QUADRAMED CORP
Form S-1/A
June 14, 2004

As filed with the Securities and Exchange Commission on June 14, 2004

Registration No. 333-112040

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

QUADRAMED CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**7371**	**52-1992861**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

12110 Sunset Hills Road

Reston, Virginia 20190

(703) 709-2300

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Lawrence P. English

Chief Executive Officer

12110 Sunset Hills Road

Reston, Virginia 20190

(703) 709-2300

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:

Morris F. DeFeo, Jr.

Miles & Stockbridge, P.C.

1751 Pinnacle Drive, Suite 500

McLean, Virginia 22102

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable on or after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities registration number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.01 per share	11,586,438(1)	$3.175(2)	$36,786,940(2)	$2,977(4)
Senior Secured Notes due 2008			$72,293,780(3)	$5,849(4)
Senior Secured Notes due 2008			$ 1,445,866(5)	$ 184(6)

(1) This number comprises shares of Common Stock (Shares) underlying warrants and Shares previously issued upon the exercise of warrants.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 (c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices for a share of Common Stock reported on the Over-The-Counter Bulletin Board as of January 15, 2004.
(3) Represents the aggregate principal amount at maturity of the 2008 notes prior to the payment of notes as interest on April 1, 2004, for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(4) Amount of registration fee previously paid to SEC with January 21, 2004 filing.
(5) Represents the aggregate principal amount at maturity of the additional amount of 2008 notes paid as interest on April 1, 2004, for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(6) Additional amount of registration fee to be paid in connection with June 14, 2004 filing.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(A) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(A), may determine.

The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JUNE 14, 2004

11,586,438 Shares of Common Stock, par value $0.01 per share

$73,739,646 10% Senior Secured Notes due 2008

QuadraMed Corporation

Shares of our common stock and our 10% Senior Secured Notes due 2008 are being offered for a forty-five day period after the effective date of this Registration Statement to the public market by those individuals named in the section of this prospectus entitled Selling Holders . We will not receive any proceeds from the sale of the common stock or the notes, but we will bear the costs relating to the registration of the common stock and notes.

The selling holders may sell the common stock and notes covered by this prospectus through various means, including directly to purchasers or through underwriters, broker-dealers, and agents. If the common stock or notes are sold through underwriters, broker-dealers, or agents, these parties may be compensated for their services in the form of discounts or commissions, which is deemed to be underwriting compensation . If required, the selling holders will disclose the names of any underwriter(s), applicable commissions or discounts, and any other required information with respect to any particular sales in an accompanying prospectus supplement. For additional information on the selling holders possible methods of sale, you should refer to the section in this prospectus entitled Plan of Distribution .

We issued $71,000,000 of our Senior Secured Notes due 2008 in a private placement in April 2003 (2008 notes). We sold the notes at the original principal amount and issue price of $1,000 per note. The notes bear interest at the initial rate of 10%. The interest rate will be reduced to 9% upon the listing of our common stock on a U.S. national securities exchange or upon the relisting of our common stock on the Nasdaq National Market or Nasdaq SmallCap Market. On November 13, 2003, we filed an application to list our common stock on the American Stock Exchange, and on February 5, 2004, we filed a listing application with the Boston Stock Exchange. The terms of the notes provide that interest is initially payable 6% in cash and 4% in additional notes through and including April 1, 2004. Interest is payable semiannually on April 1 and October 1 of each year. On October 1, 2003 and April 1, 2004, notes in the aggregate principal amounts of $1.3 million and $1.4 million, respectively were issued as interest payments on the 2008 notes. These additional amounts of notes are reflected in the amount of notes registered by this registration statement. The notes are secured by substantially all of our intellectual property.

Along with the notes, we issued warrants to purchase 11,303,842 shares of our common stock. Additional warrants to purchase 2,047,978 shares of our common stock will be issued to holders of 2008 notes if we do not file a registration statement within 90 days after receiving a request from the holders on or after the date that is 270 days after April 17, 2003, the date of issuance of the 2008 notes. Furthermore, we also issued

warrants to purchase 282,596 shares of our common stock to Philadelphia Brokerage Corporation as consideration in connection with the transaction. As of June 14, 2004, a total of 8,149,116 of these warrants had been exercised. The warrants have a term of 5 years, have an exercise price of $0.01 per share and are subject to certain anti-dilution provisions including dilution from any issuance of shares in settlement of existing litigation. The shares of common stock being registered in this registration statement constitute shares underlying, or issued upon the exercise of, these warrants.

On October 23, 2003, pursuant to the registration rights agreement described in Description of Securities Registration Rights Agreement , we received a demand request from a holder of 2008 notes requiring us to file a registration statement with the Securities and Exchange Commission (SEC) within 90 days of the demand request. On November 3, 2003, we mailed a request notice to all holders of the 2008 notes, notifying them of the demand request and informing them that they had fifteen (15) days within which to request that any or all of their notes or warrants be included in the registration statement to be filed. Those holders who elected to have their notes or warrants included in this registration statement are listed in this prospectus in the section entitled Selling Holders .

We may redeem for cash all or a portion of the notes at any time on or after April 17, 2006, at prices calculated as described in Description of Notes Redemption of Notes at Our Option .

We have not applied for listing of the notes on any securities exchange or for quotation through any automated quotation system. The notes were offered to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act, in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Our common stock is currently traded on the Over-The-Counter Bulletin Board (symbol: QMDC.OB). and on the Pink Sheets over-the-counter market (symbol: QMDC.PK). As of June 10, 2004, the high and low prices for our common stock were $3.05 and $2.70 per share, respectively, on the Over-the-Counter Bulletin Board.

Investing in our common stock and the notes involves risks that are described in the Risk Factors section of this prospectus beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is June __, 2004.

We have obtained trademark registrations in the United States for most of our corporate and product trademarks, including QuadraMed, Affinity, Quantim, and Complysource and We do technology. So you can do healthcare.This prospectus also contains product names, trade names and trademarks of ours as well as those of other organizations. All other brand names and trade names and trademarks appearing in this prospectus are the property of their respective holders.

PROSPECTUS SUMMARY

Our Company

We provide healthcare information technology products and services that help healthcare providers to improve the quality of the care they deliver and the efficiency with which it is delivered. We accomplish our mission by developing and implementing sophisticated, user-friendly software applications designed and developed by the healthcare professionals and software specialists we employ.

Our products are designed to eliminate paper, improve processes, and decrease error through the efficient management of patient clinical and financial records. They are suitable for acute care hospitals, specialty hospitals, Veterans Health Administration facilities and associated/affiliated businesses such as outpatient clinics, long-term care facilities, and rehabilitation hospitals and are used by healthcare organizations of varying size from small single entity hospitals to large multi-facility care delivery organizations. Our products are sold as standalone, bundled, or fully integrated software packages. We also provide services to support the hospital s collection of receivables and its administration of contractual reimbursements from managed care companies. As of December 31, 2003, approximately 1,900 healthcare provider facilities were utilizing at least one QuadraMed product.

Our headquarters office is located at 12110 Sunset Hills Road, Reston, Virginia in the Washington, D.C. metropolitan area. The company was founded in 1993 and reincorporated in Delaware in 1996. Our telephone number is (703) 709-2300. Our website can be found at www.quadramed.com where all of our current SEC filings can be accessed free of charge as soon as reasonably practicable after they are filed with the SEC.

The Offering

Use of proceeds	We will not receive any of the proceeds from the sale of the shares of our common stock and the notes offered by the selling holders.
Risk Factors	An investment in our common stock and notes is subject to significant risks. You should carefully consider the information set forth in the Risk Factors section and the other sections of this prospectus, including our financial statements and related notes.

Common Stock

Common Stock offered by the selling holders	Up to 11,586,438 shares, of which 8,149,116 shares are issued and outstanding and 3,437,322 shares which may be issued upon the exercise of warrants, held by the selling holders, including their transferees, pledgees, donees, or other successors.
Dividend Policy	We do not expect to pay dividends on our common stock in the foreseeable future. We anticipate that future earnings generated from operations, if any, will be retained to develop and expand our business.
Plan of Distribution	The shares of common stock offered for resale may be sold by the selling holders pursuant to this prospectus in the manner described under Plan of Distribution .
Trading and Symbol	Our common stock currently trades on the Over-the-Counter Bulletin Board market under the symbol QMDC.OB and on the Pink Sheets over-the-counter market under the symbol QMDC.PK .
Common Stock Outstanding	As of June 9, 2004, we had 36,043,018 shares of common stock outstanding.

Notes

Notes offered by the selling holders	Up to $73,739,646 aggregate principal amount of notes
Maturity Date	April 1, 2008
Interest	The notes bear interest at an initial interest rate of 10% per year. The interest rate will be automatically reduced to 9% immediately following the next interest payment date upon (1) the listing of our common stock for trading on a U.S. national securities exchange or (2) the approval for trading on Nasdaq, including the Nasdaq SmallCap market. The terms of the notes provide that interest is initially payable 6% in cash and 4% in additional notes through and including April 1, 2004. Interest is payable semiannually in arrears on April 1 and October 1 in each year, commencing on October 1, 2003, to holders of record at the close of business on the March 15 or September 15 immediately preceding such interest payment due.
Tax Original Issue Discount	Because a portion of the interest in the first year was payable in additional notes, the notes will be considered issued with original issue discount for United States federal income tax purposes, regardless of the timing of receipt of the related cash payments.
Guarantees	Our obligations under the notes are not guaranteed.

Ranking	The notes are our senior secured obligations. They rank on a par with, or senior to, all of our existing and future debt and liabilities. As of March 31, 2004, we had approximately $11.9 million of indebtedness which ranked junior to the 2008 notes. The notes are secured by any and all of our right, title, and interest in and to all existing and future copyrights, patents, trademarks, and licenses to use copyrights, patents, and trademarks. Accordingly, the claims of the holders of the notes will rank ahead of unsecured claims of our creditors to the extent of the value, priority, and validity of the liens securing the notes. The indenture under which the notes were issued prohibits us and our subsidiaries from incurring any indebtedness for borrowed money that ranks senior to or equal

	with the notes in the right of repayment. The indenture also prohibits us and our subsidiaries from making any investments other than those specifically allowed as permitted investments as defined in the indenture, unless we have cash or cash equivalents greater than $10 million.
Security	We assigned and pledged to the trustee on the indenture, under which the notes were issued, as security for the notes and for the benefit of the holders of the notes (and not for the benefit of our other creditors) any and all of our right, title, and interest in and to all existing and future copyrights, patents, trademarks, and licenses to use copyrights, patents, and trademarks.
Change of control	In the event of a change of control of QuadraMed as defined in the indenture, each holder will have the right, at the holder s option, subject to the terms and conditions of the indenture, to require us to purchase for cash all or any portion of the holder s notes. However, the original principal amount submitted for purchase by a holder must be $1,000 or an integral multiple of $1,000.
Sinking Fund	None
Redemption of notes at our option	Prior to April 17, 2006, we cannot redeem the notes at our option. Beginning on April 17, 2006, we may redeem the notes for cash, as a whole at any time or from time to time in part. We are required to give at least thirty (30) days but not more than sixty (60) days notice of redemption by mail to the holders of the notes. If we redeem the notes at our option, we will redeem them at the following prices, plus accrued and unpaid cash interest, if any, as of the applicable redemption dates: If redeemed between April 17, 2006 and March 31, 2007, the redemption price will be 101.50% of the original principal amount of such notes as of the applicable redemption date; If redeemed between April 1, 2007 and March 31, 2008, the redemption price will be 100.75% of the original principal amount of such notes as of the applicable redemption date; If redeemed on April 1, 2008 or thereafter, the redemption price will be 100% of the original principal amount of such notes as of the applicable redemption date. If we redeem less than all of the outstanding notes, the trustee will select the notes to be redeemed in principal amounts at maturity of $1,000 or integral multiples of $1,000. In this case, the trustee may select the notes by lot, pro rata or by any other method the trustee considers fair and appropriate.
Mandatory redemption with excess cash	Within 10 days following the filing of our Form 10-K with the SEC, we are required to furnish the trustee with an officer s certificate setting forth (1) the amount of excess free cash, if any, for the immediately preceding year (plus any carryover excess free cash) and (2) an amount equal to 50% of the amount in clause (1). If this total excess cash is greater than $500,000 and we have not already called all of the notes for redemption, we will be required within 15 days to mail a redemption notice to all holders of notes. If the total excess cash is sufficient to redeem all notes, we must redeem all notes within 30 days for cash equal to 100% of the principal amount plus accrued and unpaid interest. If the amount is insufficient to redeem all of the notes, we will redeem them on a pro rata basis. The purchase price of a note will be equal to the original principal amount and accrued and unpaid cash interest, if any, on such notes as of the applicable purchase date.

