **The Merger Background of the Merger.**

In reaching its conclusion to approve the recommendation of the Merger Agreement and merger to the Board, the Special Committee consulted with the Company s senior management team and consulted with, and was advised by, the Company s outside legal counsel and independent financial advisors, and it considered, among other things:

- its knowledge of the current state of the Company s business, financial condition, operations, earnings, strategic plans, management, competitive position and prospects were the Company to remain independent and public (for more information, please refer to **The Merger Projected Financial Data**);

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- its and the Company s management s views and opinions regarding the healthcare information technology industry, the Company s competitors and changes affecting the Company s industry and competitive landscape; and

- based on the foregoing factors, its belief that the Company s common stock was unlikely to trade at prices significantly above their then-current level in the near- to mid-term.

The Special Committee also considered, among other things, its knowledge of the process conducted under its oversight surrounding the evaluation of a potential transaction involving a change in control of the Company, with the assistance of its legal and financial advisors, as well as the following:

- the Special Committee s composition entirely of independent Board members, who are not employees of the Company and who have no material financial interest in the merger different from the Company s holders of common stock;

- its retention and receipt of advice from its legal and financial advisors in evaluating, negotiating and recommending the Merger Agreement;

- the Special Committee s grant of full authority by the Board to consider and negotiate a transaction involving a potential change in control of the Company and alternatives (subject to final approval of the Board, as required by the DGCL);

- the submission by five potential buyers of unsolicited preliminary indications of interest to the Board in the 12 months preceding its solicitation of potential buyers;

- the solicitation of 11 potential buyers, including six financial (including the four potential buyers who had submitted preliminary indications of interest and two others who had previously conducted significant negotiations with the Company regarding a potential change in control transaction) and five strategic parties, during the process;

- the execution of non-disclosure agreements with the Company, receipt of access to an electronic dataroom containing non-public due diligence materials for the Company and attendance of management presentations on the Company, its business, its financial condition and its strategy by eight potential buyers;

- the submission of offer proposals by three potential buyers to the Special Committee; and

- the Special Committee s entry into negotiations towards submission of a final proposal with two potential buyers.

In addition to the above general and process-related considerations, the Special Committee also considered, among other things, the following material positive factors regarding the Merger Agreement and merger:

- general and industry-specific market conditions and our common stock s historical prices, price volatility, trading volume, public float and other trading information at the time of the Special Committee s determination, including the possibility that if the Company remained independent and publicly traded, the price of the Company s common stock might decline in open trading in the future and that the consideration offered per common share in a potential future transaction might be less than the $8.50 per share merger consideration for the Company s common stock;

the premium to historical trading prices of the Company s common stock represented by the $8.50 per share merger consideration: as of December 7, 2009, the date the Special Committee recommended the Merger Agreement and merger to the Board and the Board approved the Merger Agreement and merger and the last trading day prior to the execution and announcement of the Merger Agreement, the $8.50 per share merger consideration for the Company s common stock represented a premium of approximately 32.6% over the closing sales price of the Company s common stock, a premium of approximately 33.3% to the 30-day trailing average closing price of the Company s common stock, and a premium of approximately 7.1% to the 52-week intra-day high price of the Company s common stock, each as reported on the NASDAQ Global Market;

Piper Jaffray s fairness opinion, dated December 7, 2009, to the Special Committee as to the fairness, from a financial point of view, to the holders of shares of the Company s common stock of the $8.50 per share merger consideration in cash to be paid to the holders of shares of the Company s common stock in connection with the consummation of the merger (for more information, please refer to **The Merger Opinion of the Company s Financial Advisor** and **Appendix B**);

the all-cash merger consideration s provision of a fixed amount of cash to the Company s stockholders for their shares without the potential business risks and uncertainty of a non-cash merger consideration;

Francisco Partners investing and transaction experience, knowledge and experience in the Company s industry, reputation, financial capabilities, and ability to consummate large transactions, and prior familiarity with the Company;

Francisco Partners receipt of an executed commitment letter from Wells Fargo Foothill, LLC and Silicon Valley Bank for up to $60 million in a senior secured credit facility although the Parent s consummation of the merger is not conditioned on the receipt of financing (for more information, please refer to **The Merger Financing** and **The Merger Agreement Conditions to Closing**), which letter the Special Committee reviewed; further, the Special Committee considered the reputation of these lenders and its belief that the commitment letter signals a strong commitment of these lenders to provide the contemplated financing with few conditions permitting the termination of such commitment;

the terms of the Merger Agreement, including:

the parties representations, warranties, covenants and conditions of their respective obligations,

the availability under the DGCL of appraisal rights to the Company s stockholders, including the holders of the Company s Series A Preferred Stock (for more information, please refer to **The Merger Agreement Merger Consideration Dissenting Shares** and **Appendix C**), and the lack of a condition to closing of the merger relating to the amount of the Company s stock for which holders were exercising appraisal rights;

the lack of any requirement of the holders of the Series A Preferred Stock to take any action in respect of the transaction, including the acceptance of a substituted security or agreement to a modification of the terms of the Series A Preferred Stock;

the ability of the Special Committee or Board, where the failure to take such action would be inconsistent with the Board or Special Committee s fiduciary duties to the Company s stockholders under applicable law, to authorize the Company to provide confidential information to and enter into discussions and negotiations with other potential buyers in response to such potential buyers submission of an unsolicited bona fide written acquisition proposal and, subject to the immediate payment of a termination fee in the amount of $4 million to the Parent, to enter into a transaction with respect to or change its recommendation to the Company s stockholders in response to the receipt of, a superior unsolicited bona fide written acquisition proposal (for more information, please refer to **The Merger Agreement Covenants of the Parties**);

a termination date for the consummation of the merger of May 6, 2010, which the Special Committee believes provides sufficient time for the parties to satisfy all closing conditions and to complete the merger; and

the Parent s obligation, which was guaranteed by Francisco Partners in the Limited Guaranty, to pay a termination fee in the amount of $4.5 million to the Company under the circumstances specified in the Merger Agreement (for more information, please refer to **The Merger Agreement Termination of the Merger Agreement** and **The Merger Agreement Limited**

Guaranty);

the terms of the Merger Agreement and the transaction were the result of extensive negotiations between the Special Committee and its legal and financial advisors and Francisco Partners and its legal and financial advisors;

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excluding payments in respect of options to purchase shares of the Company s common stock, the absence or waiver of significant benefit by members of the Company s management s in connection with the merger that differ from the Company s holders of common stock (for more information, please refer to **The Merger Interests of Certain Persons in the Merger**);

the costs to the Company in being a public company, including the costs and efforts associated with SEC reporting and other compliance, national exchange regulations and fees, insurance, and regulatory matters, and the limitations on the Company s ability to pursue its strategic plan and take necessary competitive actions while a public company, in light of the anticipated impact on the Company s near- and mid-term revenue and earnings; and

in light of the foregoing considerations, the Special Committee s belief that the merger is more favorable to the Company s stockholders than other strategic alternatives or continuing to operate the Company on an independent basis.

The Special Committee also considered, among other things, the following potentially negative factors regarding the Merger Agreement and merger:

the Company s stockholders lack of opportunity to participate in or benefit from the Company s future performance, including any potential future increase in the value of the Company s stock beyond the merger consideration;

the taxable nature of the all cash merger consideration to the Company s stockholders that are U.S. Holders for U.S. federal income tax purposes (for more information, please refer to **The Merger Material U.S. Federal Income Tax Consequences of the Merger**);

the significant costs and disruptions to the Company s business, operations and management s time and attention associated with entering into the Merger Agreement and consummating the merger;

the restrictions and limitations on the conduct of the Company s business imposed by the terms of the Merger Agreement between the execution of the Merger Agreement and consummation of the merger or termination of the Merger Agreement;

the disruptions and potential significant harm to the Company s relationships with its employees, vendors, customers and partners and the Company s operations caused by the announcement of the execution of the Merger Agreement, uncertainty prior to consummation of the merger, or the failure to consummate the merger;

the possibility that the $4 million termination fee that the Company must pay to the Parent if the Board or Special Committee determines to pursue a superior proposal from a third party buyer or to change its recommendation for the merger with the Parent, and that a superior proposal cannot be conditioned upon the potential buyer s receipt of financing, could discourage other potential buyers for submitting a competing offer to acquire the Company;

the Company s inability to force the Parent to consummate the merger and the $4.5 million termination fee payable by the Parent, which is guaranteed by Francisco Partners in accordance with the terms of the Limited Guaranty, may be the Company s sole remedy in the event of the breach of the Merger Agreement by the Parent or Merger Sub; and

the lack of assurance that all conditions to the parties obligations to close the Merger Agreement, including antitrust approvals, will be satisfied or that the merger will be consummated, although the Special Committee, the Board and the Company believe the merger will be consummated.

The Special Committee concluded that the $8.50 per share merger consideration for the Company s common stock, along with the previously discussed material positive features of the merger, outweighed the foregoing potentially negative factors. Accordingly, the Special Committee unanimously resolved to recommend the Merger Agreement to the Board for approval and recommendation to the Company s common stockholders.

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In making its determination, the Special Committee relied on the business experience of its members and its oversight, along with its legal and financial advisors and the Company s management, of the process of investigating potential transactions that led to the negotiation of the Merger Agreement with Francisco Partners.

The foregoing discussion of the factors considered by the Special Committee is not, and is not intended to be, exhaustive, but rather includes the material factors considered. In reaching its conclusion to approve the Merger Agreement and merger for recommendation to the Board, the Special Committee did not quantify or otherwise attempt to assign relative weights to the various factors it considered in reaching its decision and did not undertake to determine whether any particular factor or aspect thereof supported or did not support its decision. Further, individual members may have assigned different weights to these factors. The Special Committee based its decision on its evaluation of the totality of information presented, considered and analyzed by it.

The Board of Directors

At a meeting on December 7, 2009, the Board met to consider the Merger Agreement, merger and recommendation of the Special Committee. On the basis of the Special Committee s unanimous recommendation to the Board, the Board unanimously resolved that the execution of the Merger Agreement and entry into the transactions contemplated thereby were advisable, fair to, and in the best interests of the Company s stockholders, and unanimously resolved to approve the execution of the Merger Agreement, entry into the merger transaction contemplated by the Merger Agreement and the recommendation to the Company s holders of common stock to adopt the Merger Agreement and approve the merger. For more information, please refer to **The Merger Background of the Merger.**

In reaching its conclusion to approve the recommendation of the Merger Agreement and merger to the holders of the Company s common stock, the Board consulted with the Special Committee, legal counsel and the Special Committee s financial advisors and the Company s senior management team, and it considered, among other things:

- the Special Committee s unanimous resolution that the Merger Agreement and merger is advisable, fair to, and in the best interests of the Company s stockholders;

- the Special Committee s unanimous recommendation of the Merger Agreement and related documents to the Board for approval, execution and recommendation to the Company s holders of common stock; and

- the factors described above that the Special Committed considered, including the positive factors, negative factors and the fairness opinion delivered to the Special Committee by Piper Jaffray on December 7, 2009.

The foregoing discussion of the factors considered by the Board is not, and is not intended to be, exhaustive, but rather includes the material factors considered. In reaching its conclusion to approve the Merger Agreement and merger for recommendation to the holders of the Company s common stock, the Board did not quantify or otherwise attempt to assign relative weights to the various factors it considered in reaching its decision and did not undertake to determine whether any particular factor or aspect thereof supported or did not support its decision. Further, individual directors may have assigned different weights to these factors. The Board based its decision on its evaluation of the totality of information presented, considered and analyzed by it.

The Board unanimously recommends that you vote FOR the proposal to adopt the Merger Agreement and approve the merger and FOR the proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies.

In considering the Board s recommendation with respect to the Merger Agreement and merger, the holders of the Company s common stock are cautioned that the members of the Company s management may have

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interests in the merger that may differ from or be in addition to those of the Company s stockholders and that the members of the Special Committee received fees in connection with their service on such committee in connection with their consideration of the merger. The Special Committee and the Board considered these potential interests as they considered the Merger Agreement and merger. For more information, please refer to **The Merger Interests of Certain Persons in the Merger.**

Opinion of the Company s Financial Advisor

The Company retained Piper Jaffray to act as its financial advisor, and to render to the Special Committee an opinion as to the fairness, from a financial point of view, to the holders of shares of the Company s common stock of the $8.50 per share in cash to be paid to the holders of shares of the Company s common stock in connection with the consummation of the merger.

The full text of the Piper Jaffray written opinion dated December 7, 2009, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Piper Jaffray in rendering its opinion, is attached as Appendix B and is incorporated in its entirety by reference into this proxy statement. Holders of shares of the Company s common stock are urged to, and should, carefully read the Piper Jaffray opinion in its entirety. The Piper Jaffray opinion addresses only the fairness, from a financial point of view and as of the date of the opinion, to holders of shares of the Company s common stock of the $8.50 per share in cash to be paid to the holders of shares of the Company s common stock in connection with the consummation of the merger. Piper Jaffray did not express an opinion as to the fairness of the consideration to be paid in the proposed merger to holders of the Series A Preferred Stock, solely in their capacity as holders of Series A Preferred Stock. The Piper Jaffray opinion was directed to the Special Committee and was not intended to be, and does not constitute, a recommendation as to whether any of the Company s stockholders should adopt the Merger Agreement and approve the merger.

In connection with rendering the opinion described above and performing its related financial analyses, Piper Jaffray:

- reviewed and analyzed the financial terms of a draft of the Agreement dated as of December 7, 2009;
- reviewed and analyzed certain financial and other data with respect to the Company which was publicly available;
- reviewed and analyzed certain information relating to the business, including financial forecasts, earnings, cash flow, assets, liabilities and prospects of the Company that were furnished to Piper Jaffray by the Company;
- conducted discussions with members of senior management and representatives of the Company concerning the matters described in the two immediately preceding bullet points, as well as the business and prospects of the Company on a stand-alone basis;
- reviewed the current and historical reported prices and trading activity of the Company s common stock and similar information for certain other companies deemed by Piper Jaffray to be comparable to the Company;
- compared the financial performance of the Company with that of certain other publicly-traded companies that Piper Jaffray deemed relevant; and
- reviewed the financial terms, to the extent publicly available, of certain business combination transactions that Piper Jaffray deemed relevant.

In addition, Piper Jaffray performed a discounted cash flow analysis for the Company on a stand-alone basis. Piper Jaffray conducted such other analyses, examinations and inquiries and considered such other financial, economic and market criteria as Piper Jaffray deemed necessary and appropriate in arriving at its opinion.

The following is a summary of the material financial analyses performed by Piper Jaffray in connection with the preparation of its fairness opinion, which was reviewed with the Special Committee at a meeting held on December 7, 2009 and was formally delivered to the Special Committee at a meeting held on December 7, 2009. The preparation of analyses and a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, this summary does not purport to be a complete description of the analyses performed by Piper Jaffray or of its presentations to the Special Committee on December 7, 2009.

This summary includes information presented in tabular format, which tables must be read together with the text of each analysis summary, and considered as a whole, in order to fully understand the financial analyses presented by Piper Jaffray. The tables alone do not constitute a complete summary of the financial analyses. The order in which these analyses are presented below, and the results of those analyses, should not be taken as any indication of the relative importance or weight given to these analyses by Piper Jaffray or the Special Committee. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before December 7, 2009, and is not necessarily indicative of current market conditions.

Selected Publicly Traded Companies Analysis

Piper Jaffray reviewed selected financial data that were prepared by the Company s management as its internal forecasts for calendar years 2009 through 2010 and compared them to corresponding Piper Jaffray and other subscription Wall Street research reports, where applicable, for publicly traded companies that are engaged primarily in the hospital information technology industry and that Piper Jaffray believed were similar to the Company s financial profile. Piper Jaffray selected companies based on information obtained by searching SEC filings, public company disclosures, press releases, industry and popular press reports, databases and other sources and by applying the following criteria:

- U.S. listed public companies;
- companies headquartered in the U.S.;
- companies in the Health Care Technology Industry (per S&P / CapIQ classification);
- companies whose primary business is clinical and financial software and technology;
- companies whose primary customers are hospitals;
- companies with last 12 months adjusted EBITDA (earnings before interest, tax, depreciation, amortization, equity-based compensation, and one-time or non-recurring items) greater than $0 million; and
- companies with aspects Piper Jaffray deemed similar to aspects of the Company s business.

Based on these criteria, Piper Jaffray identified and analyzed the following nine selected companies:

Amicas Inc.
Cerner Corporation
Computer Programs & Systems Inc.
Eclipsys Corporation
iCAD, Inc.
Mediware Information Systems Inc.
Merge Healthcare Inc.
Omnicell Inc.
Vital Images Inc.

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Piper Jaffray compared valuation multiples for the Company derived from its value based on the merger consideration to be paid to the holders of shares of the Company s common stock in the merger and projected adjusted EBITDA and earnings data for the Company, on the one hand, to valuation multiples for the selected companies derived from their market valuation and actual and projected adjusted EBITDA and earnings data, on the other hand:

		Selected Companies			
	QuadraMed(1)	Low	Median	Mean	High
Enterprise value as a multiple of last 12 months adjusted EBITDA(2)(4)	6.8x	6.6x	12.0x	12.7x	18.9x
Enterprise value as a multiple of calendar year 2009 projected adjusted EBITDA(3)(5)	9.9x	10.4x	11.5x	12.8x	19.6x
Enterprise value as a multiple of calendar year 2010 projected adjusted EBITDA(3)(6)	8.9x	6.6x	11.1x	10.8x	16.0x
Stock Price as a multiple of projected calendar year 2010 EPS(3)(7)	45.0x	9.5x	24.9x	21.4x	28.1x

(1) Based on $8.50 per share of the Company s common stock.
(2) Last 12 months for the Company and selected companies is as of September 30, 2009.
(3) Projected earnings for the Company for calendar years 2009 and 2010 are based on estimates of the Company s management.
(4) Piper Jaffray determined that ratios were not meaningful, and were therefore omitted, if they were greater than 25x for the last 12 months. Accordingly, the results of two selected companies were omitted as a result.
(5) Piper Jaffray determined that ratios were not meaningful, and were therefore omitted, if they were greater than 25x for the projected calendar year 2009. Accordingly, the results of three selected companies were omitted as a result. Projected adjusted EBITDA for calendar year 2009 was not available for one selected company.
(6) Projected adjusted EBITDA for calendar year 2010 was not available for two selected companies.
(7) Piper Jaffray determined that ratios were not meaningful, and were therefore omitted, if they were greater than 60x for the projected calendar year 2010. Accordingly, the results of two selected companies were omitted as a result. Projected net income for calendar year was not available for one selected company.