Certain covenants	The indenture governing the notes among other things restricts, with certain exceptions, our ability and the ability of our subsidiaries to merge, sell assets, incur indebtedness, and create or incur liens.

Trading	The notes do not trade on any national securities exchange, nor do we intend to list the notes on any such national securities exchange.
Governing law	New York

Recent Events

In February, 2004, we acquired all of the issued and outstanding capital stock of Détente Systems Pty Limited, an Australian proprietary limited company (Détente), and all of the units of trust ownership of the Détente Systems Trust, an Australian business trust (the Trust). Détente is engaged in the business of developing, selling and supporting clinical systems in Australia, New Zealand, and the United Kingdom. The Trust holds title to all of the intellectual property used or useful in Détente s business. The purchase price for Détente s stock and the Trust s units was $4 million in cash. Of this amount, $2.6 million was paid on the closing date of the acquisition, and the balance was deposited in an escrow account to be payable upon the satisfactory performance of certain technology and performance goals relating to the acquired Détente technology.

In October 2002, a series of securities law class action complaints was filed in the United States District Court, California Northern District, by certain of our shareholders against us and certain of our officers and directors. The plaintiffs in these actions allege, among other things, violations of the Securities Exchange Act of 1934 due to issuing a series of allegedly false and misleading statements concerning our business and financial condition between May 11, 2000 and August 11, 2002. Also in October 2002, a shareholders derivative suit was filed on our behalf in Marin County Superior Court of California against us as a nominal defendant and certain of our current and former officers and directors. The derivative action plaintiffs allege that certain of our current and former officers and directors breached their fiduciary duties to us based on assertions similar to those in the federal securities class action litigation. Both actions seek unspecified monetary damages and other relief.

On May 3, 2004, the final settlement agreement related to the securities class action litigation was filed with the court. The agreement is subject to a statutory notice and opt-out period, and a final hearing is scheduled for July 30, 2004. On April 21, 2004, the final settlement agreement relating to the shareholders derivative litigation was approved by the court. Approximately $1.3 million was accrued as of March 31, 2004 related to these settlements, representing the portion of settlement not expected to be covered by insurance.

In February 2003, the SEC issued a formal non-public order of investigation concerning our accounting and financial reporting practices for the period beginning January 1, 1998. On October 10, 2003, we announced that the Staff of the San Francisco District Office of the SEC informed us that the Staff intended to recommend to the SEC that it institute an enforcement action against us for violations of the antifraud, periodic filing, and books and records provisions of the federal securities laws in connection with our accounting for transactions that we entered into with Health+Cast LLP in 1998 and 1999. The 1999 transactions were restated as part of the restatement of our 1999 financial statements. None of the individuals who were involved with the Health+Cast transactions are associated with us any longer. On April 30, 2004, this matter was settled with the issuance by the SEC of a Cease and Desist Order, to which we consented without admitting or denying the findings in the Order. No fine was assessed against us in the Order, which requires us to cease and desist from violations of the antifraud, periodic reporting and books and records provisions of the Securities Exchange Act of 1934.

The Company plans to offer, subject to market and other conditions, up to $94 million of convertible preferred stock in a private, unregistered offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The preferred stock will be convertible into shares of common stock under certain conditions. QuadraMed intends to use the net proceeds of the offering primarily to repurchase its 10% senior secured notes due 2008 and 5.25% convertible debentures due 2005.

Summary Consolidated Financial Data

The following selected financial data for the fiscal years ended December 31, 2003, 2002, 2001, 2000, and 1999 included herein is derived from our audited consolidated Financial Statements and related notes thereto. The financial data for the three months ended March 31, 2004 and 2003 are derived from the unaudited interim condensed consolidated Financial Statements included elsewhere in this prospectus, are prepared on the same basis as our audited consolidated Financial Statements, and include all adjustments, consisting of only normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and results of operations at and for such periods. This selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations , and the audited consolidated Financial Statements and related notes thereto and the unaudited interim condensed consolidated Financial Statements and related notes thereto included elsewhere in this prospectus. Historical results are not necessarily indicative of future results.

	Three months ended March 31,		Year ended December 31,				
(in thousands, except per share amounts)	**2004**	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
	(unaudited)	**(unaudited)**					
Consolidated Statement of Operations Data:							
Revenue	$ 36,468	$ 29,234	$ 125,105	$ 109,585	$ 117,046	$ 121,012	$ 173,707
Gross margin	$ 20,796	$ 14,820	$ 77,984	$ 64,480	$ 74,269	$ 59,048	$ 113,121
Restatement costs	$	$ 4,150	$ 7,461	$ 7,463	$	$	$
Sales & marketing, general & administrative	$ 15,314	$ 17,808	$ 66,416	$ 59,826	$ 55,975	$ 80,802	$ 89,181
Software development	$ 6,763	$ 5,292	$ 22,203	$ 17,061	$ 14,813	$ 24,573	$ 30,675
Amortization of intangible assets and depreciation[1]	$ 1,255	$ 1,422	$ 5,523	$ 6,198	$ 9,069	$ 11,126	$ 10,459
Loss from operations	$ (2,536)	$ (9,702)	$ (16,158)	$ (18,605)	$ (5,588)	$ (57,465)	$ (48,706)
Interest expense	$ (2,487)	$ (1,063)	$ 9,439	$ 3,461	$ 4,741	$ 6,504	$ 7,668
Gain on redemption of debentures	$	$	$	$	$ 12,907	$	$
Income (loss) from continuing operations	$ (4,541)	$ (10,678)	$ (23,943)	$ (20,858)	$ 11,952	$ (39,354)	$ (52,527)
Gain on disposal of discontinued operations	$	$	$	$ 8,776	$	$	$
Net income (loss)	$ (4,541)	$ (10,678)	$ (23,943)	$ (14,362)	$ 9,413	$ (36,675)	$ (47,388)
Basic income (loss) per share from continuing operations	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.77)	$ 0.47	$ (1.53)	$ (2.20)
Basic net income (loss) per share	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.53)	$ 0.37	$ (1.43)	$ (1.99)
Diluted income (loss) per share from continuing operations	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.77)	$ 0.45	$ (1.53)	$ (2.20)
Diluted net income (loss) per share	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.53)	$ 0.35	$ (1.43)	$ (1.99)

	Three months ended March 31,		Year ended December 31,				
(in thousands)	**2004**	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
Other Data[2] (Unaudited)							
Ratio of earnings to fixed charges and preferred dividends[3]	$	$	$	$	$ 2.7	$	$
(Deficiency of) earnings to cover combined fixed charges and preferred dividends	$ (1,787)	$ (9,159)	$ (12,782)	$ (15,417)	$ 19,425	$ (29,953)	$ (44,003)

	As of March 31,	As of December 31,

(in thousands)	2004	2003	2002	2001	2000	1999
	(unaudited)					
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short term investments	$ 34,763	$ 36,944	$ 26,191	$ 32,213	$ 39,664	$ 29,732
Total assets	$ 135,740	$ 133,155	$ 126,927	$ 125,133	$ 149,286	$ 201,759
Deferred revenue	$ 51,908	$ 48,502	$ 39,492	$ 30,721	$ 22,489	$ 7,258
Working capital	$ 6,451	$ 13,008	$ 18,137	$ 32,509	$ 46,107	$ 61,030
Long-term debt [4]	$ 84,225	$ 84,225	$ 73,719	$ 73,719	$ 115,000	$ 115,000
Stockholders equity (deficit)	$ (19,936)	$ (16,883)	$ (7,235)	$ 4,221	$ (7,166)	$ 27,512

(1) Prior to 2002, the Company recorded depreciation expense as a part of cost of services, sales and marketing, general and administrative, and software development expenses.

(2) For purposes of determining the ratio of earnings to combined fixed charges and preferred dividends and the deficiency of earnings to cover combined fixed charges and preferred dividends, earnings includes pre-tax income (loss) adjusted for fixed charges and preferred dividends. Fixed charges consist of interest expensed and capitalized, amortization of deferred financing charges, and that portion of operating lease rental expense (deemed to be 30% of rental expense) representative of interest.

(3) The ratios of combined fixed charges and preferred dividends to earnings are not presented for the three months ended March 31, 2004 and 2003 and the years ended 2003, 2002, 2000 and 1999 because earnings were inadequate to cover combined fixed charges and preferred dividends.

(4) Does not include $10.6 million at March 31, 2004 and $11.1 million at December 31, 2003 of unamortized discount associated with warrants issued in connection with the 2008 Notes.

RISK FACTORS

An investment in the shares of our common stock and the notes involves a high degree of risk. In considering whether to purchase the notes and shares of our common stock, you should carefully consider the following factors and other information set forth in this prospectus, including our financial statements and the related notes. The risks set forth below are in addition to risks that apply to most businesses.

Risks Related to the Notes and Our Common Stock

Our Indebtedness Could Prevent Us from Fulfilling Our Obligations under the Notes and May Negatively Affect Our Financial and Operating Flexibility.

We have now and will continue to have for the foreseeable future a considerable amount of indebtedness. As of March 31, 2004, we had approximately $84 million of outstanding indebtedness, which consists of the 2008 notes and the notes issued under a May 1, 1998 indenture agreement for $115 million in debentures maturing on May 1, 2005 (the 2005 notes). Our current debt service obligation is $5.0 million (defined as payments due in less than one year from March 31, 2004). Our outstanding indebtedness could have important consequences to you. It could:

- Make it more difficult to satisfy our obligations with respect to the 2008 notes;
- Limit our ability to obtain additional financing to operate or grow our business;
- Limit our financial flexibility in planning for and reacting to industry changes;
- Require us to dedicate a material portion of our operating cash flow to fund interest payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes; and
- Place us at a competitive disadvantage as compared to less leveraged companies. For example, it is more difficult for us to sell our products and services when competing against companies that are less leveraged and/or better capitalized.

We Have Incurred Losses from Continuing Operations for the Past Five Years, Except 2001. If We Continue to Incur Substantial Losses from Continuing Operations in the Future, Our Ability to Honor the Notes May be Impaired. Our Ability to Meet Our Debt Service Obligations Depends on Our Future Performance. Our Losses Have Adversely Affected Our Ability to Complete.

We incurred losses from continuing operations of $23.9 million and $20.9 million for the years ended December 31, 2003 and 2002, respectively. We also incurred a loss from continuing operations of $4.5 million for the first quarter ended March 31, 2004. Although we had income from continuing operations of $12.0 million in 2001, we incurred loses for continuing operations of $39.4 million in 2000. If we are unable to achieve or sustain profitability, it may impair our ability to pay principal and interest on the 2008 notes and on our other indebtedness as it becomes due, to obtain future equity or debt financing, or to do so on economical terms and to sustain and expand our business.

Our ability to make such payments depends on our future operating performance. Future operating performance is subject to market conditions and business factors, which are often outside of our control. Therefore, we are not able to assure you that we will have sufficient cash flow to pay the principal and interest on the 2008 notes and other indebtedness. If our cash flow and capital resources are not enough to allow us to make our scheduled payments on the 2008 notes and other indebtedness, we may have to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. We cannot assure you that the terms of our indebtedness will allow these alternative measures or that such measures would satisfy the scheduled debt service obligations. If we are unable to make the scheduled payments on the 2008 notes or other indebtedness, we will be in default, and our debt holders could declare all outstanding principal and interest to be due and payable.

Our losses have impaired our ability to market our products and services in competition against companies that are more profitable. If we are unable to achieve or sustain profitability, it may impair our ability to compete effectively.

The 2008 Notes Are Structurally Subordinated. This May Affect Your Ability to Receive Payments on the Notes.

We conduct a substantial portion of our operations through our subsidiaries, all of which are wholly owned and operated under common management. Our subsidiaries are separate and distinct legal entities. The notes are obligations exclusively of QuadraMed Corporation, and our subsidiaries have not guaranteed the notes. Our cash flow and our ability to service our debt, including the 2008 notes, depend upon the earnings of our subsidiaries and on the distribution of earnings, loans or other payments by our subsidiaries to us. Distributions to us from our subsidiaries are most often made as dividends on the stock of a particular subsidiary and sometimes as an intercompany loan. We do not have arrangements or agreements with our subsidiaries that entitle us to distributions of earnings, loans or other payments other than our ownership of all of our subsidiaries stock. Payments to us by our subsidiaries will be determined, in the case of each subsidiary, according to the subsidiary s earnings, business condition, and other business considerations.

Because we conduct our business largely through our subsidiaries, claims of creditors of such subsidiaries will generally have priority over such subsidiaries assets ahead of our claims and the holders of our indebtedness (including the 2008 notes). Accordingly, the 2008 notes will be effectively subordinated to all existing and future indebtedness and other liabilities and commitments of our subsidiaries, including trade payables. Any right of ours to receive assets of any subsidiary upon the liquidation or reorganization of such subsidiary (and the consequent rights of the holders of the 2008 notes to participate in those assets) will be effectively subordinated to the claims of such subsidiary s creditors, except to the extent that we ourselves are recognized as a creditor, in which case our claims would still be subordinate to any security in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by us. Because our subsidiaries do not have material indebtedness or obligations for which the Company is not also liable, we do not believe that there is any significant risk that our subsidiaries would be precluded from distributing funds which we would need to satisfy our obligations under our indebtedness.

We May Not Have the Ability to Raise the Funds Necessary to Finance the Change of Control Repurchase, Which Failure Would Constitute a Default under the 2008 Notes.

In the event of a change of control of the company, each holder of our 2008 notes has the right, at its option and subject to the terms of the 2008 notes indenture, to require us to repurchase for cash all or any portion of the holder s notes at a price equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the repurchase date. A change of control is defined in the indenture and includes such transactions as the sale of all or substantially all of our assets as an entirety; a consolidation or merger where we are not the surviving company or our stock is converted; beneficial ownership of over 50% of the total voting power of all classes of our common stock by any person, entity, or group (as defined in Schedule 13(d) of the Securities Exchange Act of 1934); or the liquidation or dissolution of the company. Upon the occurrence of a change of control under the indenture, it is possible that we would not have sufficient funds at that time to make the required repurchase of notes from the requesting holders, which would result in an event of default.

There Is No Public Market for the Notes, and the Transfer of the Notes Is Restricted.

There is no trading market for the notes, no market for the notes may develop, and any market that develops may not last. We do not intend to apply for listing of the notes on any securities exchange or other inter-dealer quotation service. Accordingly, we cannot assure you that a holder of the notes will be able to sell these notes in the future or as to the price at which any sale of the notes may occur. The liquidity of the market for the notes and the prices at which the notes trade will depend upon the amount of notes outstanding, the number of holders of the notes, the interest of securities dealers in maintaining a market in the notes and other factors beyond our control. The liquidity of, and the trading market for, the notes may also be adversely affected by general declines in the market for high yield securities. Even after we have registered the notes and the shares of common stock underlying the warrants, we will have the right, pursuant to the registration rights agreement, to suspend the use of this registration statement in certain circumstances. In the event of such a suspension, you would not be able to sell any notes or shares of common stock issuable upon exercise of the warrants.

Risks Related to Our Business

Our Auditing Firms Have Found Material Weaknesses in Our System of Internal Controls, Policies, and Procedures, Which Could Adversely Affect Our Ability to Record, Process, Summarize and Report Certain Financial Data.

In April 2003, PricewaterhouseCoopers (PwC) informed our management and Audit Committee of its concerns regarding material weaknesses in our system of internal controls, policies and procedures, including the adequacy and reliability of certain financial information, and certain financial personnel. Specifically, PwC reported material weaknesses in:

- the accounting for software revenue and related expense recognition,
- the reporting of discontinued operations,
- the accounting for our investment in certain non-consolidated subsidiaries,
- the accounting for certain life insurance contracts and the Supplemental Executive Retirement Plan,

the accounting and reporting of non-recurring charges,

the accounting for stock-based compensation,

the accounting and reporting of capitalized software development costs,

the accounting for income taxes,

the documentation supporting the accounting for certain business combinations, and

timely analysis and reconciliation of general ledger accounts.

PwC further stated that these material weaknesses would require PwC to expand the scope of its uncompleted audit of fiscal year 2002, and that its findings to date may materially impact the fairness and reliability of our previously issued financial statements as previously filed with the SEC and the report of the prior independent public accountants on those financial statements.

We implemented certain new procedures and corrective actions that addressed the cited weaknesses. These corrective actions included:

We engaged Deloitte & Touche LLP (D&T) to perform a forensic analysis of the company s accounting records and reported results for the years 2000 through 2002. D&T s forensic analysis also covered years 1999 and prior to the extent any items originating in earlier years impact 2000, 2001 or 2002;

We engaged a team of accounting consultants, most of whom are certified public accountants with technology industry experience, to lead the restatement effort of the financial statements for 1999, 2000 and 2001 and the first quarter of 2002. D&T transitioned detailed work and reconciliations to this group of professionals. These professionals filled in gaps in the financial organization where temporary vacancy occurred. They reviewed all material business transactions including revenue contracts, acquisitions & dispositions of businesses, impairment of assets, accrued and actual expenses, stockholders equity transactions and accounting and financial reporting thereof for 1999, 2000 and 2001 and the first quarter of 2002;

We retained Charles Stahl, formerly an audit partner with Deloitte & Touche, LLP, as a full-time consultant and then hired him as Executive Vice President and Chief Financial Officer to lead the final phase of the restatement effort and the strengthening of our internal controls; and

Our Audit Committee engaged a financial expert to advise them and strengthen the Audit Committee s role in corporate governance.

The company and our Chief Financial Officer have built a complete permanent finance department to replace the one that was based, in part, on consultants.

In February 2004, BDO Seidman, LLP (BDO) informed our management and Audit Committee of its concern regarding a material weakness in our system of internal controls, policies and procedures to track movements in deferred revenue on a roll forward basis. As a result, it was difficult for management to continually monitor movements in the account. Analytical review was done at the end of each period but not on an overall roll forward basis.

The Company has now implemented procedures to report movements in deferred revenue on an overall roll forward basis. However, we continue to rely on our month-end and quarter-end analysis of the deferred revenue balances. We are also in the process of upgrading our computer software and adding new modules that will simplify the aforementioned overall roll forward analysis and will allow us to more efficiently track and monitor changes in this account.

As of March 31, 2004, an evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e), and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures were effective as of March 31, 2004.

Our management, including the CEO and CFO, does not expect that our internal controls will necessarily prevent all error and all fraud. A control system, no matter how well designed and operated, cannot provide absolute assurance that the control system s objectives will be met. In addition, the design of such internal controls must take into account the costs of designing and maintaining such a control system. Certain inherent limitations exist in control systems to make absolute assurances difficult, including the realities that judgments in decision-making can be faulty, that breakdowns can occur because of a simple error or mistake, and that individuals can circumvent controls. The design of any control system is based in part upon existing business conditions and risk assessments. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies and procedures. As a result, they may require change or revision. Because of the inherent limitations in a control system, misstatement due to error or fraud may occur and may not be detected. Nevertheless, management believes that the Company s internal controls over financial reporting for the first quarter of fiscal year 2004 are adequate.

We Were Subject to a Formal SEC Inquiry as a Result of the Restatement of Our Financial Statements, and the SEC Has Issued a Cease and Desist Order to which We Have Consented.

Following our August 12, 2002 announcement that we intended to restate prior period financial statements, the staff of the San Francisco District Office of the SEC requested certain information concerning the anticipated restatement as part of an informal, preliminary inquiry.

On February 28, 2003, we reported that the SEC had issued a formal non-public order of investigation concerning our accounting and financial reporting practices for the period beginning January 1, 1998. On October 10, 2003, we announced that the Staff of the San Francisco District Office of the Securities and Exchange Commission informed us that the Staff intended to recommend to the SEC that it institute an enforcement action against us for violations of the antifraud, periodic filing and books and records provisions of the federal securities laws. The proposed recommendation concerned our accounting for transactions that we entered into with Health+Cast LLP in 1998 and 1999. The 1999 transactions were restated as part of the restatement of our 1999 financial statements. None of the individuals who were involved with the Health+Cast transactions are any longer associated with QuadraMed. On April 30, 2004, that matter was settled with the issuance by the SEC of a Cease and Desist Order, to which QuadraMed consented without admitting or denying the findings in the Order. No fine was assessed against QuadraMed in the Order, which requires QuadraMed to cease and desist from violations of the antifraud, periodic reporting and books and records provisions of the Securities Exchange Act of 1934.

Our Common Stock Has Been Delisted from the Nasdaq Stock Market, which Could Result in Loss of Investors, Increased Obligations under State Securities Laws, and Decreased Coverage by Securities Analysts.