Piper Jaffray, among other things, calculated the ratio of enterprise value to adjusted EBITDA for each selected company for the last 12 months and for calendar years 2009 and 2010 to obtain a range of valuation multiples. Adjusted EBITDA is adjusted to exclude equity-based compensation and one time or non-recurring items, including severance expense and legal fees. Piper Jaffray also calculated the price-to-earnings ratio for each selected company for calendar year 2010 to obtain a range of valuation multiples. For the purpose of this analysis, when calculating enterprise value for the Company, the shares of Series A Preferred Stock were treated as equity on an as-converted to common stock basis. This analysis showed that, based on the estimates and assumptions used in the analysis, (i) when comparing the enterprise value to adjusted EBITDA ratio for the last 12 months and for calendar year 2010, the proposed $8.50 per share offer implied valuation multiples for the Company were within the range of valuation multiples of the selected companies; (ii) when comparing the enterprise value to adjusted EBITDA ratio for calendar year 2009, the proposed $8.50 per share offer implied a valuation multiple for the Company that was below the range of valuation multiples of the selected companies; and (iii) when comparing the price-to-earnings ratio for calendar year 2010, the proposed $8.50 per share offer price implied a valuation multiple for the Company that was above the range of valuation multiples of the selected companies.

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Selected M&A Transaction Analysis

Piper Jaffray reviewed transactions involving target companies in healthcare information technology that it deemed comparable to the Company. Piper Jaffray selected these transactions by searching SEC filings, public company disclosures, press releases, industry and press reports, databases and other sources and by applying the following criteria:

Transactions involving target companies with aspects Piper Jaffray deemed similar to the Company s business;

Transactions involving target companies with enterprise values greater than $50 million;

Transactions that were announced between January 2005 and December 7, 2009;

Transactions that were completed or pending as of December 7, 2009;

Change of control transactions, excluding share repurchases and acquisitions of a minority interest; and

Transactions involving target companies with year-over-year growth equal to or less than 10%.

Based on these criteria, the following eight transactions were deemed similar to the proposed transaction:

Acquirer	**Target**
ECI Partners, LLP	Ascribe PLC
IBA Health Ltd.	iSOFT Group plc
Vista Equity Partners	Sunquest Information Systems
Francisco Partners	Dairyland Healthcare Solutions
Battery Ventures	Quovadx (ISD & Rogue Wave)
Onex Corporation	Eastman Kodak Co. (HC Business)
3M Health Information Systems	SoftMed Systems
Per-Se Technologies	NDCHealth Corp.

Piper Jaffray calculated the enterprise value to EBITDA ratio for the last 12 months preceding each transaction and to projected EBITDA for the 12 consecutive months following each transaction, or the forward period. Piper Jaffray then compared the results of these calculations with similar calculations for the merger and the transactions contemplated by the Merger Agreement. The analysis indicated the following multiples:

		Selected Transactions			
	QuadraMed[(1)]	**Low**	**Median**	**Mean**	**High**
Enterprise value to last 12 months adjusted EBITDA	6.8x	6.7x	8.5x	9.1x	13.9x
Enterprise value to forward 12 months adjusted EBITDA	9.8x	6.0x	8.5x	8.2x	10.7x

(1) Based on $8.50 per share of the Company s common stock. Last 12 and forward 12 months adjusted EBITDA as of September 30, 2009.

The analysis showed that, based on the estimates and assumptions used in the analysis, (i) the enterprise value implied by the proposed $8.50 per share offer price as a multiple of EBITDA for the last 12 months was within the range of multiples for the selected transactions, and (ii) the enterprise value implied by the proposed $8.50 per share offer price as a multiple of EBITDA for the forward period was within the range of multiples for the selected transactions.

A comparable M&A transaction analysis generates an implied value of a company based on publicly available financial terms of selected change of control transactions involving companies that share certain characteristics with the company being valued. However, no company or transaction utilized in the comparable transaction analysis is identical to the Company or the merger.

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Premiums Paid Analysis

Piper Jaffray reviewed publicly available information for selected completed or pending merger or buyout transactions to determine the premiums paid in the transactions over recent trading prices of the target companies prior to announcement of the transaction. Piper Jaffray selected these transactions by searching SEC filings, public company disclosures, press releases, industry and popular press reports, databases and other sources and by applying the following criteria:

- Domestic transactions that were completed between January 1, 2005 and the date of the opinion;
- Transactions involving a 100% change of control;
- Transactions involving U.S. listed public targets, excluding financial institutions and companies operating in the real estate or energy markets;
- Transactions with a value between $50 million and $500 million, excluding transactions involving negative premiums; and
- Transactions involving target companies with a pre-offer share price greater than $2.00.

Piper Jaffray performed its analysis on 284 transactions that satisfied these criteria, and the table below shows a comparison of premiums paid in these transactions to the premium that would be paid to the holders of shares of the Company s common stock based on the $8.50 per share offer price payable in connection with the closing of the merger:

		Selected Transactions			
	QuadraMed[(1)]	**Low**	**Median**	**Mean**	**High**
One day before execution of Merger Agreement[(2)]	27.8%	0.0%	27.1%	32.6%	215.9%
One week before execution of Merger Agreement[(3)]	30.3%	0.6%	28.0%	34.2%	256.4%
Four weeks before execution of Merger Agreement[(4)]	38.7%	1.2%	29.7%	36.2%	201.2%

(1) Based on $8.50 per share of the Company s common stock.
(2) Company s premium based on closing price of $6.65 on December 4, 2009.
(3) Company s premium based on closing price of $6.53 on November 30, 2009.
(4) Company s premium based on closing price of $6.13 on November 9, 2009.

This analysis showed that, based on the estimates and assumptions used in the analysis, the premiums over the market prices at the selected dates for shares of the Company s common stock implied by the $8.50 per share offer price was within the range of premiums paid in the selected merger and acquisition transactions.

Discounted Cash Flow Analysis

Piper Jaffray performed two discounted cash flow analyses: one based on exit value multiples and the other based on perpetuity growth rates. For the exit value multiple analysis, using a discounted cash flow analysis, Piper Jaffray calculated an estimated range of theoretical equity values for the Company based on the net present value of (1) the projected calendar year after-tax free cash flows (which is based on the Company s after-tax operating income plus depreciation, amortization and equity-based compensation and less its capital expenditures, working capital investment and preferred dividends payable) from calendar years 2010 through 2013, discounted back to December 31, 2009 and (2) a terminal value based on multiples of projected adjusted EBITDA at calendar year end 2013, discounted back to December 31, 2009. For the perpetuity growth rate analysis, using a discounted cash flow analysis, Piper Jaffray calculated an estimated range of theoretical equity values for the Company based on the net present value of (i) the projected calendar year after-tax free cash flows from calendar years 2010 through 2013,

discounted back to December 31, 2009 and (ii) a terminal value based on a range of free cash flow perpetuity growth rates at calendar year end 2013, discounted back to December 31, 2009.

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Piper Jaffray utilized forecasts of future results furnished to it by management of the Company for all periods though December 31, 2013. Piper Jaffray calculated the range of net present values based on:

- an assumed tax rate of 39.0%;
- a discount rate of 7.5% to 12.5% for the present value calculation on the Company s net operating losses (NOLs);
- discount rates of 20.0%, 22.5% and 25.0%;
- for the exit value multiple analysis, terminal value multiples of 7.0x, 8.0x and 9.0x applied to the projected calendar year 2013 EBITDA; and
- for the perpetuity growth rate analysis, perpetuity growth rates of 3.0%, 4.0% and 5.0%.

Further, the discounted cash flow analyses were based upon the assumption that the Series A Preferred Stock remained outstanding throughout the projection period, and the shares of the Company common stock underlying such Series A Preferred Stock were used in calculating the per share values in the analyses.

The exit value multiple discounted cash flow analysis resulted in implied per share values of the Company s common stock ranging from a low of $8.23 to a high of $10.97. Piper Jaffray observed that the $8.50 per share offer price was within the range of values derived from this analysis.

The perpetuity growth rate discounted cash flow analysis resulted in implied per share values of the Company s common stock ranging from a low of $3.85 to a high of $4.69. Piper Jaffray observed that the $8.50 per share offer price was above the range of values derived from this analysis.

Miscellaneous

The summary set forth above does not contain a complete description of the analyses performed by Piper Jaffray, but does summarize the material analyses performed by Piper Jaffray in rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Piper Jaffray believes that its analyses and the summary set forth above must be considered as a whole and that selecting portions of its analyses or of the summary, without considering the analyses as a whole or all of the factors included in its analyses, would create an incomplete view of the processes underlying the analyses set forth in the Piper Jaffray opinion. In arriving at its opinion, Piper Jaffray considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis. Instead, Piper Jaffray made its determination as to fairness on the basis of its experience and financial judgment after considering the results of all of its analyses. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that this analysis was given greater weight than any other analysis. No company or transaction used in the above analyses as a comparison is directly comparable to the Company or the transactions contemplated by the Merger Agreement.

Piper Jaffray performed its analyses solely for purposes of providing its opinion to the Special Committee. In performing its analyses, Piper Jaffray made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. Certain of the analyses performed by Piper Jaffray are based upon forecasts of future results furnished to Piper Jaffray by the Company s management, which are not necessarily indicative of actual future results and may be significantly more or less favorable than actual future results. These forecasts are inherently subject to uncertainty because, among other things, they are based upon numerous factors or events beyond the control of the parties or their respective advisors. Piper Jaffray does not assume responsibility if future results are materially different from forecasted results.

Piper Jaffray s opinion was one of many factors taken into consideration by the Special Committee in making the determination to approve the Merger Agreement and recommend that the holders of shares of the

Company s common stock adopt the Merger Agreement and approve the merger. The above summary does not purport to be a complete description of the analyses performed by Piper Jaffray in connection with the opinion and is qualified in its entirety by reference to the written opinion of Piper Jaffray attached as **Appendix B** to this proxy statement.

Piper Jaffray has relied upon and assumed, without assuming liability or responsibility for independent verification, the accuracy and completeness of all information that was publicly available or was furnished, or otherwise made available, to it or discussed with or reviewed by it. Piper Jaffray has further relied upon the assurances of the Company s management that the financial information provided to Piper Jaffray was prepared on a reasonable basis in accordance with industry practice and that the Company s management are not aware of any information or facts that would make any information provided to Piper Jaffray incomplete or misleading. Without limiting the generality of the foregoing, for the purpose of its opinion, Piper Jaffray further assumed that with respect to financial forecasts, estimates and other forward-looking information reviewed by it, that such information was reasonably prepared based on assumptions reflecting the best currently available estimates and judgments of the Company s management as to the Company s expected future results of operations and financial condition. Piper Jaffray has expressed no opinion as to any such financial forecasts, estimates or forward-looking information or the assumptions on which they were based. With the Company s consent, Piper Jaffray has relied on advice of the Company s outside counsel and the independent accountants, and on the assumptions of the Company s management, as to all accounting, legal, tax and financial reporting matters with respect to the Company and the Merger Agreement.

Piper Jaffray assumed that the executed Merger Agreement was in all material respects identical to the last draft reviewed by Piper Jaffray prior to the delivery of its opinion. Piper Jaffray relied upon and assumed, without independent verification, the accuracy of the parties representations and warranties in the Merger Agreement and all other related documents and instruments referred to in the Merger Agreement; the full and timely performance of each party s covenants and agreements in the Merger Agreement and related documents; the consummation of the merger pursuant to the terms of the Merger Agreement without amendment; the satisfaction of all conditions and obligations to the merger without waiver by any party; and the receipt of all necessary regulatory approvals and consents in a manner that will not adversely affect the Company or the contemplated benefits of the merger.

Piper Jaffray did not assume responsibility for performing, and did not perform, any appraisals or valuations of specific assets or liabilities of the Company. The analyses performed by Piper Jaffray in connection with its opinion were going concern analyses, and Piper Jaffray has expressed no opinion regarding the liquidation value of the Company or any other entity. Piper Jaffray did not undertake any independent analysis of any pending or threatened litigation, regulatory action, possible unasserted claims or other contingent liabilities to which the Company, or any of its affiliates, is a party or may be subject. At the direction of the Company, and with its consent, Piper Jaffray s opinion made no assumption concerning, and therefore did not consider, the possible assertion of claims, outcomes or damages arising out of any such matters. Piper Jaffray also assumed that neither the Company nor the Parent is party to any material pending transaction, including without limitation any financing, recapitalization, acquisition or merger, divestiture or spin-off, other than the merger.

No company or transaction used in any analysis for purposes of comparison is identical to the Company or the merger. Accordingly, an analysis of the results of the comparisons is not mathematical; rather, it involves complex considerations and judgments about differences in the companies and transactions to which the Company and the merger were compared and other factors that could affect the public trading value or transaction value of the companies.

Piper Jaffray s opinion was necessarily based on the information available to it and the facts and circumstances as they existed and were subject to evaluation as of the date of the opinion, and events occurring after that date could materially affect the assumptions used by Piper Jaffray in preparing its opinion. Piper Jaffray expressed no opinion as to the prices at which shares of the Company s common stock have traded or may trade

following announcement of the transaction or at any time after the date of the opinion. Piper Jaffray did not express any opinion as to any consideration to be received by the holders of the Series A Preferred Stock, solely in their capacity as holders of Series A Preferred Stock. Piper Jaffray has not undertaken and is not obligated to affirm or revise its opinion or otherwise comment on any events occurring after the date it was rendered.

Piper Jaffray s opinion addresses solely the fairness, from a financial point of view, to holders of shares of the Company s common stock (solely with respect to the merger consideration to be received for their shares of common stock, and not with respect to any consideration to be received for the Series A Preferred Stock) of the proposed merger consideration set forth in the Merger Agreement and does not address any other terms or agreement relating to the merger or any other terms of the Merger Agreement. Piper Jaffray was not requested to opine as to, and the opinion does not address, the basic business decision to proceed with or effect the merger, the pre- or post-signing process conducted or to be conducted by the Company, the merits of the transaction compared to any alternative business strategy or transaction that may be available to the Company, the Parent s ability to fund the merger consideration, any other terms contemplated by the Merger Agreement or the fairness of the merger to any other class of securities, creditor or other constituency of the Company. Furthermore, Piper Jaffray expresses no opinion with respect to the amount or nature of the compensation to any officer, director or employee of any party to the merger, or any class of such persons, relative to the compensation to be received by holders of shares of the Company s common stock in the merger or with respect to the fairness of any such compensation.

Piper Jaffray s opinion is provided to the Special Committee in connection with its consideration of the merger and is not intended to be and does not constitute a recommendation to any stockholder of the Company as to how such stockholder should act or vote with respect to the merger or any other matter.

Piper Jaffray is a nationally recognized investment banking firm and is regularly engaged as a financial advisor in connection with mergers and acquisitions, underwritings and secondary distributions of securities and private placements. The Special Committee selected Piper Jaffray to render its fairness opinion in connection with the transactions contemplated by the Merger Agreement on the basis of its experience and reputation in acting as a financial advisor in connection with mergers and acquisitions.

Piper Jaffray was engaged by the Special Committee to act as its financial advisor and Piper Jaffray will receive a fee of approximately $1.5 million from the Company, as approved by the Special Committee, for providing its services, a significant portion of which is contingent upon the consummation of the merger. Out of this amount, Piper Jaffray received $300,000 for rendering its opinion, and this opinion fee is not contingent upon the consummation of the merger or the conclusions reached in the opinion. The Company has also agreed to indemnify Piper Jaffray against certain liabilities and reimburse Piper Jaffray for certain expenses in connection with its services. Piper Jaffray has, in the past, provided financial advisory and financing services to the Company and the Parent and/or its affiliates and may continue to do so and has received, and may receive, fees for the rendering of such services. Since 2006, Piper Jaffray has performed financial advisory and investment banking services for certain companies in which Francisco Partners was a minority investor, in connection with which Piper Jaffray received customary fees. In addition, in the ordinary course of its business, Piper Jaffray and its affiliates may actively trade securities of the Company for its own account or the account of its customers, subject to federal and state securities laws, and, accordingly, may at any time hold a long or short position in such securities. Piper Jaffray may also, in the future, provide investment banking and financial advisory services to the Company, the Parent or entities that are affiliated with the Company or the Parent, for which Piper Jaffray would expect to receive compensation.

Projected Financial Data

The Company does not, as a matter of course, publicly disclose financial forecasts as to its future financial performance, earnings or other results and is cautious in developing financial forecasts for extended future periods, due to the unpredictability and speculative nature of the assumptions and estimates underlying such forecasts. However, in connection with the evaluation of a possible acquisition of the Company, the Company provided Francisco Partners, other bidders interested in a possible acquisition of the Company (for more

information, please refer to **The Merger Background of the Merger** for more information), the Special Committee, the Board, Piper Jaffray and their respective advisors certain financial forecasts of its operating performance for fiscal years 2009 through 2013, which were prepared by the Company s management during the fourth quarter of 2009 (the Projections). Piper Jaffray utilized the Projections in connection with its analyses for its opinion.