We received notice from the Nasdaq Stock Market requiring us to file Forms 10-Q for the quarters ended June 30 and September 30, 2002 as well as restated financial statements for the years ended December 31, 2001, 2000, and 1999 on or before February 28, 2003. Because we were unable to meet these requirements in a timely manner, on March 4, 2003 our common stock was delisted from the Nasdaq Stock Market. The delisting of our stock triggered a repurchase event under the terms of a May 1, 1998 indenture agreement for our 2005 notes. This repurchase event required us to partially refinance our 2005 notes. On April 17, 2003, we repurchased $61.8 million of our outstanding 2005 notes and issued $71 million in 2008 notes and warrants to purchase 11,303,842 shares of our common stock. We also issued warrants to purchase 282,596 shares of our common stock to Philadelphia Brokerage Corporation as consideration for their assistance with the issuance of the 2008 notes.

Delisting from the Nasdaq National Market subjects us to numerous consequences that may adversely affect our business, including the loss of investors. We may no longer qualify for exemptions from state securities registration requirements. Without an exemption from registration, we may need to file time-consuming and costly registration statements for future securities transactions and issuances and to amend our stock option and stock option purchase plans. Delisting may result in decreased coverage by securities analysts. Furthermore, delisting may impair our ability to compete.

We Have a Limited Trading Market, which Could Affect Your Ability to Sell Shares of Our Common Stock and the Price You May Receive for Our Common Stock.

There is currently a limited trading market for our common stock on the Over-the-Counter Bulletin Board and the Pink Sheets . The ability to trade our common stock on the over-the-counter market depends on the presence and investment decisions of willing buyers and sellers. Therefore, the market of investors who are willing to purchase our common stock is limited, the volume of our common stock traded on a daily basis is low, and the liquidity of our common stock is limited. All of these will affect your ability to sell and the price you may receive for our common stock. While we have applied for quotation of our common stock on the American Stock Exchange (AMEX) and the Boston Stock Exchange (BSE), there can be no assurance that our common stock will be accepted for quotation by the AMEX, the BSE, or any other exchange.

The Trading Price of Our Common Stock Has Been, and Is Expected to Continue to Be, Volatile.

The Nasdaq National Market on which our common stock was listed, the Pink Sheets over-the-counter market and the Over-the-Counter Bulletin Board, where our stock currently trades, and stock markets in general, have historically experienced extreme price and volume fluctuations that have affected companies unrelated to their individual operating performance. The trading price of our common stock has been and is likely to continue to be volatile due to such factors as:

- Variations in quarterly results of operations;
- Announcements of new products or acquisitions by our competitors;
- Government regulatory action;
- Resolution of pending or unasserted litigation, including the existing stockholder lawsuits and SEC investigation;
- Developments or disputes with respect to proprietary rights; and
- General trends in our industry and overall market conditions.

Movements in prices of equity securities in general may also affect the market price of our common stock.

Our Quarterly Operating Results Are Subject to Fluctuations, which Could Adversely Affect Our Financial Results and the Market Price of Our Common Stock.

Our quarterly operating results have varied significantly in the past and may fluctuate in the future as a result of a variety of factors, many of which are outside our control. Accordingly, quarter-to-quarter comparisons of our operating results may not be indicative of our future performance. Some of the factors causing these fluctuations include:

Variability in demand for products and services;

Introduction of product enhancements and new products by us and our competitors;

Timing and significance of announcements concerning present or prospective strategic alliances;

Discontinuation of, or reduction in, the products and services we offer;

Loss of customers due to consolidation in the healthcare industry;

Delays in product delivery requested by our customers;

Customer budget cycle fluctuation;

Investment in marketing, sales, software development, and administrative personnel necessary to support anticipated operations;

Costs incurred for marketing and sales promotional activities;

Software defects and other product quality factors;

General economic conditions and their impact on the healthcare industry;

Cooperation from competitors on interfaces and implementation when a customer chooses a QuadraMed software application to use with various vendors;

Delays in implementation due to product readiness, customer induced delays in training or installation, and third party interface development delays;

Final negotiated sales prices of systems;

Federal regulations (*i.e.*, OIG, HIPAA, ICD-10) that can increase demand for new, updated systems;

Federal regulations that directly affect reimbursements received, and therefore the amount of money available for purchasing information systems; and

The fines and penalties a healthcare provider or system may incur due to fraudulent billing practices.

In addition to the foregoing, a significant percentage of our total cost of revenue is attributable to the cost of third party software royalties and licenses relating to third party software embedded within our software applications. The cost of third-party software royalties and licenses, as a percentage of total cost of revenue, was approximately 9.1%, 9.6% and 6.5% for the years ended December 31, 2003, 2002 and 2001, respectively. Generally, royalty fees for third party licenses will fluctuate based on revenue or the number of our customers and therefore will fluctuate on a quarter to quarter basis.

Our operating expense levels, which increase with the addition of acquired businesses, are relatively fixed. Accordingly, if future revenues are below expectations, we would experience a disproportionate adverse affect on our net income and financial results. In the event of a revenue shortfall, we will likely be unable to, or may elect not to, reduce spending quickly enough to offset any such shortfall. As a result, it is possible that our future revenues or operating results may fall below the expectations of securities analysts and investors. In such a case, the price of our publicly traded securities may be adversely affected.

Future Sales of Our Common Stock in the Public Market, Warrants or Option Exercises and Sales Could Lower Our Stock Price.

A substantial number of shares of our common stock are subject to stock options and warrants, and our outstanding 2005 notes may be converted into shares of common stock. We cannot predict the effect, if any, that future sales of shares of common stock, or the availability of shares of common stock for future sale, will have on the market price of our common stock. Sales of substantial amounts of common stock, including shares registered under this registration statement, or issued upon the exercise of stock options or the conversion of our outstanding 2005 notes, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Provisions in Our Certificate of Incorporation and Bylaws and Delaware Law Could Delay or Discourage a Takeover which Could Adversely Affect the Price of Our Common Stock.

Our Board of Directors has the authority to issue up to five million shares of preferred stock and to determine the price, rights, preferences, privileges, and restrictions, including voting rights, of those shares without any further vote or action by holders of our common stock. If preferred stock is issued, the voting and other rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of our preferred stock. The issuance of preferred stock may have the effect of delaying or preventing a change of control

of QuadraMed that could have been at a premium price to our stockholders.

Certain provisions of our certificate of incorporation and bylaws could discourage potential takeover attempts and make attempts to change management by stockholders difficult. Our Board of Directors has the authority to impose various procedural and other requirements that could make it more difficult for our stockholders to effect certain corporate actions. In addition, our certificate of incorporation provides that directors may be removed only by the affirmative vote of the holders of two-thirds of the shares of our capital stock entitled to vote. Any vacancy on our Board of Directors may be filled only by a vote of the majority of directors then in office. Further, our certificate of incorporation provides that the affirmative vote of two-thirds of the shares entitled to vote, voting together as a single class, subject to certain exceptions, is required for certain business combination transactions. These provisions, and certain other provisions of our certificate of incorporation, could have the effect of delaying or preventing (i) a tender offer for our common stock or other changes of control of QuadraMed that could be at a premium price or (ii) changes in our management.

In addition, certain provisions of Delaware law could have the effect of delaying or preventing a change of control of QuadraMed. Section 203 of the Delaware General Corporation Law, for example, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met.

The Change of Control Repurchase Feature of Our 2008 Notes May Discourage a Takeover Which Could Adversely Affect the Price of Our Common Stock.

In the event of a change of control of the company, holders of our 2008 notes have the right to require us to repurchase for cash all or any portion of the 2008 notes at a price equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the repurchase date. This change of control repurchase feature of the 2008 notes may, in certain circumstances, make more difficult and costly, and therefore discourage, a change of control of QuadraMed that could have been at a premium price to our stockholders.

We Do Not Expect to Pay Cash Dividends in the Foreseeable Future.

We have not declared or paid cash or other dividends on our common stock and do not expect to pay cash dividends for the foreseeable future. Also, under the terms of our 2008 notes, our excess cash must be used to redeem the debt. We currently intend to retain all future earnings for use in the operation of our business and to fund future growth. Any future cash dividends will depend upon our results of operations, financial conditions, cash requirements, the availability of a surplus and other factors.

We May Be Liable for Violating the Intellectual Property Rights of Third Parties, which Could Lead Us to Incur Substantial Litigation Expenses, and, If There Were an Adverse Judgment, Liability for Any Infringement.

We do not believe that the intellectual property important to the operation of our business, whether owned by us or licensed to us by a third party, infringes or violates the intellectual property rights of any other party. However, intellectual property litigation is increasingly common in the software industry. The risk of an infringement claim against us may increase over time as the number of competitors in our industry segment grows and the functionality of products overlaps. Third parties have, in the past, asserted infringement claims and could assert infringement claims against us in the future. Regardless of the merits, we could incur substantial litigation expenses in defending any such asserted claim. In the event of an unfavorable ruling on any such claim, a license or similar agreement may not be available to us on reasonable terms, if at all. Infringement may also result in significant monetary liabilities that could have a material adverse effect on our business, financial condition, and results of operations. We may not be successful in the defense of these or similar claims. We have taken steps to contractually limit our liability for the use of intellectual property licensed to us by third parties. However, there can be no guarantee that we have adequate protection.

Our Inability to Protect Our Intellectual Property Could Lead to Unauthorized Use of Our Products, which Could Have an Adverse Effect on Our Business.

We rely on a combination of trade secret, copyright and trademark laws, nondisclosure, non-compete, and other contractual provisions to protect our proprietary rights. In 2001, we filed our first patent application covering our developed technology, the Affinity CPOE software application. This application lapsed, and we have no patents. Measures taken by us to protect our intellectual property may not be adequate, and our competitors could independently develop products and services that are substantially equivalent or superior to our products and services. Any infringement or misappropriation of our proprietary software and databases could put us at a competitive disadvantage in a highly competitive market and could cause us to lose revenues, incur substantial litigation expense, and divert management s attention from other operations.

We are Dependent Upon Third Party Software Licenses in Connection with the Sale of Our Software. If These Licenses Are Not Renewed or Are Terminated, We May Not Be Able to Continue to Use the Related Technology on Commercially Reasonable Terms or at All.

We depend on licenses from a number of third party vendors for certain technology, including the computer hardware, operating systems, database management systems, programming language, and runtime environment, upon which we develop and operate our products. We are materially reliant upon licenses with the following third party vendors: InterSystems Corporation, Oracle, Microsoft, Quovadx, the American Medical Association (AMA), and the American Hospital Association (AHA). Most of these licenses expire within three to five years. Such licenses can be renewed only by mutual consent and may be terminated if we breach the license terms and fail to cure the breach within a specified time period. If such licenses are terminated, we may not be able to continue using the technology on commercially reasonable terms or at all. As a result, we may have to discontinue, delay or reduce product shipments until equivalent technology is obtained, which could have a material adverse effect on our business, financial condition, and results of operations. However, as all application software companies, including QuadraMed and our competitors, are reliant on licensed technology and third party components, we believe our reliance on such technology and licenses places us at no competitive disadvantage.

At present, there is no equivalent technology for the InterSystems Corporation technology which is an integral component of our Affinity product line. The Company has entered into several agreements with InterSystems Corporation regarding the licensed technology relating to our Affinity product line. However, if InterSystems Corporation ceased to offer this technology and no other vendor provided the technology, we would be required to migrate our Affinity products to a new database platform or redesign our products to work with new software tools. This could be very costly and difficult to achieve and could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we would successfully migrate our Affinity products to a new platform. Most of our third-party licenses are non-exclusive and competitors may obtain the same or similar technology. In addition, if vendors choose to discontinue support of the licensed technology, we may not be able to modify or adapt our products.

We Face Product Development Risks Associated with Rapid Technological Changes.

The healthcare software market is highly fragmented and characterized by ongoing technological developments, evolving industry standards, and rapid changes in customer requirements. Our success depends on our ability to timely and effectively:

Offer a broad range of software products;

Enhance existing products and expand product offerings;

Respond promptly to new customer requirements and industry standards;

Remain compatible with popular operating systems and develop products that are compatible with the new or otherwise emerging operating systems; and

Develop new interfaces with competing HIS vendors to fully integrate our Quantim product suite in order to maximize features and functionality of the new products.

Our performance depends in large part upon our ability to provide the increasing functionality required by our customers through the timely development and successful introduction of new products and enhancements to our existing suite of products. We may not successfully, or in a timely manner, develop, acquire, integrate, introduce, or market new products or product enhancements. Product enhancements or new products developed by us also may not meet the requirements of hospitals or other healthcare providers and payers or achieve or sustain market acceptance. Our failure to either estimate accurately the resources and related expenses required for a project, or to complete our contractual obligations in a manner consistent with the project plan upon which a contract was based, could have a material adverse effect on our business, financial condition, and results of operations. In addition, our failure to meet a customer s expectations in the performance of our services could damage our reputation and adversely affect our ability to attract new business.

A Significant Amount of Our Assets Comprise Goodwill, Customer Lists and Other Intangible Items Subject to Impairment and Adjustment That Could Possibly Negatively Impact Our Results of Operations and Stockholders Equity.

A significant amount of our assets comprise intangible assets, such as the value of the installed customer base, core technology, capitalized software, goodwill, and other identifiable intangible assets acquired through our acquisitions, such as trademarks.

Pursuant to SFAS No. 142, we must test goodwill and other intangible assets for impairment at least annually and adjust them when impaired to the appropriate net realizable value. We performed an impairment test on the carrying value of our goodwill and intangibles as of January 1, 2004 and 2003. We determined that there was no impairment as of these dates. In addition, our internally developed software has been capitalized assuming our earnings from these product developments exceeds the costs incurred to develop them. If it is determined that these assets have been impaired and our future operating results will not support the existing carrying value of our intangible assets, we will be required to adjust the carrying value of such assets to net realizable value.

We, however, cannot predict that all of our intangible assets will continue to remain unimpaired. Our future operating results and stockholders equity could possibly decrease with any future impairment and write-down of goodwill, customer lists, or other such intangibles.

The Nature of Our Products Makes Us Particularly Vulnerable to Undetected Errors or Bugs that Could Reduce Revenues, Market Share or Demand for Our Products and Services.

Products such as those we offer may contain errors or failures, especially when initially introduced or when new versions are released. Although we conduct extensive testing on our products, software errors have been discovered in certain enhancements and products after their introduction. Despite such testing by us and by our current and potential customers, products under development, enhancements, or shipped products may contain errors or performance failures, resulting in, among other things:

Loss of customers and revenue;

Delay in market acceptance;

Diversion of resources;

Damage to our reputation; or

Increased service and warranty costs.

Any of these consequences could have a material adverse effect on our business, financial condition, and results of operations.

If Our Products Fail to Accurately Assess, Process, or Collect Healthcare Claims or Administer Managed Care Contracts, We Could Be Subject to Costly Litigation and Be Forced to Make Costly Changes to Our Products.

Some of our products and services are used in the payment, collection, coding, and billing of healthcare claims and the administration of managed care contracts. If our employees or products fail to accurately assess, process, or collect these claims, customers could file claims against us. Our insurance coverage may not be adequate to cover such claims. A successful claim that is in excess of, or is not covered by, insurance coverage could adversely affect our business, financial condition, and results of operations. Even a claim without merit could result in significant legal defense costs and could consume management time and resources. In addition, claims could increase our premiums such that appropriate insurance could not be found at commercially reasonable rates. Furthermore, if we were found liable, we may have to significantly alter one or more of our products, possibly resulting in additional unanticipated software development expenses.

Changes in Procurement Practices of Hospitals Have and May Continue to Have a Negative Impact on Our Revenues.

A substantial portion of our revenues has been and is expected to continue to be derived from sales of software products and services to hospitals. Consolidation in the healthcare industry, particularly in the hospital and managed care markets, could decrease the number of existing or potential purchasers of products and services and could adversely affect our business. In addition, the decision to purchase our products often involves a committee approval. Consequently, it is difficult for us to predict the timing or outcome of the buying decisions of our customers or potential customers. In addition, many healthcare providers are consolidating to create integrated delivery networks with greater regional market power. These emerging systems could have greater bargaining power, which may lead to decreases in prices for our products, which could adversely affect our business, financial condition, and results of operations.

Changes in the Healthcare Financing and Reimbursement System Could Adversely Affect the Amount of and Manner in which Our Customers Purchase Our Products And Services.

Changes in current healthcare financing and reimbursement systems could result in unplanned product enhancements, delays, or cancellations of product orders or shipments, or reduce the need for certain systems. We could also have the endorsement of products by hospital associations or other customers revoked. Any of these occurrences could have a material adverse effect on our business. Alternatively, the federal government recently mandated that all but small health care providers submit claims to Medicare in electronic format, which may positively affect our systems and product.

The healthcare industry in the United States is subject to changing political, economic, and regulatory influences that may affect the procurement practices and operations of healthcare organizations. The traditional hospital delivery system is evolving as more hospital services are being provided by niche, free standing practices and outpatient providers. The commercial value and appeal of our products may be adversely affected if the current healthcare financing and reimbursement system were to change. During the past several years, the healthcare industry has been subject to increasing levels of governmental regulation. Proposals to reform the healthcare system have been and are being considered by the United States Congress. These proposals, if enacted, could adversely affect the commercial value and appeal of our products or change the operating environment of our customers in ways that cannot be predicted. Healthcare organizations may react to these proposals by curtailing or deferring investments, including those for our products and services. In addition, the regulations promulgated under HIPAA could lead healthcare organizations to curtail or defer investments in non-HIPAA related features in the next several years.

The Variability and Length of Our Sales Cycle for Our Products May Exacerbate the Unpredictability and Volatility of Our Operating Results.

We cannot accurately forecast the timing of customer purchases due to the complex procurement decision processes of most healthcare providers and payers. How and when to implement, replace, expand or substantially modify an information system are major decisions for hospitals, and such decisions require significant capital expenditures by them. As a result, we typically experience sales cycles that extend over several quarters. In particular, our Affinity enterprise software has a higher average selling price and longer sales cycle than many of our other products. As a result, we have only a limited ability to forecast the timing and size of specific sales, making the prediction of quarterly financial performance more difficult.

We Operate in a Highly Competitive Market.

Competition for our products and services is intense and is expected to increase. Increased competition could result in reductions in our prices, gross margins, and market share and have a material adverse effect on our business, financial condition, and results of operations. We compete with other providers of healthcare information software and services, as well as healthcare consulting firms. Some competitors have formed business alliances with other competitors that may affect our ability to work with

some potential customers. In addition, if some of our competitors merge, a stronger competitor may emerge. Some principal competitors include:

- In the market for enterprise healthcare information systems: McKesson Corporation, Inc., Shared Medical Systems, Inc., a division of Siemens, MediTech Corporation, Eclipsys Corporation, Cerner, and IDX Corporation;

- In the market for electronic document management products: McKesson Corporation, SoftMed Corporation Inc., FileNet, Lanvision, MedPlus, and Eclipsys Corporation;

- In the market for MPI products and services: Madison Technologies, Inc., McKesson Corporation, Shared Medical Systems, Inc., a division of Siemens, and Medibase;

- In the market for decision support products: Eclipsys Corporation, Healthcare Microsystems, Inc., a division of Health Management Systems Inc., McKesson Corporation, Shared Medical Systems, Inc., a division of Siemens, and MediQual Systems, Inc., a division of Cardinal Health, Inc.;

- In the market for coding, compliance, data, and record management products in the Health Information Management Software Division: 3M Corporation, SoftMed Corporation, Inc., MetaHealth, Eclipsys Corporation and HSS, Inc.;

- In the market for financial services: Advanced Receivables Strategy, Inc., a division of Perot Systems Corporation, NCO Group, Inc., Outsourcing Solutions, Inc., Health Management Systems, Inc., and Triage Consulting Group.

Current and prospective customers also evaluate our products capabilities against the merits of their existing information systems and expertise. Major software information systems companies, including those specializing in the healthcare industry, that do not presently offer competing products may enter our markets. Many of our competitors and potential competitors have significantly greater financial, technical, product development, marketing and other resources, and market recognition than we have. Many of these competitors also have, or may develop or acquire, substantial installed customer bases in the healthcare industry. As a result of these factors, our competitors may be able to respond more quickly to new or emerging technologies, changes in customer requirements, and changes in the political, economic or regulatory environment in the healthcare industry.

These competitors may be in a position to devote greater resources to the development, promotion, and sale of their products than we can. We may not be able to compete successfully against current and future competitors, and such competitive pressures could materially adversely affect our business, financial condition, and operating results.

We Have Encountered Significant Challenges Integrating Acquired Businesses, and Future Transactions May Adversely Affect Our Business, Operations, and Financial Condition.

From 1993 to 1999, we completed 28 acquisitions, and we encountered significant challenges integrating the acquired businesses into our operations. From 2000 through 2003, we made significant progress toward that integration. However, we continue to support several different technology platforms. In February 2004, we acquired Détente Systems Pty Limited, an Australian proprietary limited company, and Détente Systems Trust, an Australian business trust. In the future, we plan to make investments in or acquire additional complementary businesses, products, services or technologies. These investments and acquisitions will create new integration challenges. Some of the challenges we have encountered, and may encounter with acquisitions in the future, in integrating acquired businesses have included:

Interruption, disruption or delay of our ongoing business;

Distraction of management s attention from other matters;

Additional operational and administrative expenses;

Difficulty managing geographically dispersed operations;

Failure of acquired businesses to achieve expected results, resulting in our failure to realize anticipated benefits;

Write-down or reclassification of acquired assets;

Failure to retain key acquired personnel and difficulty and expense of training those retained;

Increases in stock compensation expense and increased compensation expense resulting from newly hired employees;

Assumption of liabilities and potential for disputes with the sellers of acquired businesses;

Customer dissatisfaction or performance problems related to acquired businesses;

Failure to maintain good relations with customers or suppliers;

Exposure to the risks of entering markets in which we have no direct prior experience and to risks associated with market acceptance of acquired products and technologies; and

Platform and technical issues related to integrating systems from various acquired companies.