The Projections were not prepared for public disclosure, nor toward complying with (i) United States generally accepted accounting principles (GAAP), (ii) published guidelines of the SEC regarding projections or non-GAAP measures, or (iii) guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The Company s management prepared, and are responsible for, the Projections. Neither the Company s independent registered public accounting firm nor any other independent auditor have compiled, examined or otherwise performed any procedures with respect to the Projections, nor have they expressed an opinion or any other form of assurance on, or assumed any responsibility with respect to, the Projections and their achievability. The report of the Company s independent registered public accounting firm incorporated by reference into this proxy statement relates only to the Company s historical financial information.

The summary of the Projections included in this proxy statement is not provided to influence the voting decisions of the Company s common stockholders with respect to the Merger Agreement or merger. Instead, the summary is provided solely because the Projections were made available, in whole or in part, to Piper Jaffray, Francisco Partners and the Parent, their financing sources (for more information, please refer to **The Merger Financing**) and their other representatives, in connection with their due diligence efforts on the Company. Inclusion of the summary of the Projections in this proxy statement should not be interpreted to mean that the Special Committee, Board, Piper Jaffray, their respective advisors or any other person considered or considers the Projections or summary thereof to be material or a reliable prediction of actual future results.

The development of the Projections entailed numerous assumptions by the Company s management regarding the Company s industry, markets, products and services, competitive strength and ability to execute on its strategic growth plan. While the Projections and summary in this proxy statement were presented with numerical specificity, they are based on the Company s management s internal financial forecasts that are subjective in many respects and reflect numerous assumptions and estimates by the Company s management as to future events that management believed were reasonable at the time the Projections were developed. The Projections do not take into account any circumstances or events occurring after the Projections were prepared, and do not give effect to the merger or any changes to the Company s operations or strategy as a result of or in connection with the merger. The Company has no intention of, and expressly disclaims any responsibility for, updating or otherwise revising the Projections. There can be no assurance that the Projections will be realized or that actual results will differ significantly higher or lower. As is the nature of financial forecasts, each successive year of the Projections features greater uncertainty. For the foregoing reasons, the inclusion of the Projections in this proxy statement should not be relied on as necessarily predictive of actual future events or performance.

No one has made or makes any representation to any stockholder or other person or entity regarding the Projections, and the Company has not made any such representation to Francisco Partners, other bidders, the Special Committee, the Board, Piper Jaffray or their respective advisors. Readers of this proxy statement are cautioned not to rely on the Projections or summary of the Projections.

The Projections are forward-looking statements, and for more information on factors that may cause the Company s actual future financial results to differ from the Projections, please refer to **Cautionary Note Regarding Forward-Looking Statements.**

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The following is a summary of the Projections prepared by the Company s management and provided to Francisco Partners, the Special Committee, the Board, Piper Jaffray and their respective advisors.

	Fiscal Year Ending December 31,				
($ in mm)	2009	2010	2011	2012	2013
Revenue	$ 143.4	152.8	155.9	167.5	177.6
Gross Profit	81.4	84.7	85.8	95.5	104.8
Adjusted EBITDA	11.0	12.2	12.7	22.1	28.1

Financing

In connection with the merger, Francisco Partners has entered into a debt commitment letter dated November 24, 2009, with Wells Fargo Foothill, LLC and Silicon Valley Bank for up to $60 million in a senior secured credit facility. Consummation of the merger is not subject to a financing condition, but is subject to customary conditions to closing, as further discussed in **The Agreement and Plan of Merger Conditions to Closing.**

Limited Guarantee

Pursuant to a limited guarantee delivered by Francisco Partners II, L.P. and Francisco Partners Parallel Fund II, L.P., which we refer to collectively as Francisco Partners, in favor of the Company, dated December 7, 2009, Francisco Partners has agreed to guarantee, severally but not jointly, the punctual performance and discharge of the Parent s payment obligations under the Merger Agreement if the Merger Agreement is terminated or breached under circumstances in which the Parent s obligation to pay a termination fee of $4.5 million to the Company is triggered.

The limited guarantee will terminate upon the earliest of (i) the effective time of the merger, (ii) the termination of the Merger Agreement in accordance with its terms under circumstances where the Parent is not obligated to pay a termination fee to the Company, and (iii) 30 days after the termination of the Merger Agreement in accordance with its terms under circumstances where the Parent would be obligated to pay a termination fee to the Company, if the Company has not presented a claim for payment to the Parent and Merger Sub, or to Francisco Partners, by the end of such 30 day period. However, in the event that the Company or any of its affiliates (A) asserts in any litigation or other proceeding that the provisions of the limited guarantee pursuant to which the Company waives and releases Francisco Partners, the Parent, Merger Sub and certain of their affiliates from specified types of claims or that limit Francisco Partners liability, the term of the limited guarantee or the recourse under the limited guarantee, or the provisions of the Merger Agreement that limit the liability of the Parent and Merger Sub, are illegal, invalid or unenforceable, in whole or in part, or (B) asserts any theory of liability against Francisco Partners, the Parent, Merger Sub or certain of their affiliates with respect to the transactions contemplated by the Merger Agreement other than liability of Francisco Partners under the limited guarantee, then (i) Francisco Partners obligations under the limited guarantee shall terminate and be null and void, (ii) Francisco Partners shall be entitled to recover any prior payments made under the limited guaranty, and (iii) neither Francisco Partners, the Parent, Merger Sub nor any of their affiliates shall have any liability to the Company with respect to the transactions contemplated by the Merger Agreement or under the limited guarantee.

Certain Terms of the Preferred Stock Designation

Pursuant to the terms of the Preferred Stock Designation, a holder of Series A Preferred Stock has the right, at his or her option, subject to compliance with certain provisions of the Preferred Stock Designation, to convert all or a portion of such shares of Series A Preferred Stock into the number of shares of common stock calculated in accordance with the terms of the Preferred Stock Designation. The Preferred Stock Designation also provides that if the Company is a party to any transaction (including, without limitation, a merger), as a result of which shares of common stock are converted into the right to receive stock, securities or other property (including cash

or any combination thereof), each share of Series A Preferred Stock that is not converted into the right to receive stock, securities or other property in connection with such transaction shall thereafter, subject to the conditions set forth in the Preferred Stock Designation, be convertible into the kind and amount of shares of stock, securities and other property (including cash or any combination thereof) receivable upon the consummation of such transaction by a holder of that number of shares of common stock into which one share of Series A Preferred Stock was convertible immediately prior to such transaction. The Preferred Stock Designation also grants the Company the option, subject to certain provisions of the Preferred Stock Designation, to cause the conversion of the Series A Preferred Stock into common stock on and after the last day of any period of twenty consecutive trading days in which the volume weighted average of the daily current market price per share of common stock exceeds $25.50 (such price having been adjusted for the Company s one-for-five reverse split of its common stock which was effective June 13, 2008, and which shall be adjusted appropriately for any future stock splits, stock dividends and similar events described in the Preferred Stock Designation).

The Preferred Stock Designation provides that in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive a liquidation preference of Twenty-Five Dollars ($25.00) per share of Series A Preferred Stock plus an amount equal to all dividends (whether or not declared) accumulated, accrued and unpaid thereon before any payment or distribution of the assets of the Company shall be made to or set apart for the holders of common stock. The Preferred Stock Designation expressly provides that a merger of the Company with one or more entities shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary, of the Company. In addition, the Preferred Stock Designation provides that the approval of the holders of a majority of the outstanding shares of Series A Preferred Stock shall be necessary for any amendment, alteration or repeal of any of the provisions of the Company s Certificate of Incorporation or the Preferred Stock Designation that materially adversely affects the voting powers, rights or preferences of the holders of the Series A Preferred Stock, but further expressly provides that any filing with the Secretary of State of the State of Delaware in connection with a merger involving the Company shall not be deemed to be an amendment, alteration or repeal of any of the provisions of our Certificate of Incorporation or the Preferred Stock Designation. The Preferred Stock Designation further provides that, unless otherwise required by law, the Series A Preferred Stock is not entitled to any powers, preferences or other special rights other than those specifically and expressly set forth in the Preferred Stock Designation or in the Fourth Amended and Restated Certificate of Incorporation of QuadraMed, as amended.

Interests of Certain Persons in the Merger

In considering the recommendation of our Board that you vote to adopt the Merger Agreement and approve the merger, you should be aware that our directors and executive offers may have financial interests in the merger that may be different from, or in addition to, those of our stockholders generally. The Special Committee and the Board were aware of and considered these interests, among other matters, in evaluating and negotiating the Merger Agreement and the merger, and in recommending that the Merger Agreement be adopted by the stockholders of the Company. For the purposes of all of the agreements and plans described below, the completion of the transactions contemplated by the Merger Agreement will constitute a change in control.

Equity Compensation Awards

At the effective time of the merger, each outstanding option to purchase shares of the Company s common stock, whether vested or unvested and including all stock options owned by the Company s executive officers and Board members, will vest and be cancelled and converted into the right to receive a cash payment equal to the number of shares of common stock subject to such option multiplied by the amount (if any) by which $8.50 exceeds the exercise price per share of such option, less any applicable withholding taxes. The Company has no other form of equity compensation awards (including, but not limited to, stock appreciation rights, restricted shares, or restricted stock units) outstanding under any of its equity compensation plans.

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Based on the Company s equity compensation holdings as of [ ], 2010, and assuming that the merger is completed on March 15, 2010, upon completion of the merger, the number of unvested stock options of the Company (at exercise prices ranging from $5.90 to $44.35) held by each of our named executive officers (i.e., Messrs. James, Piazza, Dunn, and Simpson) and one other executive officer, Ms. Carlon, and our five non-employee directors (as a group) that would vest are 300,000; 17,462; 70,000; 90,000; 15,416; and 12,000, respectively (with such unvested stock options having a total in the money value of approximately $594,000; $0; $5,600; $186,300; $0; and $19,584, respectively, based upon a $8.50 stock price.

Employment Agreements

We previously entered into employment agreements with each of our named executive officers. These arrangements were negotiated with such executives in a manner that provides sufficient benefits to the executives in the event of involuntary termination (other than for cause), including certain enhanced benefits in connection with a change in control, to encourage them to accept positions and remain in employment with the Company.

Definition of Change in Control

Under the terms of the named executive officers current employment and inducement stock option agreements, the 2009 Stock Compensation Plan (the 2009 Plan), and the Amended and Restated 2004 Stock Compensation Plan (the 2004 Plan), a change in control means:

- a merger or acquisition in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the Company s state of incorporation;

- a sale, transfer or other disposition of all or substantially all of the assets of the Company;

- a transfer of all or substantially all of the Company s assets pursuant to a partnership or joint venture agreement or similar arrangement where the Company s resulting interest is less than 50%;

- any reverse merger in which the Company is the surviving entity but in which 50% or more of the Company s outstanding voting stock is transferred to holders different from those who held the stock immediately prior to such merger;

- a change in ownership of the Company through an action or series of transactions, such that any person is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the securities of the combined voting power of the Company s outstanding securities; or

- a majority of the members of the Board are replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of such appointment or election.

Under the terms of the 2008 Employee Stock Purchase Program, in which Ms. Carlon participates, a corporate transaction means either of the following stockholder-approved transactions to which the Company is a party:

- a merger, consolidation or other transaction in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company s outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

the sale, transfer or other disposition of all or substantially all of the assets of the Company in complete liquidation or dissolution of the Company.

Executive Termination Provisions

For all of the Company s named executive officers and other executive officers, employment agreements provide for the payment of certain severance benefits if the executive s employment is involuntarily terminated

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by the Company without cause or if the executive terminates his or her employment voluntarily, if the Company, without the executive s consent,

changes the executive s position with the Company or any successor which materially reduces his or her level of responsibility;

materially reduces the executive s base compensation (including base salary, fringe benefits, the level of the annual incentive compensation plan bonus, and any non-discretionary bonuses or other incentive payments); or

relocates the executive s principal place of employment by more than 45 miles from Reston, Virginia,

and the Company fails to remedy the matter within 30 days after the executive s provision of notice about the existence of the condition. Enhanced severance benefits are payable if an involuntary termination occurs in connection with or within six months following a change in control of the Company.

Under the terms of Mr. James employment agreement, in the event of an involuntary termination (other than a termination for cause) of Mr. James employment, within six months of a change in control or Mr. James voluntary termination in connection with or within three months of a change in control, Mr. James is entitled to receive severance benefits of 24 months of his then-current annual base salary, 12 months of his then-current incentive compensation bonus, and 12 months of health benefits. However, if the change in control occurs prior to Mr. James completion of 18 months of service, the severance benefit will equal:

(36 X) months of his then-current annual rate of base salary; and

(36 X) months of his then-current incentive compensation bonus for the year in which the change in control occurred,

where X equals the number of months of service Mr. James has completed from July 27, 2009, the date on which his service commenced. In addition, all Company stock options then held by Mr. James automatically vest upon a change in control.

Under the terms of the Company s employment agreements (as amended as applicable) with Messrs. Piazza, and Simpson and Ms. Carlon, if the executive s employment is involuntarily terminated in connection with a change in control of the Company or within six months of such change in control, the executive will receive a lump sum payment, payable within thirty days of departure, equal to the sum of (i) 12 months of the executive s then-current annual base salary and (ii) the executive s bonus payable under the Company s Incentive Compensation Plan (ICP) for the year in which such termination occurred (calculated as if the executive and the Company each fully achieved any goals necessary for such target ICP bonus payment), though the executive may elect to have such benefit paid in approximately equal monthly installments over a 12-month period following the executive s termination date, provided that no payments shall be made after March 15th of the year following the year of the executive s involuntary termination. The executive (and his or her dependents, if otherwise entitled) would also receive 12 months of the same health benefits to which the executive had been entitled as an employee. The executives employment agreements do not provide for any gross-up with respect to the excise tax imposed on excess golden parachute payments under Section 280G of the Code, but the Company is obligated to pay the executives legal expenses in connection with any dispute as to the character of any payment to the executives for purposes of Code Section 280G.

While, as described above, the terms of the Company s employment agreement with Mr. Dunn provide for a severance payment based on an involuntary termination in connection with a change of control of the Company or within six months of such change of control, Mr. Dunn s employment agreement specifically provides that the merger contemplated by the Merger Agreement does not constitute a change of control, as Mr. Dunn entered into his employment agreement following the public announcement of the proposed merger. Therefore, upon an involuntary termination of Mr. Dunn s employment in connection with or within six months following the consummation of the merger, Mr. Dunn would receive his standard involuntary termination severance package, which includes 12 months of his then-current annual rate of base salary paid in 12 equal monthly installments,

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and a payment prior to March 15, 2011 in respect of the incentive compensation bonus payable to Mr. Dunn under the Company s 2010 Incentive Compensation Plan (ICP) calculated as if Mr. Dunn achieved 100% of his individual goals under the ICP and based upon the Company s actual achievement (if any) of its financial performance and/or other objectives set forth in the ICP, pro-rated through Mr. Dunn s termination date.

In addition, under the terms of the 2004 Plan, 2009 Plan, the executives employment agreements (as amended as applicable), the executives inducement stock option agreements (as applicable) and the approval by the Board on June 7, 2007 to amend the terms of certain executives outstanding stock options, upon an involuntary termination (not for cause) or immediately prior to the effective date of a change in control (without regard to whether the executive s employment is terminated in connection with such change in control), all of the executives unvested options will automatically vest and become exercisable. Under the ESPP, immediately prior to the effective time of the merger, which constitutes a corporate transaction under the ESPP, the then-current Purchase Interval (as such term is defined in the ESPP), if any, will terminate and Ms. Carlon s payroll deductions for such Purchase Interval will be applied to the purchase of shares of the Company s common stock at the applicable purchase price and in accordance with the terms of the ESPP. Ms. Carlon is the only executive officer who participates in the ESPP.

Based on the executives compensation levels as of December 31, 2009, and assuming that the merger is completed on March 15, 2010, and the executive experiences a qualifying termination immediately thereafter, the amount of the cash severance payment that would be payable to Mr. James is $2,175,000, to Mr. Piazza is $495,000, to Mr. Dunn is $330,000 (which amount is Mr. Dunn s cash severance payment in respect of an involuntary termination outside of a change in control), to Mr. Simpson is $495,000, and to Ms. Carlon is $277,500 and the estimated value of the health and disability insurance benefits they would receive is $17,976, $17,976, $17,976, $17,976 and $17,976, respectively. In all cases, receipt of the cash severance payment and other benefits upon such a qualifying termination is subject to the executive s execution of a general release of claims in favor of the Company.

Discretionary Bonus paid by the Company in Connection with the Merger

On January 15, 2010, the Compensation Committee of the Board approved the payment of a $60,000 discretionary bonus to Mr. Piazza, the Company s Executive Vice President, Chief Financial Officer and Chief Operating Officer, in recognition of his efforts and service to the Company at the direction of the Special Committee during its negotiation and related due diligence effort of the merger. Such bonus was paid by the Company at the instruction of the Compensation Committee and was neither proposed nor paid by Francisco Partners, the Parent or the Merger Sub.

Arrangements with the Surviving Corporation

The Parent has indicated its belief that the continued involvement of the Company s executive officers is integral to the Company s future success. Concurrently with the execution of the Merger Agreement, the Parent required Messrs. James, Piazza, and Simpson and Ms. Carlon, under their existing employment agreements with the Company, to execute letters with the Parent (the Waiver Letters) under which such executives waived their ability to voluntarily terminate their employment with the Company and claim an involuntary termination as a result of the execution of the Merger Agreement or other transaction agreement, consummation of the merger, abandonment or failure of the merger to be consummated, or any change in the executive s position with the Company that materially reduces his or her level of responsibility and that results from the delisting of the Company s shares from the NASDAQ Global Market, the termination of the Company s obligations to file periodic and current reports with the SEC or the Company becoming a wholly owned subsidiary of the Parent. In addition, pursuant to his Waiver Letter, Mr. James waived the right to voluntarily terminate his employment in connection with or within three months following a change in control and claim severance benefits. The Waiver Letters provide that the Parent will cause the executives employment agreements to remain in continued effect without any other waiver of rights following the consummation of the merger.