All of these factors have had an adverse effect on our business, financial condition, and results of operations in the past, and could have an adverse effect in the future.

No Mirror Processing Site for Our Customer Data Processing Facilities Exists; Our Business, Financial Condition, and Results of Operations Could Be Adversely Affected if These Facilities Were Subject to a Closure from a Catastrophic Event or Otherwise.

We currently process substantially all of our customer data at several of our facilities across the United States. Although we back up our data nightly and have safeguards for emergencies, such as power interruption or breakdown in temperature controls, we have no mirror processing site to which processing could be transferred in the case of a catastrophic event at any of these facilities. If a major catastrophic event occurs at these facilities possibly leading to an interruption of data processing, or any other interruption or closure, our business, financial condition, and results of operations could be adversely affected.

We May Be Required to Make Substantial Changes to Our Products if They Become Subject to FDA Regulation, which Could Require a Significant Capital Investment.

Computer products used or intended for use in the diagnosis, cure, mitigation, treatment, or prevention of diseases or other conditions or that affect the structure or function of the body are subject to regulation by the FDA under the Federal Food, Drug and Cosmetic Act. At present, none of our software products are so regulated. In the future, the FDA could determine that some of our products, because of their predictive aspects, are clinical decision tools and subject them to regulation. Compliance with FDA regulations could be burdensome, time consuming, and expensive. Other new laws and regulations affecting healthcare software development and marketing also could be enacted in the future. If so, it is possible that our costs and the length of time for product development and marketing could increase and that other unforeseeable consequences could arise.

Governmental Regulation of the Confidentiality of Patient Health Information Could Result in Our Customers Being Unable to Use Our Products Without Significant Modification, which Could Require Us to Expend Substantial Amounts.

There is substantial state and federal regulation of the confidentiality of patient health information and the circumstances under which such information may be used by, disclosed to or processed by us as a consequence of our contacts with various health care providers. Although compliance with these laws and regulations is presently the principal responsibility of the hospital, physician, or other healthcare provider, regulations governing patient confidentiality rights are dynamic and rapidly evolving. Changes may be made which require us to change our

systems and our methods which could require significant expenditure of capital and decrease future business prospects. Additional federal and state legislation governing the dissemination of individually identifiable information have been proposed and may be adopted, which may also significantly affect our business.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) is a federal law that affects the use, disclosure, transmission and storage of individually identifiable health information. As directed by HIPAA, the United States Department of Health and Human Services (HHS) must promulgate standards and implementation guidelines for certain electronic health transactions, code sets, data security, unique identification numbers, and privacy of individually identifiable health information. HHS has issued some of these regulations in final form while others remain in development. Moreover, HHS could, at any time in the future, modify any existing final regulations in a manner that could require us to change our systems or operations.

First, HHS published a final regulation governing transaction and code set standards that had an initial compliance date of October 16, 2002. If a covered entity (health care providers that transmit certain covered transactions in electronic form, health plans and health care clearinghouses) or its agent filed a timely extension, the covered entity would have received an additional year to comply with the HIPAA transaction and code sets requirements, until October 16, 2003. As a consequence, all covered entities must now comply with this regulation. As noted above, HHS may make further revisions to the transactions and code sets standards which could require us to change our products and systems to enable our covered entity customers to meet such obligations.

Second, HHS has published a final HIPAA privacy regulation which had a compliance date of April 14, 2003. The HIPAA privacy regulation is complex and far reaching. Similar to the HIPAA transaction and code sets regulation, the HIPAA privacy regulation applies to covered entities. Covered entities are, in most instances, required to execute a contract with any business associate that performs certain services on the covered entity s behalf involving protected health information. Under the regulations, QuadraMed s Financial Services and Electronic Data Interchange businesses are considered covered entities and are therefore governed by HIPAA regulations. QuadraMed s hospital customers are covered entities, and to the extent that QuadraMed customers use the software to manipulate protected health information and submit electronic transactions, QuadraMed is required by its customer contracts to ensure that the software complies with all relevant regulations. The HIPAA privacy regulation and state healthcare privacy regulations could materially restrict the ability of healthcare providers to disclose protected health information from patient records using our products and services or could require us to make additional capital expenditures to be in compliance. Accordingly, the HIPAA privacy regulation and state privacy laws may significantly impact our product s use in the health care delivery system and therefore, decrease our revenue, increase working capital requirements and decrease future business prospects.

Third, HHS has published the final HIPAA security regulation with a compliance date of April 21, 2005. The HIPAA security regulation applies to the use, disclosure, transmission, storage and destruction of electronic protected health information by covered entities. Covered entities must implement stringent security measures to ensure the confidentiality of the electronic protected health information, and to protect against the unauthorized use of the electronic protected health information. Implementing such measures will require us to expend substantial capital due to required product, service, and procedure changes.

QuadraMed has completed modifications to its business practices and software offerings and is currently in full compliance with HIPAA regulations. However, HHS continues to publish change notices to existing rules and propose new rules. There is no certainty that QuadraMed will be able to respond to all such rules in a timely manner and our inability to do so could adversely affect our business.

Government Regulation to Adopt and Implement ICD-10-CM and ICD-10-PCS Medical Code Set Standards Could Require Substantial Modification of our Coding and Compliance Software.

The American Health Information Management Association (AHIMA) and other prominent healthcare industry advocacy groups are calling on the Department of Health and Human Services (HHS) and the healthcare industry to take action to adopt and implement ICD-10-CM and ICD-10-PCS code sets, rules, and guidelines as a replacement for current ICD-9-CM guidelines used in our software products. Adoption of these new code sets would require us to change our systems and our methods which could require a significant expenditure of software development capital and decrease future business prospects for our current product line.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements 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 the statements made in the section of the prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations regarding our strategy, future operations, future expectations or future estimates, financial position and objectives of management. 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 , pro forma , seek , continue 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 relating to our operations, results of operations, competitive factors, shifts in market demand and other risks and uncertainties. These statements are only predictions and we can give no assurance that such expectations will prove to be correct.

We discuss risks, uncertainties, and assumptions that could cause our actual results to differ from these forward looking statements elsewhere in this prospectus, including in the section entitled Risk Factors , and in our periodic reports filed with the SEC. These are factors that we believe could cause our actual results to differ materially from our expected and historical results.

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 prospectus. 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 prospectus, you should not consider the inclusion of such information as a representation by us or anyone else that we will achieve such results. We undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise. You are advised, however to consult any further disclosures we make in our subsequent 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.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits under the Securities Act with respect to the shares and notes to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement. For further information regarding QuadraMed Corporation and the common stock and notes offered by this prospectus, we refer you to the registration statement, including the exhibits thereto, and the financial statements and notes filed as a part thereof. With respect to each such document filed with the SEC as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matter involved.

We file quarterly and annual reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the public reference facilities of the SEC in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC s web site at http://www.sec.gov and on our website, http://www.quadramed.com, where all of our current SEC filings can be accessed free of charge as soon as reasonably practicable after they are filed with the SEC.

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission to register the resale of the common stock and notes issued or issuable to the selling holders as explained in this prospectus. As permitted by the SEC s rules, this prospectus

does not contain all of the information you can find in the registration statement or the exhibits to the registration statement. This prospectus summarizes some of the documents that are exhibits to the registration statement, and you should refer to the exhibits for more complete information as to the matters covered by these documents.

You should read this prospectus summary together with the more detailed information contained in this prospectus, including the risk factors, the financial statements and the notes to the financial statements. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in the Risk Factors section and elsewhere in this prospectus. For more information, please refer to the section entitled Cautionary Note Regarding Forward-Looking Statements located in this prospectus.

Unless we state otherwise, we , us , our , the company , and QuadraMed refer to QuadraMed Corporation, including all of our subsidiaries. Un otherwise indicated, industry data in this prospectus is derived from publicly available sources, which we have not independently verified.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with any information that is different from the information contained in this prospectus. The selling holders are offering to sell, and seeking offers to buy, common stock and notes only in jurisdictions where such offers and sales are permitted. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of the delivery of this prospectus or of any sale of the common stock or notes. Our business, financial condition, results of operation and prospects may have changed since that date.

USE OF PROCEEDS

The selling holders will receive all of the proceeds from the resale of the shares of common stock and notes that may be sold using this prospectus. We will not receive any of the proceeds from the resale of these shares of common stock and notes.

PRICE RANGE OF OUR COMMON STOCK

Our common stock currently trades on the Over-the-Counter Bulletin Board market under the symbol QMDC.OB and on the Pink Sheets over-the-counter market under the symbol QMDC.PK .

The following table shows the trading history of our common stock:

Start Date	End Date	Market	Symbol
October 9, 1996	August 29, 2000	Nasdaq National Market	QMDC
August 30, 2000	May 22, 2002	Nasdaq SmallCap Market	QMDC
May 23, 2002	August 22, 2002	Nasdaq National Market	QMDC
August 23, 2002	March 3, 2003	Nasdaq National Market	QMDCE
March 4, 2003*	Present (June 14, 2004)	Pink Sheets	QMDC.PK
December 10, 2003	Present (June 14, 2004)	Over the Counter Bulletin Board	QMDC.OB

* On March 4, 2003 our common stock was delisted from the Nasdaq National Market.

On June 10, 2004, the high and low prices for our common stock on the Over-the-Counter Bulletin Board were $3.05 and $2.70 per share respectively. On March 8, 2004, there were 284 holders of record and approximately 6,800 beneficial holders of our common stock. This approximation is based on the number of the holders of record in addition to the number of proxy reports distributed to our beneficial holders as of the record date for our 2004 Annual Meeting held in May 2004.

The following table sets forth the high and low prices for our common stock traded on the Over-the-Counter Bulletin Board for the periods indicated.

Fiscal Year Ended December 31, 2003	High	Low
Quarter ended December 31 (December 10 December 30)	$ 2.650	$ 2.250

Fiscal Year Ending December 31, 2004	High	Low
Quarter ended March 31	$ 3.750	$ 2.550
Quarter ending June 30 (through June 10)	$ 3.550	$ 2.700

The following table sets forth the high and low bid and asked prices for our common stock traded on the Pink Sheets for the periods indicated.

Fiscal Year Ended December 31, 2003	High	Low
Quarter ended March 31 (March 4 March 31)	$ 1.160	$ 0.349
Quarter ended June 30	$ 1.950	$ 0.950

Quarter ended September 30	$ 2.700	$ 1.740
Quarter ended December 31 (through December 16)	$ 2.870	$ 2.250

The following table sets forth the range of our common stock with high and low closing sales prices as reported on the applicable Nasdaq Market for the periods indicated.

Fiscal Year Ended December 31, 2002 [1]	**High**	**Low**
Quarter ended March 31	$ 11.550	$ 8.110
Quarter ended June 30	$ 9.640	$ 5.570
Quarter ended September 30	$ 6.980	$ 1.470
Quarter ended December 31	$ 3.000	$ 1.160

Fiscal Year Ended December 31, 2003 [2]	**High**	**Low**
Quarter ended March 31 (January 1 March 3)	$ 2.670	$ 0.349

(1) Stock traded on Nasdaq SmallCap Market until May 22, 2002. Stock traded on the Nasdaq National Market starting May 23, 2002.

(2) Stock traded on the Nasdaq National Market.

We have authorized 150,000,000 shares of common stock, par value $0.01 per share. We have authorized 5,000,000 shares of preferred stock, par value $0.01 per share. Our Board of Directors has authority to provide for the issuance of our shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, without any further vote or action by the stockholders. As of June 9, 2004, we had 36,043,018 shares of common stock outstanding and no outstanding preferred stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We anticipate that we will retain earnings, if any, to finance the growth and development of our business. Additionally, the terms of our 2008 notes require us to use excess cash to buy back 2008 notes. Therefore, we do not expect to pay cash dividends on our common stock for the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any financing arrangements and whatever other factors that our Board of Directors determines are relevant.

SELECTED FINANCIAL DATA

The following selected financial data for the fiscal years ended December 31, 2003, 2002, 2001, 2000, and 1999 included herein is derived from our audited consolidated Financial Statements and related notes thereto. The financial data for the three months ended March 31, 2004 and 2003 are derived from the unaudited interim condensed consolidated Financial Statements included elsewhere in this prospectus, are prepared on the same basis as our audited consolidated Financial Statements, and include all adjustments, consisting of only normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and results of operations at and for such periods. This selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations , and the audited consolidated Financial Statements and related notes thereto and the unaudited interim condensed consolidated Financial Statements and related notes thereto included elsewhere in this prospectus. Historical results are not necessarily indicative of future results.

	Three months ended March 31		Year ended December 31,				
(in thousands, except per share amounts)	**2004**	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
	(unaudited)	**(unaudited)**					
Consolidated Statement of Operations Data:							
Revenue	$ 36,468	$ 29,234	$ 125,105	$ 109,585	$ 117,046	$ 121,012	$ 173,707
Gross margin	$ 20,796	$ 14,820	$ 77,984	$ 64,480	$ 74,269	$ 59,048	$ 113,121
Restatement costs	$	$ 4,150	$ 7,461	$ 7,463	$	$	$
Sales & marketing, general & administrative	$ 15,314	$ 17,808	$ 66,416	$ 59,826	$ 55,975	$ 80,802	$ 89,181
Software development	$ 6,763	$ 5,292	$ 22,203	$ 17,061	$ 14,813	$ 24,573	$ 30,675
Amortization of intangible assets and depreciation [1]	$ 1,255	$ 1,422	$ 5,523	$ 6,198	$ 9,069	$ 11,126	$ 10,459
Loss from operations	$ (2,536)	$ (9,702)	$ (16,158)	$ (18,605)	$ (5,588)	$ (57,465)	$ (48,706)
Interest expense	$ (2,487)	$ (1,063)	$ 9,439	$ 3,461	$ 4,741	$ 6,504	$ 7,668
Gain on redemption of debentures	$	$	$	$	$ 12,907	$	$
Income (loss) from continuing operations	$ (4,541)	$ (10,678)	$ (23,943)	$ (20,858)	$ 11,952	$ (39,354)	$ (52,527)
Gain on disposal of discontinued operations	$	$	$	$ 8,776	$	$	$
Net income (loss)	$ (4,541)	$ (10,678)	$ (23,943)	$ (14,362)	$ 9,413	$ (36,675)	$ (47,388)
Basic income (loss) per share from continuing operations	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.77)	$ 0.47	$ (1.53)	$ (2.20)
Basic net income (loss) per share	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.53)	$ 0.37	$ (1.43)	$ (1.99)
Diluted income (loss) per share from continuing operations	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.77)	$ 0.45	$ (1.53)	$ (2.20)
Diluted net income (loss) per share	$ (0.16)	$ (0.40)	$ (0.87)	$ (0.53)	$ 0.35	$ (1.43)	$ (1.99)

	Three months ended March 31,		Year ended December 31,				
(in thousands)	**2004**	**2003**	**2003**	**2002**	**2001**	**2000**	**1999**
Other Data[2] (Unaudited)							
Ratio of earnings to fixed charges and preferred dividends[3]	$	$	$	$	$ 2.7	$	$
(Deficiency of) earnings to cover combined fixed charges and preferred dividends	$ (1,787)	$ (9,159)	$ (12,782)	$ (15,417)	$ 19,425	$ (29,953)	$ (44,003)

	As of	As of December 31,

(in thousands)	March 31, 2004	2003	2002	2001	2000	1999
	(unaudited)					
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short term investments	$ 34,763	$ 36,944	$ 26,191	$ 32,213	$ 39,664	$ 29,732
Total assets	$ 135,740	$ 133,155	$ 126,927	$ 125,133	$ 149,286	$ 201,759
Deferred revenue	$ 51,908	$ 48,502	$ 39,492	$ 30,721	$ 22,489	$ 7,258
Working capital	$ 6,451	$ 13,008	$ 18,137	$ 32,509	$ 46,107	$ 61,030
Long-term debt [4]	$ 84,225	$ 84,225	$ 73,719	$ 73,719	$ 115,000	$ 115,000
Stockholders equity (deficit)	$ (19,936)	$ (16,883)	$ (7,235)	$ 4,221	$ (7,166)	$ 27,512

(1) Prior to 2002, the Company recorded depreciation expense as a part of cost of services, sales and marketing, general and administrative, and software development expenses.

(2) For purposes of determining the ratio of earnings to combined fixed charges and preferred dividends and the deficiency of earnings to cover combined fixed charges and preferred dividends, earnings includes pre-tax income (loss) adjusted for fixed charges and preferred dividends. Fixed charges consist of interest expensed and capitalized, amortization of deferred financing charges, and that portion of operating lease rental expense (deemed to be 30% of rental expense) representative of interest.

(3) The ratios of combined fixed charges and preferred dividends to earnings are not presented for the three months ended March 31, 2004 and 2003 and the years ended 2003, 2002, 2000 and 1999 because earnings were inadequate to cover combined fixed charges and preferred dividends.

(4) Does not include $10.6 million at March 31,2004 and $11.1 million at December 31, 2003 of unamortized discount associated with warrants issued in connection with the 2008 Notes.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated Financial Statements appearing elsewhere in this prospectus.

Critical Accounting Policies and Estimates

Our critical accounting policies have a considerable impact on Management s Discussion and Analysis.

Use of Estimates

Management s discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities, contingent assets and liabilities, revenues, and expenses. Significant estimates and assumptions have been made regarding revenue recognition, the allowance for doubtful accounts, capitalized software, pensions and other benefits, litigation and intangibles, primarily goodwill and customer lists, resulting from our purchase business combinations. We base our estimates, assumptions, and judgments on historical experience and on various other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Uncertainties inherent in these estimates include projections of future operating results and the discount rates used to determine the net present values of these future results and useful lives of the acquired assets as well as technological advances. In addition, for our fixed-price contracts, we make significant estimates within percentage-of-completion accounting, including estimating total costs to be incurred as calculated on a labor hour basis. We periodically review and test our estimates, specifically those related to the valuations of intangibles including acquired software, goodwill, customer lists, trademarks and other intangibles, and capitalized software. Actual results may differ materially from these estimates.

Restatement

In 2002, we discovered accounting and reporting errors within our Quarterly Report on Form 10-Q as filed for the three months ended March 31, 2002 and our 2001 Annual Report on Form 10-K as filed for the years ended December 31, 2001, 2000 and 1999. These errors resulted in us determining that the reports for these years needed to be restated. In June 2003, we amended and restated our 2001 Annual Report on Form 10-K/A. In August 2003, we amended and restated our March 31, 2002 Quarterly Report on Form 10-Q/A.

Revenue Recognition

Our revenue in the ordinary course of business is principally generated from two sources: (i) licensing arrangements and (ii) services and other.

Our license revenue consists of fees for licenses of proprietary and third-party software. Cost of license revenue primarily includes third-party software, royalties and amortization of capitalized software. Our services revenue and other consists of maintenance, customer training and consulting services and fees for providing management services such as accounts receivable and payment collection outsourcing, specialized staffing, analytical services, seminars and hardware. Cost of services consists primarily of salaries, benefits, and allocated costs related to providing such services, labor costs for engineers performing implementation services and technical support, training personnel and third-party hardware.

We sell our products through our direct sales force. Our license agreements for such products do not provide for a right of return, and historically product returns have not been significant.

We recognize revenue on our software products in accordance with AICPA Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*; SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*; and SEC Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements,* and SAB 104, *Revenue Recognition*.

We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery of the product has occurred; no significant obligations by us with regard to implementation remain; the fee is fixed and determinable; and, collectibility is probable. Delivery is considered to have occurred when title and risk of loss have been transferred to the customer, which generally occurs when media containing the licensed programs is provided to a common carrier. We consider all arrangements with payment terms extending beyond 180 days to be not fixed and determinable, and revenue is recognized as payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected.

SOP 97-2, as amended, generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements. Revenue recognized from multiple-element arrangements is allocated to undelivered elements of the arrangement, such as maintenance, support and professional services, based on the relative fair values of the elements specific to us. Our determination of fair value of each element in multi-element arrangements is based on vendor-specific objective evidence (VSOE). We limit our assessment of VSOE for each element to either the price charged when the same element is sold separately or the price established by management, having the relevant authority to do so, for an element not yet sold separately.

We allocate revenue to each element in a multiple-element arrangement based on the element s respective fair value, with the fair value determined by the price charged when that element is sold separately. Specifically, we determine the fair value of the maintenance portion of the arrangement based as if sold separately and measured by the renewal rate offered to the customer. The professional services portion of the arrangement is based on hourly rates which we charge for these professional services when sold separately from software. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. The proportion of revenue recognized upon delivery may vary from quarter to quarter depending upon the mix of licensing arrangements, perpetual or term-based, and the determination of VSOE of fair value for undelivered elements.

Certain of our perpetual and time-based licenses include unspecified additional products. We recognize revenue from these contracts ratably over the term of the arrangement.

Contract accounting is applied where services include significant software modification, development or customization. In such instances, the arrangement fee is accounted for in accordance with SOP 81-1, whereby the revenue is recognized, generally using the percentage-of-completion method measured on labor input hours. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known. The complexity of the estimation process and judgment related to the assumptions, risks and uncertainties inherent with the application of the percentage-of-completion method of accounting affect the amounts of revenue and related expenses reported in its consolidated financial statements. A number of internal and external factors can affect its estimates, including labor hours, utilization, changes to specification and testing requirements and collectibility of unbilled receivables.

Service revenues from software maintenance and support are recognized ratably over the maintenance term, which in most cases is one year. Service revenues from training, consulting and other service elements are recognized as the services are performed.

Service revenues from providing management services such as accounts receivable and payment collection outsourcing are recognized in accordance with SAB 104. When all criteria for revenue recognition, as noted above, have been met, revenue is recognized as services are performed. If collectibility is not considered probable, revenue is recognized when the fee is collected.