Except as provided in the Waiver Letters, as of the date of this proxy statement, no specific discussions have occurred between the Company s executive officers and representatives of the Parent, or any of its affiliates or subsidiaries with respect to employment, compensation, Board service or other matters relating to the executive s role in the surviving corporation, except that the Parent has stated that it plans, in general, to continue the employment terms and conditions of Messrs. James and Piazza under their existing employment agreements (as modified by their Waiver Letters), as noted in the preceding paragraph, it may grant options to purchase equity in the surviving corporation to Mr. James in an amount equal to 4% of the surviving corporation s common stock and Mr. Piazza in an amount of approximately 1-1.5% of such stock. It is anticipated that awards granted under any such equity-based compensation plans would generally vest over a number of years of continued employment and would entitle management to share in the future appreciation of the surviving corporation. Although it is likely that these members of our current management team will enter into arrangements with the Parent or its affiliates or subsidiaries regarding the right to participate in the equity of the Parent or an affiliate or subsidiary of the Parent, as of the date of this proxy statement, no discussions have occurred between members of the Company s current management and representatives of the Parent or its affiliates or subsidiaries, and there can be no assurance that any parties will reach an agreement. Except as disclosed in this proxy statement, there is no present or proposed material agreement, arrangement, understanding or relationship between the Parent, Merger Sub, Francisco Partners or any of their respective executive officers, directors, controlling persons or subsidiaries, on the one hand, and the Company or any of its executive officers, directors, controlling persons or subsidiaries, on the other hand.

Special Committee Fees

In accordance with the Board resolutions establishing the Special Committee, Mr. Robert L. Pevenstein, the chairman of the Special Committee was entitled to receive $15,000 per month for the three months between September 21, 2009 and December 21, 2009 for his services as chairman of the Special Committee, and the other members of the Special Committee, who are the Board s other independent and disinterested members, were entitled to receive $3,000 per month each for their services on the Special Committee for this three month period.

Indemnification of Directors and Officers

The Merger Agreement provides that from and after the closing date of the merger, the surviving corporation is obligated to indemnify, hold harmless and advance expenses, to the fullest extent required under the Company s indemnification agreements, the DGCL, and the surviving corporation s certificate of incorporation and by-laws, the present and former directors and officers of the Company and its subsidiaries for costs, claims and other liabilities arising out of or pertaining to matters existing or occurring at or prior to the closing date, including the merger and the other transactions contemplated by the Merger Agreement. The surviving corporation is also obligated to maintain the Company s existing officers and directors liability insurance coverage or to purchase tail insurance policies with a claims period of at least six years from the closing date of the merger, so long as the annual premium therefor is not in excess of 175% of the last annual premium paid prior to December 7, 2009, which was $276,000 in the aggregate. Also for a period of six years following the closing, the certificate of incorporation and by-laws of the surviving corporation must include provisions for exculpation of director liability, advancement of expenses and indemnification no less favorable than as set forth in the Company s certificate of incorporation and by-laws in effect on the date of the Merger Agreement for six years after the closing date of the merger.

Material U.S. Federal Income Tax Consequences of the Merger

General

The following is a summary of the material U.S. federal income tax consequences of the merger, if any, that are generally applicable to the beneficial owners of the Company s common stock or Series A Preferred Stock upon the exchange of such shares of common stock or Series A Preferred Stock for cash pursuant to the merger. The following description is just a summary and does not address or consider all elements of U.S. federal income

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taxation that could be relevant to you as a Company stockholder. This summary is based on current law, including the Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions, existing and proposed Treasury Regulations, and interpretations of the foregoing, all as of the most recent date. All of the foregoing authorities are subject to change (possibly with retroactive effect) and any such change may result in U.S. federal income tax consequences to a stockholder that are materially different from those described below. This summary does not address tax considerations under state, local, foreign, U.S. federal tax law other than income tax law, and other laws.

This summary assumes that you are a beneficial owner of the Company s common stock or Series A Preferred Stock who holds such shares as capital assets. The summary does not address all of the U.S. federal tax considerations that may affect certain stockholders, such as:

- persons who acquired shares of the Company s common stock in compensatory transactions (such as from the exercise of employee stock options or as other compensation) or benefit plans;
- persons who engage in transactions before, after or at the same time as the merger, whether or not the transactions are in connection with the merger, including without limitation the exercise or cancellation of stock options;
- persons who hold an equity interest in the Parent or the surviving corporation following the consummation of the merger;
- tax-exempt entities;
- certain financial institutions, mutual funds, regulated investment companies, insurance companies, S-corporations, partnerships or other pass-through entities;
- persons who exercise their appraisal rights under the DGCL;
- broker-dealers;
- persons who are beneficial owners of the Company s common stock or Series A Preferred Stock who are not U.S. Holders (as defined below);
- persons subject to the alternative minimum tax under the Code;
- traders in securities that elect to use a mark-to-market method of accounting:
- individual retirement accounts or tax-deferred accounts;
- dealers or traders in securities or foreign currencies;

- persons holding shares in connection with a hedging transaction, straddle, conversion transaction or a synthetic security or other integrated transaction; and
- stockholders whose functional currency is not the U.S. dollar;

For purposes of this proxy statement, a U.S. Holder means a beneficial owner of the Company s common stock or Series A Preferred Stock who is for U.S. federal income tax purposes:

- a U.S. citizen or resident;
- an alien who (1) has been present in the United States for at least 183 days in the current year, (2) has been present in the United States for at least 31 days in the current year and a sufficient number of days in the prior two years to meet the substantial presence test as set forth in applicable U.S. Treasury Regulations, or (3) has made a valid election under applicable U.S. Treasury Regulations to be treated as a resident alien;
- a corporation, partnership or other entity created or organized under the laws of the United States or any U.S. state or the District of Columbia;

- an estate whose income is includible in gross income for U.S. federal income tax purposes, regardless of its source; and

- a trust that (i) is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons or (ii) has a valid election in place under applicable U.S. Treasury Regulations to be treated as a domestic trust.

Exchange of Shares for Cash Pursuant to the Merger Agreement.

The receipt of cash in exchange for shares of the Company s common stock or Series A Preferred Stock will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. Holder will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received pursuant to the merger (determined before the deduction of any applicable withholding taxes) and the U.S. Holder s adjusted tax basis in the shares of the Company s common stock or Series A Preferred Stock, as the case may be, exchanged in the merger. A U.S. Holder s adjusted tax basis will generally equal the price the U.S. Holder paid for such shares. Gain or loss will be determined separately for each block of shares of the Company s common stock or Series A Preferred Stock (i.e., shares of stock acquired at the same cost in a single transaction). Such gain or loss will be long-term capital gain or loss provided that the U.S. Holder s holding period for such shares of common stock or Series A Preferred Stock is more than 12 months at the time of the completion of the merger. Long-term capital gains of non-corporate U.S. Holders are eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses. The gain or loss will generally be income or loss from sources within the U.S. for foreign tax credit limitation purposes.

Backup Withholding and Information Reporting

Backup withholding of tax at the rate of 28% may apply to cash payments to U.S. Holders or other payees pursuant to the merger, unless the U.S. Holder or other payee is a corporation or is otherwise in an exempt category (such as a financial institution or tax- exempt organization) or the U.S. Holder or other payee provides a taxpayer identification number, certifies that such number is correct, and otherwise complies with the backup withholding rules. Each beneficial owner of the Company s common stock or Series A Preferred Stock should complete and sign, under penalty of perjury, the substitute Form W-9 or W-8 included as part of the letter of transmittal and return it to the paying agent, in order to provide the information and certification necessary to avoid backup withholding, unless an exemption applies and is established in a manner satisfactory to the paying agent.

An amount withheld by the Company under the backup withholding tax rules is not an additional tax. Any amounts so withheld from cash payments pursuant to the merger will be allowable as a refund or a credit against such the taxpayer s U.S. federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service. Cash payments made pursuant to the merger may also be subject to information reporting unless an exemption applies.

The above discussion is merely a summary of U.S. federal income tax consequences and is not intended to constitute a complete description of all tax consequences relating to the merger. Your individual circumstances may differ, and we strongly encourage you to consult with your tax advisor regarding the applicability of the rules discussed above and other particular tax effects of the merger to you in light of your individual circumstances, the application of state, local and foreign tax laws, and, if applicable, the tax consequences of the receipt of cash in connection with the cancellation of options to purchase shares of the Company s common stock. Our view regarding the tax consequences of the merger is not binding on the Internal Revenue Service or the courts.

Appraisal Rights

Holders of shares of the Company s stock who do not vote in favor of the adoption of the Merger Agreement and approval of the merger and who properly demand appraisal of their shares will be entitled to

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appraisal rights in connection with the merger under Section 262 of the General Corporation Law of the State of Delaware (Section 262).

The following discussion is not a complete statement of the law pertaining to appraisal rights under the General Corporation Law of the State of Delaware and is qualified in its entirety by the full text of Section 262 that is attached to this proxy statement as Appendix C. The following summary does not constitute any legal or other advice nor does it constitute a recommendation that stockholders exercise their appraisal rights under Section 262.

Under Section 262, holders of shares of the Company s capital stock who do not vote in favor of the adoption of the Merger Agreement and approval of the merger and who otherwise follow the procedures set forth in Section 262 will be entitled to have their shares appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of the shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, as determined by the Delaware Court of Chancery, together with interest, if any, to be paid upon the amount determined to be the fair value.

Under Section 262, where a merger agreement is to be submitted for adoption at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders entitled to appraisal rights that appraisal rights are available and include in the notice a copy of Section 262. This proxy statement shall constitute the notice, and the full text of Section 262 is attached to this proxy statement as **Appendix C**. Any holder of the Company s capital stock who wishes to exercise appraisal rights, or who wishes to preserve such holder s right to do so, should review the following discussion and **Appendix C** carefully because failure to timely and properly comply with the procedures specified will result in the loss of appraisal rights. Moreover, because of the complexity of the procedures for exercising the right to seek appraisal of shares of capital stock, the Company believes that if a stockholder considers exercising such rights, such stockholder should seek the advice of legal counsel.

Filing Written Demand. Any holder of capital stock of the Company wishing to exercise appraisal rights must deliver to the Company, before the vote on the adoption of the Merger Agreement and approval of the merger at the Special Meeting at which the proposal to adopt the Merger Agreement and approve the merger will be submitted to the Company s holders of common stock, a written demand for the appraisal of the stockholder s shares, and that stockholder must not vote in favor of the adoption of the Merger Agreement and approval of the merger. A holder of shares of capital stock of the Company wishing to exercise appraisal rights must hold of record the shares on the date the written demand for appraisal is made and must continue to hold the shares of record through the effective time of the merger, since appraisal rights will be lost if the shares are transferred prior to the effective time of the merger. The holder must not vote in favor of the adoption of the Merger Agreement and approval of the merger. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the adoption of the Merger Agreement and approval of the merger, and it will constitute a waiver of the stockholder s right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a stockholder who submits a proxy and who wishes to exercise appraisal rights must submit a proxy containing instructions to vote against the adoption of the Merger Agreement and approval of the merger or abstain from voting on the adoption of the Merger Agreement and approval of the merger. Neither voting against the adoption of the Merger Agreement and approval of the merger, nor abstaining from voting or failing to vote on the proposal to adopt the Merger Agreement and approval of the merger, will in and of itself constitute a written demand for appraisal satisfying the requirements of Section 262. The written demand for appraisal must be in addition to and separate from any proxy or vote on the adoption of the Merger Agreement and approval of the merger. The demand must reasonably inform the Company of the identity of the holder as well as the intention of the holder to demand an appraisal of the fair value of the shares held by the holder. A stockholder s failure to make the written demand prior to the taking of the vote on the adoption of the Merger Agreement and approval of the merger at the Special Meeting of stockholders will constitute a waiver of appraisal rights.

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Only a holder of record of shares of the Company s capital stock is entitled to demand an appraisal of the shares registered in that holder s name. A demand for appraisal in respect of shares of the Company s capital stock should be executed by or on behalf of the holder of record, fully and correctly, as the holder s name appears on the holder s stock certificates, should specify the holder s name and mailing address and the number of shares registered in the holder s name and must state that the person intends thereby to demand appraisal of the holder s shares in connection with the merger. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the shares are owned of record by more than one person, as in a joint tenancy and tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including an agent for two or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose that, in executing the demand, the agent is acting as agent for the record owner or owners. If the shares are held in street name by a broker, bank or nominee, the broker, bank or nominee may exercise appraisal rights with respect to the shares held for one or more beneficial owners while not exercising the rights with respect to the shares held for other beneficial owners; in such case, however, the written demand should set forth the number of shares as to which appraisal is sought and where no number of shares is expressly mentioned the demand will be presumed to cover all shares of the Company s capital stock held in the name of the record owner. Stockholders who hold their shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

All written demands for appraisal pursuant to Section 262 should be sent or delivered to the Company at QuadraMed Corporation, Attn: Corporate Secretary, 12110 Sunset Hills Road, Reston, VA 20190.

At any time within 60 days after the effective time of the merger, any stockholder who has properly exercised appraisal rights but has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw his, her or its demand for appraisal and accept the consideration offered pursuant to the Merger Agreement by delivering to the Company, as the surviving corporation, a written withdrawal of the demand for appraisal. However, any such attempt to withdraw the demand made more than 60 days after the effective time of the merger will require written approval of the surviving corporation. No appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and such approval may be conditioned upon such terms as the Delaware Court of Chancery deems just; provided, however, that any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw his, her or its demand for appraisal and accept the merger consideration offered pursuant to the Merger Agreement within 60 days after the effective time of the merger. If the surviving corporation does not approve a request to withdraw a demand for appraisal when that approval is required, or, except with respect to any stockholder who withdraws such stockholder s right to appraisal in accordance with the proviso in the immediately preceding sentence, if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder will be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be less than, equal to or more than the consideration being offered pursuant to the Merger Agreement.

Notice by the Surviving Corporation. Within ten days after the effective time of the merger, the surviving corporation must notify each holder of the Company s capital stock who has made a written demand for appraisal pursuant to Section 262, and who has not voted in favor of the adoption of the Merger Agreement and approval of the merger, that the merger has become effective.

Filing a Petition for Appraisal. Within 120 days after the effective time of the merger, but not thereafter, the surviving corporation or any holder of the Company s capital stock who has complied with Section 262 and is entitled to appraisal rights under Section 262 may commence an appraisal proceeding by filing a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares held by all dissenting holders. The surviving corporation is under no obligation to and has no present intention to file a petition and holders should not assume that the surviving corporation will file a petition. Accordingly, it is the obligation of

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the holders of the Company s capital stock to initiate all necessary action to perfect their appraisal rights in respect of shares of the Company s capital stock within the time prescribed in Section 262. Within 120 days after the effective time of the merger, any holder of the Company s capital stock who has complied with the requirements for exercise of appraisal rights will be entitled, upon written request, to receive from the surviving corporation a statement setting forth the aggregate number of shares not voted in favor of the adoption of the Merger Agreement and approval of the merger and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. The statement must be mailed within ten days after a written request therefor has been received by the surviving corporation or within ten days after the expiration of the period for delivery of demands for appraisal, whichever is later. Notwithstanding the foregoing, a person who is the beneficial owner of shares of the Company s capital stock held either in a voting trust or by a nominee on behalf of such person may, in such person s own name, file a petition or request from the Company the statement described in this paragraph.

If a petition for an appraisal is timely filed by a holder of shares of the Company s capital stock and a copy thereof is served upon the surviving corporation, the surviving corporation will then be obligated within 20 days to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to the stockholders as required by the court, the Delaware Court of Chancery is empowered to conduct a hearing on the petition to determine those stockholders who have complied with Section 262 and who have become entitled to appraisal rights thereunder. The Delaware Court of Chancery may require the stockholders who demanded payment for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding; and if any stockholder fails to comply with the direction, the Delaware Court of Chancery may dismiss the proceedings as to the stockholder.

Determination of Fair Value. After the Delaware Court of Chancery determines the holders of the Company s capital stock entitled to appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Delaware Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding, the Delaware Court of Chancery shall determine the fair value of the shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. Unless the Delaware Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective time of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective time of the merger and the date of payment of the judgment.

In determining fair value, the Delaware Court of Chancery will take into account all relevant factors. In Weinberger v. UOP, Inc., the Supreme Court of Delaware discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court should be considered, and that fair price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court stated that, in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts that could be ascertained as of the date of the merger that throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In Cede & Co. v. Technicolor, Inc., the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In Weinberger, the Supreme Court of Delaware also stated that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered.

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Stockholders considering seeking appraisal should be aware that the fair value of their shares as so determined could be more than, the same as or less than the consideration they would receive pursuant to the merger if they did not seek appraisal of their shares and that an investment banking opinion as to fairness from a financial point of view is not necessarily an opinion as to fair value under Section 262. Although the Company believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the Delaware Court of Chancery, and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the merger consideration. Neither the Parent nor the Company anticipate offering more than the applicable merger consideration to any stockholder of the Company exercising appraisal rights, and reserve the right to assert, in any appraisal proceeding, that for purposes of Section 262, the fair value of a share of the Company s capital stock is less than the applicable merger consideration. The Delaware courts have stated that the methods which are generally considered acceptable in the financial community and otherwise admissible in court may be considered in the appraisal proceedings. In addition, the Delaware courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenting stockholder s exclusive remedy.

If a petition for appraisal is not timely filed, then the right to an appraisal will cease. The costs of the action (which do not include attorneys fees or the fees and expenses of experts) may be determined by the Delaware Court of Chancery and taxed upon the parties as the Delaware Court of Chancery deems equitable under the circumstances. Upon application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by a stockholder in connection with an appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts utilized in the appraisal proceeding, to be charged pro rata against the value of all the shares entitled to be appraised.

If any stockholder who demands appraisal of shares of the Company s capital stock under Section 262 fails to perfect, successfully withdraws or loses such holder s right to appraisal, the stockholder s shares of the Company s capital stock will be deemed to have been converted at the effective time of the merger into the right to receive the merger consideration pursuant to the Merger Agreement. A stockholder will fail to perfect, or effectively lose, the holder s right to appraisal if no petition for appraisal is filed within 120 days after the effective time of the merger. In addition, as indicated above, a stockholder may withdraw his, her or its demand for appraisal in accordance with Section 262 and accept the merger consideration offered pursuant to the Merger Agreement.

Failure to comply strictly with all of the procedures set forth in Section 262 of the General Corporation Law of the State of Delaware will result in the loss of a stockholder s statutory appraisal rights. Consequently, any stockholder wishing to exercise appraisal rights is urged to consult legal counsel before attempting to exercise those rights.

Claims and Litigation Related to the Transaction

On December 17, 2009, a purported stockholder class action complaint was filed in the Delaware Chancery Court against members of the Board, the Company, the Parent and Merger Sub seeking to enjoin the proposed transaction, entitled *Vincent Pirrello, Individually and On Behalf of All Others Similarly Situated, Plaintiff, v. Duncan James, James Peebles, Robert Pevenstein, Lawrence English, Robert Miller, William Jurika, QuadraMed Corporation, Bavaria Holdings Inc., and Bavaria Merger Sub, Inc., Defendants*, C.A. No. 5149-VCS. The complaint seeks certification of a class of all common stockholders of QuadraMed who have been allegedly harmed by the defendants actions challenged in the complaint. In particular, the complaint alleges that the defendant directors have breached their fiduciary and other duties and that the Company and Francisco Partners have aided and abetted such breaches of those fiduciary and other duties owed to the common stockholders. The complaint seeks entry of an order temporarily and permanently enjoining the proposed transaction, compensatory damages, costs and disbursements, including plaintiff s counsel s fees and experts fees, and other relief. On January 21, 2010, following the filing of the Company s preliminary proxy statement

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with the SEC, an amended complaint was filed, repeating substantially the same allegations as the original complaint and further alleging that certain of the Company s disclosures in its preliminary proxy statement were misleading or deficient.

The Company, Board, the Parent, and Merger Sub believe this lawsuit is without merit and intend to defend themselves vigorously.

On January 19, 2010, a purported stockholder class action was filed by a holder of Series A Preferred Stock in the Delaware Court of Chancery against members of the Board, the Company, Francisco Partners, the Parent and Merger Sub entitled *LC Capital Master Fund, Ltd., on behalf of itself and all other holders of the Series A Cumulative Mandatory Convertible Preferred Stock of QuadraMed Corporation, Plaintiff, v. Duncan James, James Peebles, Robert Pevenstein, Lawrence English, Robert Miller, William Jurika, QuadraMed Corporation, Francisco Partners II, L.P., Francisco Partners Parallel Fund II, L.P., Francisco Partners GP II, L.P., Francisco Partners GP II Management, LLC, Francisco Partners Management, LLC, Bavaria Holdings Inc., and Bavaria Merger Sub, Inc., Defendants*., C.A. No. 5214-VCS. The complaint seeks certification of a class of all holders of the Series A Preferred Stock who have allegedly been harmed by the defendants actions challenged in the complaint. In particular, the complaint alleges that the defendant directors have breached their fiduciary and other duties, that the defendant directors and the Company have breached their duty of disclosure, and that the Company and Francisco Partners have aided and abetted such breaches of those fiduciary and other duties owed to the holders of the Series A Preferred Stock. The complaint seeks entry of an order temporarily and permanently enjoining the proposed transaction, compensatory damages, costs and disbursements, including plaintiff s counsel s fees and experts fees, and other relief.

The Company, Board, Francisco Partners, the Parent, and Merger Sub believe this lawsuit is without merit and intend to defend themselves vigorously.

On January 23, 2010, the Board and Francisco Partners received a letter dated January 22, 2010 from a law firm purporting to represent MacKay Shields LLC, Zazove Associates, LLC and Concordia Partners, L.P., whose clients purportedly collectively own approximately 91% of the Series A Preferred Stock. The letter alleges that the terms of the Series A Preferred Stock do not permit the Company to cash out the Series A Preferred Stock in the merger in the manner proposed by the Merger Agreement (by treating the Series A Preferred Stock on an as-converted basis, resulting in merger consideration of $13.7097 per share of Series A Preferred Stock). The letter further alleges that the Company s Board has breached its fiduciary duties to the holders of the Series A Preferred Stock, that that the holders of Series A Preferred Stock are not receiving adequate consideration in the merger and that the fair value of the Series A Preferred Stock is higher than the as-converted consideration to be received by the holders of the Series A Preferred Stock in the merger. The Board and Francisco Partners believe that these threats are without merit and will defend vigorously any claims raised against such parties in any related lawsuit.

THE AGREEMENT AND PLAN OF MERGER

The following sections describe the material provisions of the Agreement and Plan of Merger by and among QuadraMed Corporation, Bavaria Holdings, Inc., and Bavaria Merger Sub, Inc., dated December 7, 2009, as it may be amended from time to time (the Merger Agreement). The summary of the material terms of the Merger Agreement below and elsewhere in this proxy statement is qualified in its entirety by reference to that agreement, a copy of which is attached to this proxy statement as Appendix A, and which is incorporated by reference into this document. This summary may not contain all of the information about the Merger Agreement that is important to you. You are encouraged to read carefully the Merger Agreement in its entirety.

The Merger Agreement contains representations and warranties that QuadraMed, the Parent, and Merger Sub made to each other as of specific dates. This description of the representations and warranties is included to provide QuadraMed s stockholders with information regarding the terms of the Merger Agreement. The assertions embodied in these representations and warranties were made for purposes of the Merger Agreement and the closing conditions under the Merger Agreement, were made for the benefit of the other parties to the Merger Agreement, were made as of specific dates and have been used for purposes of allocating risk among QuadraMed, the Parent, and Merger Sub and providing contractual rights and remedies to the parties if those statements are or prove to be incorrect, rather than establishing matters of fact. The representations and warranties were subject to certain qualifications, limitations and exceptions agreed to by QuadraMed, the Parent and Merger Sub in connection with negotiating the terms of and executing the Merger Agreement. Moreover, certain of the representations and warranties made in the Merger Agreement as of a specified date may be subject to contractual standards of materiality different from those generally applicable to stockholders. Although the representations and warranties in the Merger Agreement may not constitute the actual state of facts about the parties to the Merger Agreement as of a specific date, any specific material facts of which QuadraMed is currently aware that materially qualify the representations and warranties in the Merger Agreement have been disclosed in this proxy statement or in the information incorporated by reference herein, as applicable. Please refer to the sections entitled Representations and Warranties and Conditions to the Merger below for a further discussion of the conditions to closing the merger.

The Merger

Structure. Upon the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company, the separate corporate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation.

Governing Documents. At the effective time of the merger, the Company s certificate of incorporation, as in effect immediately prior to the effective time of the merger, will become the certificate of incorporation of the surviving corporation. At the effective time of the merger, the bylaws of Merger Sub, as in effect immediately prior to the effective time of the merger, will become the bylaws of the surviving corporation.

Effective Time. The closing of the merger will take place on a date to be specified by the Company, the Parent and Merger Sub, which shall be no later than the fifth business day after the satisfaction or waiver of the closing conditions set forth in the Merger Agreement (other than those conditions that by their terms are to be satisfied at the closing, but subject to the satisfaction or waiver of those conditions). Immediately after the closing, the parties will cause the merger to be consummated by filing a certificate of merger with the Secretary of State of the State of Delaware and make all other filings or recordings required under the DGCL in connection with the merger. The merger will become effective at the time the certificate of merger is duly filed with the Secretary of State of the State of Delaware, or at such later time as the Parent and the Company may specify in the certificate of merger.

Directors and Officers. The directors of Merger Sub immediately prior to the effective time of the merger will be the directors of the surviving corporation and the officers of Merger Sub immediately prior to the

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effective time of the merger will be the officers of the surviving corporation, in each case until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the surviving corporation s certificate of incorporation and bylaws.

Merger Consideration

Company Common Stock. Each share of the Company s common stock issued and outstanding immediately prior to the effective time of the merger, other than treasury shares or dissenting shares (as discussed below), will be converted into the right to receive $8.50 in cash, without interest, from the surviving corporation and all such shares will automatically be cancelled and the holder will not have any other rights other than to receive such consideration.

Company Preferred Stock. Each share of the Company s Series A Preferred Stock issued and outstanding immediately prior to the effective time of the merger, other than treasury shares or dissenting shares (as discussed below), to the extent not converted by the holder thereof into shares of the Company s common stock prior to the effective time of the merger, will be converted into the right to receive $13.7097 in cash, without interest, from the surviving corporation and all such shares will automatically be cancelled and the holder will not have any other rights other than to receive such consideration.

Treasury Stock and Parent-Owned Stock. Each share of the Company s common stock or Series A Preferred Stock that is owned directly or indirectly by the Company as treasury stock or by the Parent, Merger Sub or any subsidiary of the Parent or the Company immediately prior to the effective time of the merger will automatically be cancelled and will cease to exist, and no cash or other consideration will be paid or delivered in exchange therefor.

Merger Sub Common Stock. Each share of common stock of Merger Sub issued and outstanding immediately prior to the effective time of the merger will be converted into one share of common stock of the surviving corporation.

Payment of Merger Consideration and Surrender of Stock Certificates. Prior to the effective time of the merger, the Parent will designate a bank or trust company to act as the paying agent for the payment of merger consideration to applicable holders of Company securities. Promptly after the effective time of the merger, such paying agent will mail to each holder of record of an outstanding share of the Company s common stock or Series A Preferred Stock (i) a letter of transmittal and (ii) instructions for use in effecting the surrender of stock certificates or book entry shares in exchange for the payment of the consideration described above to be made to the holder of such certificates or book entry shares. Upon surrender of a certificate or book entry share for cancellation to the paying agent, together with a duly completed and validly executed letter of transmittal, and such other documents as may be reasonably required pursuant to such instructions, the holder of such certificate or book entry share shall be entitled to receive the applicable consideration for each share of the Company s common stock or Series A Preferred Stock formerly represented by such certificate or book entry share, and such certificate or book entry share so surrendered will be cancelled. No interest will be paid or accrued for the benefit of holders of the shares of the Company s common stock or Series A Preferred Stock.

Stockholders should not return their stock certificates with the enclosed proxy card and should not forward stock certificates to the paying agent without a letter of transmittal.

Stockholders will not be entitled to receive the per share merger consideration until they deliver a duly completed and validly executed letter of transmittal to the paying agent. If a stockholder s shares are certificated, the stockholder must also surrender the stock certificate(s) to the paying agent. If a stockholder s ownership of shares is not registered in the transfer records of the Company, the certificate or book entry shares formerly representing the shares, all documents reasonably satisfactory to the surviving corporation required to evidence and effect such transfer, and payment of any transfer or other taxes required by reason of such payment or establish to the satisfaction of the Parent and the Company that such tax has been paid or is not applicable must be presented to the paying agent before the paying agent provide the merger consideration.

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Dissenting Shares. A holder of the Company s common stock or Series A Preferred Stock may exercise stockholders appraisal rights available under Section 262 of the DGCL, which is included with this proxy statement as **Appendix C**. The shares of the Company s common stock or Series A Preferred Stock held by holders who have properly exercised stockholders appraisal rights will not be converted into the right to receive the consideration discussed above.

Company Stock Options. As of the effective time of the merger, all outstanding options to purchase shares of the Company s common stock will be cancelled and each holder of any such stock option will receive an amount of cash (without interest) equal to the product of (x) the total number of shares of Company common stock subject to such stock option multiplied by (y) the amount, if any, by which $8.50 exceeds the exercise price per share of Company common stock under such stock option, less applicable taxes. Immediately following the effective time of the merger, the Parent will assume the Company stock plans and any rights, obligations and liabilities of the Company thereunder.

ESPP. In accordance with the terms of Company s 2008 Employee Stock Purchase Plan (the ESPP), immediately prior to the effective time of the merger, the then-current Purchase Interval (as such term is defined in the ESPP), if any, will terminate and each participant s payroll deductions for such Purchase Interval will be applied to the purchase of shares of the Company s common stock at the applicable purchase price and in accordance with the terms of the ESPP.

Representations and Warranties

The Company made certain representations and warranties to the Parent and Merger Sub relating to, among other things:

- the Company s and its subsidiaries organization, valid existence, good standing and proper qualification;
- requisite corporate power and authority to execute and deliver the Merger Agreement and enter into the transactions contemplated by the Merger Agreement;
- the binding effect of the Merger Agreement;
- the capitalization and capital structure of the Company;
- the subsidiaries of the Company;
- required reports and filings to be made with, and consents and approvals to be obtained from, governmental authorities in connection with or as a result of the merger;
- the absence of any violation of, or conflict with, the organizational documents of the Company or its subsidiaries, applicable law or certain agreements as a result of entering the transactions contemplated by the Merger Agreement;
- documents the Company has filed with the SEC since January 1, 2006;
- the preparation of the consolidated financial statements of the Company and its subsidiaries in accordance with United States generally accepted accounting principles (GAAP) on a consistent basis and in compliance with applicable SEC rules and regulations;

the amount of cash, marketable securities and working capital held by the Company and its subsidiaries on a consolidated basis;

the Company s maintenance of a standard system of accounting established and administered in accordance with GAAP;

the Company s compliance with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder;

the accuracy of information supplied by the Company in this proxy statement and all other documents to be filed with the SEC or any other governmental entity in connection with the merger;

the absence of undisclosed liabilities;

the conduct of the Company and its subsidiaries in the ordinary course of business and consistent with past practice since December 31, 2008;

the Company s and each of its subsidiaries possession of all requisite corporate power and authority to own and operate all of its property and assets and to carry on its business as currently conducted, including the possession of good and valid title, free and clear of all material liens, to its assets and real property;

the Company s ownership of and leases to real property;

all litigation pending or threatened against the Company or any of its subsidiaries;

possession of material permits required for the Company s and its subsidiaries businesses;

the Company s and its subsidiaries compliance with applicable laws and governmental orders, and the absence of any pending or threatened material governmental investigations or reviews;

insurance coverage and policies;

environmental matters;

tax matters;

matters with respect to certain material contracts;

the Company s and its subsidiaries intellectual property;

the Company s employment compensation plans, policies, agreements and arrangements;

the absence of any labor strike, dispute, walk-out, work stoppage, slow-down, lockout, or collective bargaining or similar agreement involving Company or any of its Subsidiaries;

the absence of any proceeding asserting that Company or any of its subsidiaries has committed a violation of law relating to employee matters, including those related to wages, hours, immigration and naturalization, collective bargaining, occupational safety or health standards, employment discrimination, and the payment and withholding of taxes;

the absence of any undisclosed agreement, arrangement or transaction pursuant to which any director or officer (or any of his or her affiliates) of the Company or any of its subsidiaries sold, transferred, pledged, assigned or otherwise disposed of, or entered into any contract, option or other arrangement or understanding with respect to the sale, transfer, pledge, assignment or other disposition of, any shares of Company common stock during the period commencing six months prior to the date of the Merger Agreement through the date of the Merger Agreement;

the Company s customers and vendors;

the payment of brokerage fees, commissions and finders fees in connection with the transactions contemplated by the Merger Agreement;

receipt of a fairness opinion from the Company s financial advisor;

receipt of approval to adopt of the Merger Agreement and approve the transactions contemplated thereby by the holders of the Company s common stock, and that such approval is the only approval of holders of any class or series of the capital stock of Company required to adopt the Merger Agreement and approve the transactions contemplated thereby;

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- the exemption of the transactions contemplated by the Merger Agreement from applicable State of Delaware anti-takeover regulations; and
- the compliance by the Company, its subsidiaries, and their respective directors, officers, agents and employees with laws regarding contributions, gifts, and expenses related to political activity; payments to foreign or domestic government officials, employees, political parties or campaigns; and criminal bribery.

Many of the representations and warranties in the Merger Agreement made by the Company are qualified by a materiality or material adverse effect standard (i.e., they will not be deemed to be untrue or incorrect unless their failure to be true or correct, individually or in the aggregate, would, as the case may be, be material or have a material adverse effect to the Company). For purposes of the Merger Agreement, a material adverse effect to the Company means any event, circumstance, occurrence, state of facts, change or effect that, individually or in the aggregate with any other events, circumstances, occurrences, states of facts, changes and effects, is or is reasonably likely to be materially adverse to (i) the business, condition, assets, liabilities or results of operations of the Company and its subsidiaries taken as a whole or (ii) the ability of the Company to consummate the merger and the other transactions contemplated by the Merger Agreement. For purposes of the Merger Agreement, the definition of material adverse effect to the Company excludes any adverse effect resulting from or arising out of:

- changes in general economic or business conditions, including changes in the U.S. securities markets;
- conditions generally affecting the industry in which the Company operates;
- acts of war (whether declared or undeclared), sabotage, terrorism, military action or any escalation or worsening thereof;
- any cancellation of or delays in customer orders or work for clients, any reductions in sales, or any disruption in licensor, vendor, partner or similar relationships or any loss of employees, which the Company can demonstrate in each case is primarily and directly attributable to the execution of the Merger Agreement, the announcement of the Merger Agreement or the pendency or consummation of the transactions contemplated by the Merger Agreement;
- changes in U.S. GAAP or changes in the interpretation of U.S. GAAP, or changes in the accounting rules and regulations of the SEC;
- any other action taken at the written request of the Parent or Merger Sub;
- any demand for appraisal under Section 262 of the DGCL made by holders of the Company s common stock or Series A Preferred Stock and any litigation brought or threatened by holders of the Company s common stock or Series A Preferred Stock to the extent asserting allegations of breach of fiduciary duty relating to the adoption of the Merger Agreement by the Board or the Special Committee or violations of securities laws in connection with this proxy statement;
- any changes of any U.S. or non-U.S. federal, state or local law, statute, ordinance, code, rule, regulation, judgment, order, injunction, decree, arbitration award, agency requirement, license, authorization or permit of any governmental entity; or
- a decline in the trading price or trading volume of the Company s common stock and any failure in and of itself by the Company to meet analysts published revenue or earnings predictions or any internal or disseminated projections, forecasts or revenue or earnings predictions for any period ending (or for which revenues or earnings are released) on or after the date of the Merger Agreement (provided that, the underlying causes of any such decline or failure may be considered in determining whether there has been a

material adverse effect to the Company).

Except that, with respect to the first, second, third, fifth or eighth bullet points immediately above, in the event any such event, circumstance, occurrence, state of facts, change or effect has had a disproportionate effect on the

Company and its subsidiaries, taken as a whole, compared to other persons engaged in the industry in which the Company operates, such event, circumstance, occurrence, state of facts, change or effect shall be considered in determining whether a material adverse effect to the Company has occurred.

The Parent and Merger Sub made certain representations and warranties to the Company relating to, among other things:

- the Parent s and Merger Sub s organization, valid existence, good standing and proper qualification;
- requisite corporate power and authority to execute and deliver the Merger Agreement and enter into the transactions contemplated by the Merger Agreement;
- the binding effect of the Merger Agreement;
- the absence of any violation of, or conflict with, the organizational documents of the Parent and Merger Sub, applicable law or certain agreements as a result of entering the transactions contemplated by the Merger Agreement;
- required reports and filings to be made with, and consents and approvals to be obtained from, governmental authorities in connection with or as a result of the merger;
- the Parent s and Merger Sub s compliance with applicable laws and governmental orders, and the absence of any pending or threatened material governmental investigations or reviews;
- the accuracy of information supplied by the Parent in this proxy statement and all other documents to be filed with the SEC or any other governmental entity in connection with the merger;
- the availability of sufficient funds to consummate the transactions contemplated by the Merger Agreement;
- the absence of prior activities of Merger Sub other than in connection with the transactions contemplated by the Merger Agreement;
- the absence of a requirement that the stockholders of the Parent further approve the transactions contemplated by the Merger Agreement;
- the absence of ownership of Company securities by the Parent and Merger Sub;
- the acknowledgement by the Parent and Merger Sub that certain materials provided by the Company contain projections and other forecasts, that there are uncertainties inherent in attempting to make such projections and other forecasts, that each of the Parent and Merger Sub is familiar with such uncertainties, and that neither the Company nor any person acting on behalf of Company has made any representation or warranty with respect to such projections and other forecasts; and

the binding effect of the limited guarantee issued by affiliates of the Parent in connection with the execution of the Merger Agreement.

Covenants of the Parties

The Company has agreed in the Merger Agreement that from the date of the Merger Agreement until the closing date of the merger, unless it receives the Parent s written consent or has otherwise disclosed in its disclosure schedules to the Merger Agreement or is otherwise expressly permitted by the Merger Agreement:

the Company and its subsidiaries will conduct their businesses in the ordinary course of business consistent with past practice;

the Company and its subsidiaries will use commercially reasonable efforts to preserve their business organizations, keep available the services of the current officers and employees and consultants of the Company and its subsidiaries, maintain its existing relations and goodwill with customers, suppliers and other persons with which Company or any of its subsidiaries has significant business relations, maintain and keep material properties and assets in good repair and condition, and maintain in effect all governmental permits pursuant to which the Company or any of its subsidiaries currently operates; and

the Company will declare, set aside and pay all dividends to be declared, set aside or paid on the Company s Series A Preferred Stock pursuant to the Company s certificate of incorporation in respect of each dividend payment record date after the date of the Merger Agreement and prior to the effective time of the merger.

In addition, the Company has agreed that, unless it receives written consent of the Parent or has otherwise disclosed in its disclosure schedules to the Merger Agreement or is otherwise expressly permitted by the Merger Agreement, the Company will not and will cause its subsidiaries not to:

split, combine or reclassify its outstanding shares of capital stock;

other than payments of dividends to holders of Series A Preferred Stock in respect of each dividend payment record date after the date of the Merger Agreement and prior to the Effective Time or to wholly owned subsidiaries in the ordinary course of business and in a manner consistent with past practice, declare, set aside or pay dividends or distributions to holders of the Company s securities;

redeem, repurchase or otherwise acquire any shares of its capital stock or any securities convertible into or exchangeable or exercisable for any shares of its capital stock (except as required under the Company s stock plans);

issue, sell, pledge, dispose of, grant or encumber any shares of, or securities convertible into or exchangeable or exercisable for, or options, warrants, calls, commitments or rights of any kind to acquire any shares of its capital stock of any class or any debt instruments that convey voting rights to their holders (other than the issuance of shares pursuant to the exercise of an option to purchase Company common stock outstanding on the date of the Merger Agreement under the Company stock plans or pursuant to the conversion of shares of Series A Preferred Stock);

issue, sell, pledge, dispose of, grant or encumber any assets (including cash, cash equivalents or marketable securities) of the Company or any of its subsidiaries, except in the ordinary course of business and in a manner consistent with past practice;

transfer, lease, license, guarantee, sell, mortgage, pledge, dispose of or encumber any of its property or assets (including capital stock of any of any of the Company s subsidiaries) other than in the ordinary course of business and in a manner consistent with past practice and other than transactions not in excess of $100,000 in the aggregate in any calendar year;

acquire or invest in assets or stock in any transaction or any series of transactions for an aggregate purchase price, including the assumption of any debt, in excess of $100,000 in the aggregate in any calendar year, except for acquisitions mandated by binding legal commitments existing on the date of the Merger Agreement;

incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for, the obligations of any person or entity, or make any loans or advances, or grant any security interest in any of its assets except in the ordinary course of business and in a manner consistent with past practice;

enter into any contract or agreement that contemplates an exchange of value in excess of $100,000 over the life of such contract or agreement, other than in the ordinary course of business and in a manner consistent with past practice;

authorize, or make any commitment with respect to, any single capital expenditure which is in excess of $100,000 or capital expenditures which are, in the aggregate, in excess of $1,000,000 for the Company and its subsidiaries taken as a whole; provided, that the Company will consult with the Parent on all capital expenditures in excess of $100,000 and will give good-faith

consideration to the Parent s comment on such expenditures;

enter into or, except in the ordinary course of business and in a manner consistent with past practice, terminate, modify or amend, any material contract;

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waive, release, relinquish or assign any material contract (or any of the material rights of Company or any of its subsidiaries thereunder), right or claim, that is material to the Company and its subsidiaries taken as a whole,

grant any power of attorney;

cancel or forgive any material indebtedness owed to the Company or any of its subsidiaries;

adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, recapitalization or other similar reorganization of the Company or any subsidiary of the Company;

engage in reductions in force, or grant any severance or termination pay to any individual;

hire additional employees except to fill open positions identified on the disclosure schedules to the Merger Agreement or to replace non-executive employees who terminate their employment with the Company or a subsidiary after the date of the Merger Agreement at a salary and other compensation not greater than that paid to the employee being replaced;

enter into, amend or modify (other than any amendment or modification otherwise required by the Merger Agreement or as necessary to comply with an effective judgment, decree, injunction or other order issued by an administrative agency, administrative tribunal, or court of competent jurisdiction) any employment agreement or offer letter with any person except for entering into offer letters in accordance with the immediately preceding paragraph;

terminate, establish, adopt, enter into, make any new grants (other than any grant or award of benefits necessary to comply with an effective judgment, decree, injunction or other order issued by an administrative agency, administrative tribunal, or court of competent jurisdiction) under, amend or otherwise modify any material Company benefit plan or any other employee benefit plan;

increase the salary, wage, bonus or other compensation of any employees;

provide for any transaction or incentive bonus, stay-put or other similar compensatory payments to any Company or subsidiary employee as a result of the execution of the Merger Agreement or the consummation of the transactions contemplated thereby;

enter into any collective bargaining agreement;

fail to maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are consistent with the insurance maintained by the Company and its subsidiaries in the ordinary course of business and in a manner consistent with past practice;

amend or change any organizational documents of the Company or any of its subsidiaries;

change any accounting principle, practice or method in a manner that is inconsistent with past practice, except in the ordinary course of business or as may be required by applicable law and except to the extent required by GAAP as advised in writing by its current

registered independent accountants;

take any action that could reasonably be expected to result in (i) any of the conditions to the merger not being satisfied or (ii) otherwise prevent or materially impair or delay the ability of the Company to consummate the merger or the other transactions contemplated by the Merger Agreement;

outside the ordinary course of business consistent with past practice, propose or consent to any material change to the pricing of any products sold by the Company, or offer any material discounts to any customers of the Company;

fail to (i) timely file all income and other required material tax returns, (ii) timely pay all material taxes due and payable, or (iii) promptly notify the Parent of any action, suit, proceeding, investigation, audit or claim pending against or with respect to the Company or any subsidiary of the Company in respect of any material amount of tax of which the Company has been notified in writing;

settle or compromise any material income tax liability;

except as required by applicable law or GAAP, (i) request a tax ruling, (ii) amend any tax return, (iii) file any tax return in a manner that is materially inconsistent with past custom and practice, (iv) make or rescind any material election relating to taxes, (v) settle or compromise any material claim, action, suit, litigation, arbitration, investigation, audit or controversy relating to taxes, or (vi) make any material change to any of its methods of accounting or methods of reporting income or deductions for tax or accounting practice or policy from those employed in the preparation of its most recent tax return;

grant any license or other right under, fail to assert, or sell, allow to lapse, encumber or otherwise dispose of, any intellectual property right of the Company, except license agreements entered into in the ordinary course of business and in a manner consistent with past practice that provide customers with the non-exclusive, non-transferable, non-sublicenseable right to use the Company software internally solely in object code form for such customer s (or its affiliates) benefit, but provides no: (i) exclusivity to such customers or restrictions on the ability of the Company to conduct any business; (ii) rights to distribute Company software or make any modifications thereto, or (iii) most favored nation commitments to such customers;

enter into, amend or modify any agreement, contract or instrument currently in effect that obligates the Company not to compete with any business or activity, whether within a certain geographic area or otherwise, or which restricts the right of the Company to use or disclose any information in its possession (excluding in each case customary restrictive covenants contained in agreements entered into in the ordinary course of business and in a manner consistent with past practice and acceptable confidentiality agreements entered in compliance with certain provisions of the Merger Agreement);

enter into, amend or modify any indemnification, consulting, collective bargaining or other agreement between the Company and any of its officers or directors, or other employees or consultants of the Company who are entitled to compensation thereunder in excess of $100,000 per year;

outside of the ordinary course of business, make any materially adverse change in pricing or royalties charged by the Company or any of its subsidiaries to its customers or licensees or in pricing or royalties set or charged under existing license or royalty agreements by persons or entities who are licensing intellectual property to the Company or any of its subsidiaries;

take any action to render inapplicable, or to exempt any third party from, any standstill arrangements or the restrictions contained in Section 203 of the DGCL applicable to a business combination (as defined in Section 203);

commence or settle any litigation, suit, claim or proceeding, other than in an amount less than $100,000;

fail to make in a timely manner any filings with the SEC required under the Securities Act of 1933 or the Securities Exchange Act of 1934 or the rules and regulations promulgated thereunder;

accelerate or delay collection of notes or accounts receivable in advance of or beyond their regular due dates, or revalue, discount or write off any notes or accounts receivable, other than in the ordinary course of business and in a manner consistent with past practice;

delay the payment of any accounts payable or other liabilities; or

authorize or enter into an agreement to do anything prohibited by any of the foregoing.

The Merger Agreement also contains a covenant of no solicitation which provides the following:

The Company has agreed that from the date of the Merger Agreement until the earlier of the termination of the Merger Agreement or the closing date of the merger, the Company will not, and will cause its subsidiaries and its and their respective representatives not to:

- initiate, solicit or knowingly encourage the submission of any inquiries, proposals or offers that constitute or may reasonably be expected to lead to, any acquisition proposal (as defined below); or

engage in any discussions or negotiations with respect to any acquisition proposal, or otherwise cooperate with or assist or participate in, or knowingly facilitate any such inquiries, proposals, offers, discussions or negotiations; or

approve or recommend, or publicly propose to approve or recommend, an acquisition proposal, or enter into any merger agreement, letter of intent, agreement in principle, share purchase agreement, asset purchase agreement or share exchange agreement, option agreement or other similar agreement relating to an acquisition proposal; or

enter into any agreement or agreement in principle requiring the Company to abandon, terminate or fail to consummate the transactions contemplated the Merger Agreement or requiring the Company to materially breach its obligations under the Merger Agreement; or

resolve, propose or agree to do any of the foregoing.

The Company has also agreed:

to immediately cease and (A) cause to be terminated any solicitation, encouragement, discussion or negotiation with any person or entity previously conducted by the Company, its subsidiaries or any of its representatives with respect to any acquisition proposal, (B) cause to be terminated any access such person or entity may have to any physical or virtual data room maintained by or on behalf of the Company and (C) enforce the right to cause to be returned or destroyed in accordance with the terms of the applicable confidentiality agreement any confidential information provided to such person or entity on behalf of the Company or any of its subsidiaries;

to promptly (within 48 hours) notify the Parent in the event that the Company or any of its subsidiaries or its or their respective representatives receives any acquisition proposal, any request for information relating to the Company or any of its subsidiaries other than requests for information in the ordinary course of business and unrelated to an acquisition proposal, or any inquiry or request for discussions or negotiations regarding any acquisition proposal;

to promptly (within 48 hours) notify the Parent of the identity of any person or entity making any acquisition proposal, inquiry or request referenced in the immediately preceding paragraph and provide a copy of such acquisition proposal, inquiry or request (or, where no such copy is available, a written description of such acquisition proposal, inquiry or request), including any material modifications thereto;

to promptly (within 24 hours) notify the Parent in the event that the Company or any of its subsidiaries or its or their respective representatives enters into an confidentiality agreement permitted under the non-solicitation provisions of the Merger Agreement with the person or entity making any acquisition proposal, inquiry or request, and provide an executed copy of such confidentiality agreement;

to keep the Parent reasonably informed on a reasonably prompt basis (and in any event no later than 24 hours) after the occurrence of any changes or developments of the status of any acquisition proposal, inquiry or request, including by furnishing the Parent with copies of any written inquiries, correspondence and draft documentation;

to promptly (within 24 hours) notify the Parent if it determines to begin providing or making available information or to engage in discussions or negotiations concerning an acquisition proposal;

not to, and to cause its subsidiaries not to, enter into any confidentiality agreement with any person or entity (other than confidentiality agreements permitted under the non-solicitation provisions of the Merger Agreement);

not to, and to cause its subsidiaries not to, enter into any agreement that prohibits the Company from providing or making available to the Parent or Merger Sub any information provided or made available to any other person or entity pursuant to a confidentiality agreement; and

not to, and to cause its subsidiaries not to, terminate, waive, amend, modify or fail to enforce any provision of, or grant permission or request under, any standstill agreement or confidentiality agreement (other than any confidentiality agreement that is not related to an acquisition proposal) to which the Company or any of its subsidiaries is a party.

However, notwithstanding the Company s non-solicitation obligations, if at any time following the date of the Merger Agreement and prior to the adoption of the Merger Agreement by the holders of the Company common stock, (i) the Company has received a written acquisition proposal from a third party that the Board (or the Special Committee) believes in good faith to be bona fide, (ii) the Company has not knowingly, intentionally or materially breached its non-solicitation obligations under the Merger Agreement, (iii) the Board (or the Special Committee) determines in good faith, after consultation with its financial advisors and outside counsel, that such acquisition proposal constitutes or would reasonably be expected to result in a superior proposal (as defined below) and (iv) after consultation with its outside counsel, the Board (or the Special Committee) determines in good faith that failure to take such action would be inconsistent with its fiduciary duties to the stockholders of the Company under applicable law, then the Company may (A) furnish information with respect to the Company and its subsidiaries to the third party making such acquisition proposal and (B) participate in discussions or negotiations with such third party regarding such acquisition proposal; provided, that the Company (x) will not, and will not allow its subsidiaries and their respective representatives to, disclose any non-public information to such third party without first entering into an confidentiality agreement with such third party on terms that are in the aggregate no less favorable to the Company than those contained in the confidentiality agreement between the Company and the Parent and (y) will promptly provide or make available to the Parent any non-public information concerning the Company or its subsidiaries provided or made available to such third party which was not previously provided or made available to the Parent.

Also, notwithstanding the Company s non-solicitation obligations, the Board (or the Special Committee) may at any time prior to the adoption of the Merger Agreement by the holders of the Company common stock, if it determines in good faith, after consultation with outside counsel, that the failure to take such action would be inconsistent with its fiduciary duties to the stockholders of the Company under applicable law: (x) withdraw, modify or qualify, or propose publicly to withdraw, modify or qualify, in a manner adverse to the Parent or Merger Sub, the recommendation of the Board (or the Special Committee) that the holders of the Company common stock adopt the Merger Agreement and approve the transactions contemplated thereby; approve, recommend or endorse, or propose publicly to approve, recommend or endorse, any acquisition proposal; or make other statements that are reasonably calculated or expected to have the same effect; and/or (y) if the Company receives an acquisition proposal which the Board (or the Special Committee) concludes in good faith, after consultation with outside counsel and its financial advisors, constitutes a superior proposal, after considering all of the adjustments to the terms of the Merger Agreement which may be offered by the Parent, terminate the Merger Agreement and enter into a definitive agreement with respect to such superior proposal (provided that the Company concurrently enters into such definitive agreement); provided, however, that the Company may not terminate the Merger Agreement pursuant to the foregoing clause, unless in advance of or concurrently with such termination the Company pays the applicable termination fee and otherwise complies with the termination provisions of the Merger Agreement; and provided further that neither the Board nor the Special Committee may withdraw, modify or amend its recommendation in a manner adverse to the Parent or terminate the Merger Agreement unless (A) the Company shall not have knowingly, intentionally or materially breached its non-solicitation obligations and (B):

the Company shall have provided prior written notice to the Parent at least five days in advance of its intention to take such action with respect to such superior proposal, which notice shall specify the material terms and conditions of any such superior proposal (including the identity of the party making such superior proposal), and shall have contemporaneously provided a copy of the relevant proposed transaction agreements with the party making such superior proposal and other material documents; and

prior to effecting any change in the recommendation of the Board (or the Special Committee) or terminating the Merger Agreement to enter into a definitive agreement with respect to such superior

proposal, the Company shall negotiate with the Parent in good faith (to the extent the Parent desires to negotiate) to make such adjustments in the terms and conditions of the Merger Agreement so that such acquisition proposal ceases to constitute a superior proposal.

As used in the Merger Agreement, acquisition proposal means any inquiry, proposal or offer from any person or entity or group of persons or entities other than the Parent, Merger Sub or their respective affiliates relating to any acquisition or purchase of a business that constitutes 15% or more of the consolidated net revenues of the Company and its subsidiaries, taken as a whole, or 15% or more of any class of equity securities of the Company or any of its subsidiaries, any tender offer or exchange offer that if consummated would result in any person or entity beneficially owning 15% or more of any class of equity securities of the Company or any of its subsidiaries, or any merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its subsidiaries whose business constitutes 15% or more of the consolidated net revenues of the Company and its subsidiaries, taken as a whole.

As used in the Merger Agreement, superior proposal means any bona fide acquisition proposal (except that references to 15% or more will be deemed to be references to more than 85%) that (x) is on terms that the Board (or the Special Committee) has determined in its good faith judgment (after consultation with its financial advisor and outside counsel and after taking into account all legal, financial, regulatory and other aspects of the proposal, including the financing terms thereof) is more favorable to the Company s stockholders from a financial point of view than the transactions contemplated by the Merger Agreement; and (y) which the Board (or the Special Committee) has determined in good faith (after consultation with its financial advisor and outside counsel and after taking into account all legal, financial, regulatory and other aspects of the proposal) is reasonably capable of being consummated (taking into account the financability of such proposal); provided, however, that any such acquisition proposal shall not be deemed to be a superior proposal if such acquisition proposal is subject to a financing contingency.

The Company has agreed in the Merger Agreement that from the date of the Merger Agreement until the earlier of the termination of the Merger Agreement or the closing date of the merger, the Company will perform the following actions, and in certain cases, cause its subsidiaries to perform the following actions:

afford the Parent s representatives reasonable access to the Company s executive officers, properties, offices, books, contracts and records, provided such representatives are bound by certain confidentiality obligations and except as may otherwise be required or restricted by applicable law;

furnish promptly to the Parent all information concerning the Company s business, properties and personnel as may reasonably be requested;

use commercially reasonable efforts to provide to the Parent all cooperation reasonably requested by the Parent that is reasonably necessary or customary in connection with any financing of the transactions contemplated by the Merger Agreement;

furnish the preliminary proxy statement to the Parent and its legal counsel, give the Parent a reasonable opportunity to review such preliminary proxy statement prior to filing with the SEC, and accept all reasonable additions, deletions or changes suggested by the Parent;

file with the SEC the preliminary proxy statement as promptly as practicable after the execution of the Merger Agreement (and in any event within 25 calendar days of its execution), and thereafter use reasonable best efforts to have the preliminary proxy statement cleared by the SEC as promptly as practicable;

notify the Parent of the receipt of any comments from the SEC staff with respect to the preliminary proxy statement and of any requests by the SEC for any amendment or supplement thereto or for additional information, and provide to the Parent as promptly as reasonably practicable, copies of all written correspondence (and summaries of any oral comments) between the Company and the SEC with respect to the proxy statement;

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- provide the Parent and its legal counsel with a reasonable opportunity to review and comment on any proposed response to any comment of the SEC staff and any amendment or supplement to each of the preliminary and the definitive proxy statement prior to filing with the SEC and accept all reasonable additions, deletions or changes suggested by the Parent;

- file the definitive proxy statement with the SEC after all the comments received from the SEC have been cleared by the SEC staff and all information required to be contained in the proxy statement is included therein, and cause the proxy statement to be disseminated as promptly as reasonably practicable, to its stockholders of record;

- take all action necessary to duly call, give notice of, convene and hold a meeting of the holders of the shares of Company common stock as promptly as reasonably practicable following the date of the Merger Agreement (and in any event, no later than forty (40) days after the filing of the definitive proxy statement with the SEC) for the purpose of adopting the Merger Agreement and approving the merger and, unless the Board (or the Special Committee) has withdrawn its recommendation, use reasonable best efforts to obtain from the holders of the shares of Company common stock votes in favor of the adoption of the Merger Agreement and approval of the merger;

- maintain its existing officers and directors liability insurance coverage for the Company s directors and officers for a period of six (6) years after the closing date of the merger or cause to be obtained on the closing date of the merger tail insurance policies with a claims period of at least six (6) years from the closing date of the merger, so long as the annual premium therefor is not in excess of 175% of the last annual premium paid prior to the date of the Merger Agreement;

- take, or cause to be taken, all corporate action necessary to suspend the commencement of any additional purchase intervals under the Company s ESPP after the expiration of the purchase interval in effect as of the date of the Merger Agreement; and

- take, or cause to be taken, all corporate action necessary to terminate, effective as of the closing date of the merger, the Company stock plans as to future grants and to cause each outstanding option to purchase shares of Company common stock to be canceled and to thereafter represent the right to receive the amount of merger consideration applicable to such option as set forth above.

The Parent has agreed in the Merger Agreement that from the date of the Merger Agreement until the earlier of the termination of the Merger Agreement or the closing date of the merger, the Parent, and in certain cases, Merger Sub, will perform the following actions:

- promptly provide the Company with such information as may be required to be included in the proxy statement or as may be reasonably required to respond to any comment of the SEC staff;

- use, or cause the surviving corporation to use, reasonable best efforts to cause the shares of Company common stock to be removed from listing on the NASDAQ Global Market and de-registered under the Exchange Act as soon as practicable following the closing date of the merger;

- ensure that, as of the closing date of the merger, each employee of the Company and each of its subsidiaries who continues employment with the Parent, the surviving corporation or any subsidiary of the surviving corporation after the closing date of the merger receives full credit (for all purposes, including eligibility to participate, vesting, benefit accrual, vacation entitlement and severance benefits) for service with the Company or the Company subsidiaries under the comparable employee benefit plans, programs and policies of the Parent or the surviving corporation, as applicable, in which such employees become participants;

- cause the surviving corporation to assume and honor all previously disclosed Company compensation and benefit plans applicable to employees of the Company and each of its subsidiaries;

cause the surviving corporation to indemnify, hold harmless and advance expenses to each present and former officer and director of the Company and its subsidiaries against any liabilities arising out of

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matters existing or occurring at or prior to the closing date of the merger (including the merger and the other transactions contemplated by the Merger Agreement);

cause the certificate of incorporation and by-laws of the surviving corporation to include provisions for exculpation of director liability, advancement of expenses and indemnification no less favorable than as set forth in the Company s certificate of incorporation and by-laws in effect on the date of the Merger Agreement for six (6) years after the closing date of the merger; and

take, or cause to be taken, all corporate action necessary for the Parent to assume, immediately upon the closing of the merger, the Company stock plans and any rights, obligations and liabilities (contingent or otherwise) of the Company thereunder.

Finally, both the Company and the Parent have agreed in the Merger Agreement that from the date of the Merger Agreement until the earlier of the termination of the Merger Agreement or the closing date of the merger, they, and in certain cases, Merger Sub, will perform the following actions:

perform any further acts and execute and deliver any documents which may be reasonably necessary to carry out the provisions of the Merger Agreement;

provide the other party prompt notice of (i) the occurrence, or non-occurrence, of any event the occurrence, or non-occurrence of which could reasonably be expected to cause any of its representations or warranties contained in the Merger Agreement to be untrue or inaccurate in any material respect and (ii) any material failure of such party to comply with or satisfy any covenant or agreement to be complied with or satisfied by it under the Merger Agreement;

file or cause to be filed with the Federal Trade Commission and the Department of Justice any notifications required to be filed under the HSR Act with respect to the merger and the other transactions contemplated by the Merger Agreement;

cooperate with each other and use commercially reasonable efforts to take or cause to be taken all actions necessary, proper or advisable to consummate and make effective the merger and the other transactions contemplated by the Merger Agreement as soon as practicable, including preparing and filing as soon as practicable all documentation to effect all necessary notices, reports and other filings and using reasonable best efforts to obtain as soon as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party in order to consummate the merger and the other transactions contemplated by the Merger Agreement;

subject to applicable law, upon request by the other, furnish the other with all information concerning itself, its subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with the filing, notice or application made by or on behalf of the Parent, Company or any of their respective subsidiaries to any third party in connection with the merger and the other transactions contemplated by the Merger Agreement;

subject to any confidentiality obligations, keep the other apprised of the status of matters relating to completion of the transactions contemplated the Merger Agreement, including promptly furnishing the other with copies of notices or other communications received from any third party with respect to the merger and the other transactions contemplated by the Merger Agreement;

cooperate in all respects with each other and use respective reasonable best efforts to contest and resist any administrative or judicial action or proceeding that is instituted (or threatened to be instituted) by a governmental entity or private party challenging any transaction contemplated by the Merger Agreement;

cooperate with each other in the preparation of the proxy statement and any amendment or supplement hereto;

correct promptly, any information provided by it to be used specifically in the proxy statement, if required, that shall have become false or misleading in any material respect, and take all steps

necessary to file with the SEC and have cleared by the SEC any amendment or supplement to the proxy statement so as to correct the same and to cause the proxy statement as so corrected to be disseminated to the stockholders of Company;

cooperate with each other in order to lift any injunctions or remove any other impediment to the consummation of the transactions contemplated in the Merger Agreement;

cooperate in the preparation of the initial press release regarding the merger, and thereafter consult with the other prior to issuing any press releases or otherwise making public announcements with respect to the merger or any transaction contemplated in the Merger Agreement and prior to making any filings with any third party and/or any governmental entity with respect thereto, except as may be required by applicable rules or laws;

if any takeover statute is or may become applicable to the merger or the other transactions contemplated by the Merger Agreement, grant such approvals and take such actions as are necessary so that the transactions contemplated by the Merger Agreement may be consummated as promptly as practicable and otherwise act to eliminate or minimize the effects of such statute on such transactions; and

use all reasonable efforts to approve in advance in accordance with the procedures set forth in Rule 16b-3 promulgated under the Exchange Act, any dispositions of shares of Company common stock (including derivative securities) or shares of Company Series A Preferred Stock resulting from the transactions contemplated by the Merger Agreement by each individual who is or will be subject to the reporting requirements of Section 16 of the Exchange Act with respect to equity securities of the Company.

Conditions to Closing

Mutual Conditions to Closing. The respective obligations of each party to complete the merger are subject to the following conditions, which may be waived in writing prior to the consummation of the merger to the extent permitted by applicable law:

adoption of the Merger Agreement and approval of the merger by the Company s stockholders;

the absence of any law, statute, ordinance, rule, regulation, judgment, decree, injunction or other order enjoining, restraining or otherwise prohibiting the consummation of the merger, provided that prior to invoking this condition, each party has used the reasonable best efforts required of it under the Merger Agreement to cause the consummation of the merger;

the receipt of all regulatory clearances, other than those waived by Merger Sub; and

the expiration or termination of the waiting period applicable to the merger under the HSR Act (the Company and Francisco Partners received an early termination notice from the Federal Trade Commission on January 14, 2010).

Additional Conditions of the Parent. The obligations of the Parent to complete the merger are subject to the following additional conditions, which may be waived in writing by the Parent prior to the consummation of the merger to the extent permitted by applicable law:

the representations and warranties of the Company set forth in the Merger Agreement regarding capital structure, Company stock plans, obligations with respect to capital stock, corporate authority, compliance with charter, liquidation, the absence of a Company material adverse effect, anti-takeover statutes, required votes, and the opinion of the Company s financial advisor shall be true and correct in all respects as of the date of the Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger;

the representations and warranties of the Company set forth in the Merger Agreement regarding capital stock and option information shall be true and correct (without regard to any materiality or material adverse effect qualifications contained in such representations and warranties), as of the date of the

Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties to be so true and correct, individually or in the aggregate, does not increase or would not reasonably be expected to increase the merger consideration by more than $85,000;

all other representations and warranties of the Company set forth in the Merger Agreement shall be true and correct (without regard to any materiality or material adverse effect qualifications contained in such representations and warranties), as of the date of the Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties to be so true and correct, individually or in the aggregate, does not have or would not reasonably be expected to have a material adverse effect on the Company;

the Company shall have in all material respects performed all obligations and complied with all covenants required by the Merger Agreement to be performed or complied with by it prior to the closing of the merger;

as of the closing of the merger, the Company and its subsidiaries shall have on a consolidated basis in bank or brokerage located accounts in the United States cash and marketable securities totaling at least $15,000,000, of which not less than $7,500,000 shall be in cash (treating all fees and expenses incurred by the Company in connection with the Merger Agreement and the transactions contemplated thereby, whether or not paid, as if they were paid in cash prior to the closing of the merger, and none of which marketable securities shall be an auction rate or similar security or involved or potentially involved in a Securities Investors Protection Act action or claim);

the Company shall have delivered to the Parent a certificate, dated the closing of the merger and signed by a senior officer of the Company, certifying to the effect that the above conditions have been satisfied; and

the Company shall have taken certain specified actions with respect to a specified agreement with a specified business partner, which actions shall be maintained in full force and effect.

The Parent s ability to secure the financing that it may need to consummate the merger is not a condition of the Parent or Merger Sub to consummate the merger. In no event shall the Parent s or Merger Sub s failure to obtain any such financing in and of itself affect the obligations of the Parent and Merger Sub under the terms of the Merger Agreement (provided that the underlying causes of any such failure may be considered in determining whether the conditions of the Parent s obligation to consummate the merger have been satisfied, if such underlying causes would independently result in such conditions not having been met).

Additional Conditions of the Company. The obligations of the Company to complete the merger are subject to the following additional conditions, which may be waived in writing by the Company prior to the consummation of the merger to the extent permitted by applicable law:

the representations and warranties of the Parent and Merger Sub set forth in the Merger Agreement shall be true and correct (without regard to any materiality or material adverse effect qualifications contained in such representations and warranties), as of the date of the Merger Agreement and as of the closing of the merger as though made on and as of the closing of the merger (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties to be so true and correct, individually or in the aggregate, does not have or would not reasonably be expected to have a material adverse effect on the Parent;

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- the Parent shall have in all material respects performed all obligations and complied with all covenants required by the Merger Agreement to be performed or complied with by it prior to the closing of the merger; and
- the Parent shall have delivered to the Company a certificate, dated as of the closing of the merger and signed by a senior officer, certifying to the effect that the above conditions have been satisfied.

Termination of the Merger Agreement

The Merger Agreement may be terminated and the merger may be abandoned at any time prior to the closing of the merger, whether before or after the adoption of the Merger Agreement by the stockholders of the Company, by mutual written consent of the Company, the Parent and Merger Sub by duly authorized action of their respective boards of directors (or, in the case of the Company, the Special Committee).

In addition, either the Company or the Parent may terminate the Merger Agreement under the following circumstances:

- The stockholders of the Company have failed to adopt the Merger Agreement;
- The merger has not been consummated by May 6, 2010, and the party seeking to terminate the Merger Agreement has not breached in any material respect its covenants or obligations under the Merger Agreement in any manner that has been a proximate cause of the failure to consummate the merger on or before such date; and
- Any governmental order permanently restraining, enjoining or prohibiting the consummation of the merger becomes final and non-appealable after the parties have used their reasonable best efforts to have such order removed, repealed or overturned; provided, that the right to terminate the Merger Agreement for this reason shall not be available to any party that has breached its covenants or obligations under the Merger Agreement in any manner.

The Company may also terminate the Merger Agreement under the following circumstances:

- prior to the stockholders of the Company adopting the Merger Agreement, the Board (or the Special Committee) approves or enters into an alternative acquisition agreement relating to a superior proposal; provided, however, that (i) the Company may not effect such termination unless the Company is not then in material breach of its non-solicitation obligations as set forth in the Merger Agreement and (ii) such termination shall not be effective unless the Company pays the Parent the applicable termination fee; and
- prior to the closing of the merger, the Parent or Merger Sub breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010, provided, that the Company gives the Parent written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010) stating the Company s intention to terminate the Merger Agreement and the basis for such termination.

The Parent may also terminate the Merger Agreement at any time prior to the closing of the merger under the following circumstances:

- the Company, the Board or the Special Committee accepts, approves, endorses or recommends an alternative acquisition agreement relating to a superior proposal;
- the Board or the Special Committee, prior to the adoption of the Merger Agreement by the stockholders of the Company, withdraws, modifies or qualifies, or proposes publicly to withdraw, modify or qualify, in a manner adverse to the Parent or Merger Sub, the recommendation of the Board or the Special

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Committee that the stockholders of the Company adopt the Merger Agreement and approve the transactions contemplated thereby; approves, recommends or endorses, or proposes publicly to approve, recommend or endorse, any acquisition proposal; or makes other statements that are reasonably calculated or expected to have the same effect;

any person or group (other than the Parent, its affiliates and certain other excluded owners) becomes a beneficial owner (as such terms are defined under Regulation 13D under the Securities Exchange Act of 1934, as amended) of 10% or more of the outstanding shares of QuadraMed s common stock, or any excluded owner individually acquires an additional 5% or more of the outstanding shares of QuadraMed s common stock; and

the Company breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that the Parent gives the Company written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010) stating the Parent s intention to terminate the Merger Agreement and the basis for such termination.

If the Merger Agreement is terminated, it shall become void and of no effect with no liability on the part of the Company, the Parent or Merger Sub, except that (i) certain provisions of the Merger Agreement will survive the termination, including those relating to fees and expenses (including termination fees), (ii) the confidentiality agreement previously entered into by the Company and the Parent shall remain unaltered, and (iii) subject to certain conditions set forth in the Merger Agreement, the parties shall continue to be liable for damages resulting from any willful or knowing breach of a covenant contained in the Merger Agreement prior to the termination date.

The Company shall pay the Parent a termination fee of $4.0 million in the event that:

the Company terminates the Merger Agreement prior to the stockholders of the Company adopting the Merger Agreement because the Board or the Special Committee approves or enters into an alternative acquisition agreement relating to a superior proposal; or

the Parent terminates the Merger Agreement because the Company, the Board or the Special Committee accepts, approves, endorses or recommends an alternative acquisition agreement relating to a superior proposal; or

the Parent terminates the Merger Agreement because the Board or the Special Committee, prior to the adoption of the Merger Agreement by the stockholders of the Company, withdraws, modifies or qualifies, or proposes publicly to withdraw, modify or qualify, in a manner adverse to the Parent or Merger Sub, the recommendation of the Board or the Special Committee that the stockholders of the Company adopt the Merger Agreement and approve the transactions contemplated thereby; approves, recommends or endorses, or proposes publicly to approve, recommend or endorse, any acquisition proposal; or makes other statements that are reasonably calculated or expected to have the same effect.

In circumstances where a termination fee is payable by the Company as a result of a termination described in one of the immediately preceding bullet points, the Parent s and Merger Sub s sole and exclusive remedy, including on account of punitive damages, is their receipt of such termination fee.

The Company shall also pay the Parent a termination fee of $4.0 million in the event that:

either the Parent or the Company terminates the Merger Agreement because the stockholders of the Company have failed to approve the merger; or

either the Parent or the Company terminates the Merger Agreement because the merger has not been consummated by May 6, 2010; provided that the terminating party has not breached in any material respect its covenants or obligations under the Merger Agreement

in any manner that has been the proximate cause of the failure of the merger to be consummated by such date; or

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- the Parent terminates the Merger Agreement because of a person or group (other than the Parent, its affiliates and certain other excluded owners) becomes a beneficial owner (as such terms are defined under Regulation 13D under the Securities Exchange Act of 1934, as amended) of 10% or more of the outstanding shares of QuadraMed s common stock, or excluded owner individually acquires an additional 5% or more of the outstanding shares of QuadraMed s common stock; or

- the Parent terminates the Merger Agreement because the Company breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that the Parent gives the Company written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010), stating the Parent s intention to terminate the Merger Agreement and the basis for such termination;

and, in any such case, an acquisition proposal (which, for the purposes of this provision, reflects a transaction for 50%, not 15% of the Company or its assets) has been publicly announced and not withdrawn, or otherwise becomes publicly known after the date of the Merger Agreement, and, within 12 months after such termination, the Company either enters into a definitive agreement relating to an acquisition proposal or an acquisition proposal is consummated.

The Company shall also reimburse each of the Parent and Merger Sub, up to $800,000 in the aggregate, for all out-of-pocket expenses and fees actually incurred by the Parent, Merger Sub and their affiliates in connection with the Merger Agreement and the transactions contemplated thereby and all prior negotiations between the Company and the Parent, Merger Sub and their affiliates (including in each case the actual fees of legal, accounting and financial advisors, consultants and travel and lodging expenses of employees of the Parent, Merger Sub and their affiliates engaged in such transactions) in the event of a termination of the Merger Agreement pursuant to the first, second or fourth bullet point immediately set forth above if neither the Parent nor Merger Sub is in material breach of its material covenants and agreements contained in the Merger Agreement, regardless of whether or not an acquisition proposal is publicly announced or known, or consummated by the Company within 12 month of termination. The amount of such expenses and fees paid by the Company would serve to reduce the amount of the termination fee otherwise payable by the Company.

The Parent shall pay the Company a termination fee of $4.5 million in the event that:

- the Company terminates the Merger Agreement prior to the closing of the merger, because the Parent or Merger Sub breaches or fails to perform any of its representations, warranties, covenants or agreements contained in the Merger Agreement, which breach or failure to perform (1) would result in the failure of an applicable closing condition and (2) cannot be cured by May 6, 2010; provided, that the Company gives the Parent written notice, delivered at least 30 days prior to such termination (or such shorter number of days as may exist between the date of such notice and May 6, 2010), stating the Company s intention to terminate the Merger Agreement and the basis for such termination; or

- either the Parent or the Company terminates the Merger Agreement because the merger has not been consummated by May 6, 2010; provided that the terminating party has not breached in any material respect its covenants or obligations under the Merger Agreement in any manner that has been the proximate cause of the failure of the merger to be consummated by such date;

if, in either such case, all of the conditions to the Parent s and Merger Sub s obligation to consummate the merger set forth in the Merger Agreement are satisfied as if the date of such satisfaction was the closing date of the merger and the merger shall not have occurred due to a breach of the Merger Agreement by the Parent or Merger Sub (which shall be deemed to have occurred if the Parent has not closed as of May 6, 2010 and all of the conditions to the Parent s and Merger Sub s obligation to consummate the merger are satisfied as of the business day prior to May 6, 2010).

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In circumstances where a termination fee is payable by the Parent, the Company s sole and exclusive remedy, including on account of punitive damages and for willful and knowing breach of the Merger Agreement, is the Company s receipt of such termination fee.

In the event that the Parent is required to pay a termination fee under the Merger Agreement, the Parent would have no right to receive any termination fee otherwise payable by the Company under the Merger Agreement.

If a party fails to promptly pay any amount due from such party in connection with a termination of the Merger Agreement, and in order to obtain such payment the other party commences a suit which results in a judgment against the such party for payment of all or a portion of any such amount, the non-prevailing party shall pay to the prevailing party its costs and expenses (including its reasonable attorneys fees) incurred in connection with such suit, together with interest.

Except as otherwise provided in the Merger Agreement, the payment of an applicable termination fee shall be the sole and exclusive remedy, including on account of punitive damages, of a party with respect to the facts and circumstances giving rise to such payment obligation except to the extent such facts or circumstances constitute or arise from willful or knowing breach of the other party s obligations.

In no event, whether or not the Merger Agreement has been terminated, shall the Parent, the Merger Sub or any of their affiliates, individually or in the aggregate, be subject to any liability in excess of $4,500,000 for any or all losses or damages relating to or arising out of the Merger Agreement or the transactions contemplated thereby, including breaches by the Parent or the Merger Sub of any representations, warranties, covenants or agreements contained in the Merger Agreement, and in no event shall the Company seek equitable relief or seek to recover any money damages in excess of such amount from the Parent, the Merger Sub or any of their respective affiliates. In no event, whether or not the Merger Agreement has been terminated, shall the Company or any of its affiliates, either individually or in the aggregate, be subject to any liability in excess of $4,000,000 for any or all losses or damages relating to or arising out of the Merger Agreement or the transactions contemplated thereby, including breaches by the Company of any representations, warranties, covenants or agreements contained in the Merger Agreement, except in connection with any willful or knowing breach of the Merger Agreement or any breach of the Company s non-solicitation obligations contained in the Merger Agreement. The Parent is entitled to an injunction or injunctions to prevent breaches of the Merger Agreement or to enforce specifically the performance of the terms and provisions thereof.

Amendment and Waiver

The parties may not modify or amend the Merger Agreement except by written agreement executed and delivered by duly authorized officers of the respective parties.

At any time prior to the closing of the merger, each of the parties to the Merger Agreement may (i) extend the time for performance of any obligation or act of any other party thereto, (ii) waive any inaccuracy in the representations and warranties of any other party contained therein or in any document delivered pursuant thereto and (iii) waive compliance with any agreement of any other party or any condition to its own obligations contained therein, in each case, to the extent permitted by applicable law.

Assignment

The Merger Agreement shall not be assignable by operation of law or otherwise; provided, however, that (i) the Parent may designate, by written notice to the Company, another affiliate of the Parent to be a constituent corporation in lieu of Merger Sub and (ii) subject to certain conditions, the Parent or Merger Sub may assign on a collateral basis any and all of its rights and interests under the Merger Agreement to any provider of debt financing of the transactions contemplated thereby, provided that no such assignment shall alleviate or release the Parent from its obligations under the Merger Agreement.

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Expenses

Subject to the Company s obligation to reimburse the Parent for certain fees and expenses in connection with the termination of the Merger Agreement under certain circumstances, whether or not the merger is consummated, all costs and expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby shall be paid by the party incurring such expense, except that each of the Company and the Parent shall bear and pay one-half of the costs and expenses incurred in connection with the filing, printing and mailing of the proxy statement, if any (including any SEC filing fees), and with the filing of any notifications required to be made with the Federal Trade Commission or the Department of Justice under the HSR Act.

Limited Guarantee

Pursuant to a limited guarantee delivered by Francisco Partners II, L.P. and Francisco Partners Parallel Fund II, L.P., which we refer to collectively as Francisco Partners, in favor of the Company, dated as of December 7, 2009, Francisco Partners has agreed to guarantee, severally but not jointly, the punctual performance and discharge of the Parent s payment obligations under the Merger Agreement, in the event of a termination or breach of the Merger Agreement under circumstances in which the Parent s obligation to pay a termination fee of $4.5 million to the Company is triggered.

The limited guarantee will terminate upon the earliest of (i) the effective time of the merger, (ii) the termination of the Merger Agreement in accordance with its terms under circumstances where the Parent is not obligated to pay a termination fee to the Company, and (iii) 30 days after the termination of the Merger Agreement in accordance with its terms under circumstances where the Parent would be obligated to pay a termination fee to the Company, if the Company has not presented a claim for payment to the Parent and Merger Sub, or to Francisco Partners, by the end of such 30 day period. However, in the event that the Company or any of its affiliates (A) asserts in any litigation or other proceeding that the provisions of the limited guarantee pursuant to which the Company waives and releases Francisco Partners, the Parent, Merger Sub and certain of their affiliates from specified types of claims or that limit Francisco Partners liability, the term of the limited guarantee or the recourse under the limited guarantee, or the provisions of the Merger Agreement that limit the liability of the Parent and Merger Sub, are illegal, invalid or unenforceable, in whole or in part, or (B) asserts any theory of liability against Francisco Partners, the Parent, Merger Sub or certain of their affiliates with respect to the transactions contemplated by the Merger Agreement other than liability of Francisco Partners under the limited guarantee, then (i) Francisco Partners obligations under the limited guarantee shall terminate and be null and void, (ii) Francisco Partners shall be entitled to recover any prior payments made under the limited guaranty, and (iii) neither Francisco Partners, the Parent, Merger Sub or any of their affiliates shall have any liability to the Company with respect to the transactions contemplated by the Merger Agreement or under the limited guarantee.

Delisting and Deregistration of QuadraMed Common Stock

If the transaction is completed, the Company will no longer be a public company. The Company s common stock will no longer be traded on the NASDAQ Global Market and will be deregistered or suspended under the Exchange Act. Accordingly, the Company would cease making reports pursuant to Section 13 or Section 15(d) under the Exchange Act.

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ADJOURNMENT OF THE SPECIAL MEETING

(Proposal 2)

The Company is submitting a proposal for consideration at the Special Meeting to authorize the named proxies to approve any adjournments of the Special Meeting to a later date or time if there are not sufficient votes to adopt the Merger Agreement and approve the merger at the time of the Special Meeting or any adjournment or postponement of that Special Meeting. Even though a quorum may be present at the Special Meeting or any such adjournment or postponement, it is possible that the Company may not have received sufficient votes to adopt the Merger Agreement and approve the merger by the time of the Special Meeting or such adjournment or postponement. In that event, the Company would need to adjourn the Special Meeting in order to solicit additional proxies. The adjournment proposal relates only to an adjournment of the Special Meeting for purposes of soliciting additional proxies to obtain the required stockholder approval to adopt the Merger Agreement and approve the merger. Any other adjournment of the Special Meeting, if voted upon by stockholders, would be voted upon pursuant to the discretionary authority granted by the proxy.

The proposal to approve one or more adjournments of the Special Meeting to a later date or time requires the affirmative vote of holders of a majority of the shares of our common stock present or represented at the Special Meeting and entitled to vote on the proposal.

To allow the proxies that have been received by the Company at the time of the Special Meeting to be voted for an adjournment to provide additional time to solicit proxies if there are not sufficient votes to adopt the Merger Agreement and approve the merger at the time of the Special Meeting, if necessary, we are submitting a proposal to approve one or more adjournments, and only under those circumstances, to you for consideration. The Board unanimously recommends that you vote FOR the adjournment proposal so that proxies may be used for that purpose, should it become necessary. Properly executed proxies will be voted FOR the adjournment proposal, unless otherwise indicated on the proxies. If the Special Meeting is adjourned for 30 days or less, we are not required to give notice of the time and place of the adjourned meeting (other than the announcement thereof at the initial special meeting) unless our Board fixes a new record date for the Special Meeting.

The adjournment proposal relates only to an adjournment of the Special Meeting occurring for purposes of soliciting additional proxies for the approval of the proposal to adopt the Merger Agreement and approve the merger in the event that there are insufficient votes to approve that proposal. The Board retains full authority to the extent set forth in our bylaws and Delaware law to adjourn the Special Meeting for any other purpose, or to postpone the Special Meeting before it is convened, without the consent of any of the Company s stockholders.

MARKET PRICE AND DIVIDEND DATA

The Company s common stock is currently quoted on the NASDAQ Global Market under the symbol QDHC. Prior to July 9, 2008, our common stock was traded on the American Stock Exchange. The table below shows, for the periods indicated, the range of high and low sale prices for our common stock as quoted on the NASDAQ Global Market or the American Stock Exchange, as applicable for the periods presented. Information for 2007 and for the quarter ended March 31, 2008 has been restated to reflect the one-for-five reverse split that was effective on June 13, 2008.

We have never declared or paid cash dividends on our common stock. Our current policy is to retain earnings for use in our business. Following the merger, the Company will cease to be a public company and there will be no further market for our common stock, and the Company s current stockholders will not own shares in the surviving corporation.

Fiscal Year Ended December 31, 2010	**High**	**Low**
Quarter ending March 31 (through [ ], 2010)	$ [ ]	$ [ ]
Fiscal Year Ended December 31, 2009	**High**	**Low**
Quarter ended March 31	$ 6.30	$ 4.42
Quarter ended June 30	$ 7.24	$ 5.51
Quarter ended September 30	$ 7.45	$ 6.00
Quarter ended December 31	$ 8.48	$ 6.00
Fiscal Year Ended December 31, 2008	**High**	**Low**
Quarter ended March 31	$ 10.60	$ 9.25
Quarter ended June 30	$ 10.35	$ 9.30
Quarter ended September 30	$ 10.09	$ 7.95
Quarter ended December 31	$ 8.39	$ 4.16
Fiscal Year Ended December 31, 2007	**High**	**Low**
Quarter ended March 31	$ 16.45	$ 14.75
Quarter ended June 30	$ 16.30	$ 15.25
Quarter ended September 30	$ 14.70	$ 13.50
Quarter ended December 31	$ 10.85	$ 9.15

On December 7, 2009, the last full trading day prior to the public announcement of the proposed merger, our common stock closed at $6.41, and the high and low prices for our common stock were $6.75 and $6.27, respectively. On [ ], the last practicable trading day prior to the date of this proxy statement, our common stock closed at [ ], and the high and low prices for our common stock were [ ] and [ ], respectively.

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SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table and the accompanying notes set forth certain information, as of December 21, 2009, concerning the beneficial ownership of our common stock by: (1) each person who is known by us to beneficially own more than 5% of our common stock, (2) each member of the Board, (3) each named executive officer, and (4) all Board members and named executive officers as a group. The beneficial ownership percentages have been calculated based on 8,307,277 shares of common stock outstanding, excluding 1,163,854 shares held by the Company as treasury shares on December 21, 2009.

Under the SEC s rules, a person is deemed to be the beneficial owner of a security if such person has or shares the power to vote or direct the voting of such security or the power to dispose or direct the disposition of such security. A person is also deemed to be a beneficial owner of a security if that person has the right to acquire beneficial ownership within 60 days. Accordingly, more than one person may be deemed to be a beneficial owner of the same security. Unless otherwise indicated by footnote, the named entities or individuals have sole voting and investment power with respect to the shares of common stock which they beneficially own. All persons listed have an address in care of QuadraMed s principal executive offices, except as otherwise noted. All information with respect to beneficial ownership has been furnished to us by our respective stockholders, unless otherwise noted.

Name of Beneficial Owner	Number of Shares Owned	Right to Acquire	Total	Percentage
BlueLine Partners, LLC(1)	1,337,405		1,337,405	16.1%
J. Carlo Cannell(2)	843,765		843,765	10.2%
MacKay Shields, LLC(3)	592,199	2,995,800(4)	3,587,999	31.7%
Royce & Associates, LLC(5)	489,136		489,136	5.9%
Zazove Associates, LLC(6)	49,261	2,791,123(7)	2,840,384	25.6%
Lawrence P. English(8)		395,800	395,800	4.5%
Duncan W. James(8)(10)				*
William K. Jurika(8)	660,444(9)		660,444	8.0%
Robert W. Miller(8)	600	18,000	18,600	*
James E. Peebles(8)		15,200	15,200	*
Robert L. Pevenstein(8)	2,000	18,000	20,000	*
David L. Piazza(10)		91,263	91,263	*
Steven V. Russell(10)		73,750	73,750	*
Michael J. Simpson(10)				*
All current Board members and executive officers as a group (9 people)	663,044	612,013		