Deferred revenue includes amounts received from customers for which revenue has not been recognized that generally results from deferred maintenance, consulting and training services not yet rendered and license revenue deferred until all revenue requirements have been met or as

services have been performed. Additionally, there are a large number of term-based licenses which are recognized over the term of the contract, which is generally one year. Unbilled receivables are established when revenue is deemed to be recognized, based on our revenue recognition policy, however, we do not have the right to bill the customer per the contract terms.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist primarily of amounts due us from our normal business activities. We maintain an allowance for doubtful accounts to reflect the expected non-collection of accounts receivable. The company determines its allowance for doubtful accounts primarily by the length of time trade accounts receivable are past due. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, or if payments from customers are significantly delayed, additional allowances might be required. The company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Intangible Assets

Goodwill. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under SFAS 142, goodwill and intangible assets deemed to have indefinite lives are to be separately disclosed on the balance sheet, and no longer amortized but subject to annual impairment tests. With the adoption of SFAS 142, we ceased amortization of goodwill as of January 1, 2002. Prior to this point, goodwill was amortized using the straight-line method over its estimated useful life.

SFAS 142 requires that goodwill be tested for impairment at the reporting unit level (i.e., business segments) upon adoption and at least annually thereafter using a two-step impairment analysis. In accordance with SFAS 142, we performed the first of the required two-step impairment tests of goodwill and indefinite-lived assets as of January 1, 2002. In performing the first step of this analysis, we first assigned our assets and liabilities, including existing goodwill and other intangible assets, to our identified reporting units to determine their carrying value. For this purpose, our reporting units equated to our three business segments. Our reporting units equate to our business segments since this is the lowest level of QuadraMed at which operating plans are prepared and operating profitability is measured for assessing management performance. We estimated the fair value of each reporting unit with significant goodwill utilizing various valuation techniques including the Income Approach and the Market Approach. The Income Approach provides an estimation of the fair value of a reporting unit based on the discounted cash flows derived from the reporting unit s estimated remaining life plus the present value of any residual value. The Market Approach indicates the fair value of a reporting unit based upon a comparison to publicly-traded companies in similar lines of business. Step one of this analysis was then completed by comparing the carrying value of each of the-analyzed reporting units to its fair value. This comparison resulted in the fair values of the analyzed reporting units exceeding the carrying values of the net assets. Accordingly, no indicators of impairment existed. As a result, we did not perform step two as described by SFAS 142.

As of January 1, 2003 and 2004, we reviewed the goodwill for impairment. The result of performing step one of this analysis resulted in the fair values of the analyzed reporting units exceeding the carrying values of the net assets once again. Accordingly, step two was not performed.

Capitalized Software. Software development costs are capitalized upon the establishment of technological feasibility, in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* Software development costs are capitalized based upon an assessment of their recoverability. This assessment requires considerable judgment by management with respect to various factors, including, but not limited to, anticipated future gross margins, estimated economic lives, and changes in software and hardware technology. Amortization is based on the greater of the ratio that current revenues bear to total and anticipated future revenues for the applicable product, or the straight-line method over the remaining estimated economic life of the product, generally five years, and is charged to cost of licenses.

Other Intangible Assets. Other intangible assets primarily relate to acquired software, trademarks and customer lists acquired in our purchase business combinations. On January 1, 2003, we adopted the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of*

Long-Lived Assets, which generally requires impairment losses to be recorded on long-lived assets (excluding goodwill) used in operations, such as property, equipment and improvements, and intangible assets, when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of the assets. The provisions of this statement did not have a significant impact on our financial condition or operating results.

On an annual basis, we review our intangible assets for impairment based on estimated future undiscounted cash flows attributable to the assets in accordance with the recently-adopted provisions of SFAS No. 144. In the event such cash flows are not

expected to be sufficient to recover the recorded value of the assets, the assets are written down to their net realizable values. Amortization of other intangible assets totaled $1.3 million, $1.4 million, $2.3 million, $2.5 million and $2.7 million for the three months ended March 31, 2004 and 2003 and for the years ended December 31, 2003, 2002 and 2001, respectively. Amortization of acquired software was included in the cost of license revenue for the three months ended March 31, 2004 and 2003 and for the years ended December 31, 2003 and 2002 and totaled approximately $108,000, $108,000, $430,000 and $766,000, respectively. For the year ended December 31, 2001, amortization of acquired software was approximately $900,000 and was included within amortization, impairment and other operating charges on the Consolidated Statements of Operations.

Stock-Based Compensation

SFAS 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, encourages, but does not require, companies to record compensation cost for stock based employee compensation plans at fair value. We have chosen to continue to account for stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees, and Related Interpretations*. Accordingly, compensation cost for stock options granted to employees is measured as the excess, if any, of the quoted market price of our stock at the date of the grant over the amount an employee must pay to acquire the stock.

Recent Accounting Standards

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements Nos. 4, 44 and 64, Amendment FASB Statement No. 13, and Technical Corrections*. This statement updates and clarifies existing pronouncements relating to classification and reporting of gains and losses from the extinguishment of debt, the treatment of sale-leaseback transactions and also makes technical corrections to existing pronouncements. We adopted the provisions of SFAS No. 145 effective January 1, 2003. The adoption of SFAS No. 145 did not have a significant impact on our financial condition, results of operations and cash flows; however, in connection with adopting this standard we reclassified in our 2001 financial statements, the gain on the redemption of the debentures to other income.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. This interpretation, which was revised in December 2003, clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires an enterprise to consolidate a variable interest entity if that enterprise will absorb a majority of the entity s expected residual returns. FIN 46 also requires disclosures about unconsolidated variable interest entities in which an enterprise holds a significant variable interest. FIN 46 was immediately effective for variable interest entities created or entered into after January 31, 2003 and is effective in the first reporting period ending after December 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN 46 did not have a material effect on our consolidated results of operations, financial position or cash flows.

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, which supercedes portions of SAB 101. The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superceded as a result of the issuance of EITF 00-21. While the wording of SAB 104 changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB No. 104 did not have a material effect on our consolidated results of operations, financial position or cash flows.

In December 2003, the FASB revised SFAS No. 132 *Employers Disclosures about Pensions and Other Postretirement Benefits*. The revisions to SFAS No. 132 retain the disclosure requirements contained in the original SFAS No. 132 but require additional disclosures describing the

types of plan assets, investment strategy, measurement dates, plan obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required disclosures have been included in our Consolidated Financial Statements.

Results of Quarter Ended March 31, 2004 compared to March 31, 2003

The following table sets forth selected data for the indicated periods. Percentages are expressed as a percentage of total revenues, except for cost of revenue, which is expressed as a percentage of the related revenue classification.

	Three months ended March 31,			
	2004		2003	
	(unaudited)		(unaudited)	
Revenue				
Services	$ 4,711	13%	$ 4,746	16%
Maintenance	9,824	27	8,573	30
Installation and other	4,923	14	4,174	14
Services and other	19,458	54	17,493	60
Licenses	12,496	34	9,555	33
Hardware	4,514	12	2,186	7
Total revenue	36,468	100	29,234	100
Cost of revenue				
Cost of services and other	9,667	50	10,652	61
Cost of licenses	3,175	25	1,946	20
Cost of hardware	2,830	63	1,816	83
Total cost of revenue	15,672	43	14,414	49
Gross margin	20,796	57	14,820	51
Operating expenses				
General and administration	7,635	21	7,946	27
Software development	6,763	19	5,292	18
Sales and marketing	6,110	17	5,712	20
Amortization of intangible assets and depreciation	1,255	3	1,422	5
Unusual charges	1,569	4	4,150	14
Total operating expenses	$ 23,332	64%	$ 24,522	84%

Revenue

Total Revenue. Total revenues for the three months ended March 31, 2004 were $36.5 million, an increase of $7.2 million or 25% from $29.2 million for the three months ended March 31, 2003. Our software product solutions, mainly Enterprise and Health Information Management (HIM) product solutions, contributed $34.7 million, an increase of $8.4 million or 32% from the same period last year. Financial Services contributed approximately $1.8 million, a decrease of $1.1 million or 38% from the same period last year.

Services and Other. Services and other revenue consists of professional services, such as implementation and installation services, training, maintenance, which consists of technical support and product upgrades, reimbursable expenses and other services revenue. Professional services are typically provided over a period of three to six months for the HIM product solutions and two years for the Enterprise product solutions. These services are provided subsequent to the signing of a software license agreement and depend almost exclusively on our software license revenues. Financial Services revenue is recognized as services are performed. Our maintenance revenues depend on both licenses of our software products and renewals of maintenance agreements by our existing customer base and are recognized ratably over the term of the agreement.

Services revenue of $4.7 million, or 13% of total revenues, in the three months ended March 31, 2004 remained flat compared to $4.7 million, or 16% of total revenues, in the same period last year. Services revenues for Financial Services decreased by $1.1 million to $1.8 million in the first quarter ended March 31, 2004 compared to $2.9 million in the same quarter prior year mainly due to a reduction in signed contracts. This decrease was offset by increases in Enterprise revenue of $0.6 million, mainly related to Affinity, MPI (Master Patient Index) and PFS (Patient Focus Solutions) products, as well as services revenue recognized by Détente of $0.3 million. Services revenues for Enterprise product solutions increased due to the growth in supplemental services provided to our existing customers.

Maintenance revenue was $9.8 million in the three months ended March 31, 2004 compared to $8.5 million in the three months ended March 31, 2003, representing an increase of $1.3 million or 15%. Maintenance revenue, as a percentage of total revenues, was 27% and 30% in the three months ended March 31, 2004 and 2003, respectively. The increase in maintenance revenue is mainly due to increased contracts in both Enterprise and HIM products. Maintenance contracts are recognized ratably over the period of term, which in most cases is one to three years.

Installation and other services revenue increased slightly to $4.9 million in the three months ended March 31, 2004 from $4.2 million in the corresponding period prior year. Installation revenue increased primarily due to increased number of software installation work performed during the current quarter.

Licenses. License revenue consists of fees and licenses of proprietary and third-party software. We market our products through our direct sales force. License revenue in the three months ended March 31, 2004 was $12.5 million, an increase of $2.9 million or 31% from $9.6 million in the corresponding period of 2003. License revenue, as a percentage of total revenues, was 34% and 33% in the three months ended March 31, 2004 and 2003, respectively. License revenue from HIM products increased approximately $1.4 million to $5.7 million in the current quarter ended March 31, 2004 from $4.3 million in the corresponding quarter in the prior year mainly due to a strong growth in sales to agencies of the US Government over last year. HIM Government revenue increased by approximately $1.1 million in the current quarter from the quarter ended March 31, 2003. Government contracts are primarily term based and recognized ratably over 12 months. License revenue for Enterprise products also increased by approximately $1.4 million to $6.4 million in the three months ended March 31, 2004 from $5.0 million in the same quarter prior year. The increase in Enterprise products, including PDS (Pharmacy Data Systems), EDI (Electronic Data Interchange) and Imaging products, is mainly attributed to completion of contracts in progress. In addition, the Company completed a contract in the first quarter that resulted in increased license revenues for our Performance Measurement product as well as increased operating system software revenue for Affinity product. The increase in license revenue for PFS product was completing the Company s commitments under previously deferred contracts.

Hardware. Hardware revenue consists of sale of third-party hardware purchased specifically for use by our Enterprise product customers. Hardware revenue in the three months ended March 31, 2004 was $4.5 million, an increase of $2.3 million or 107% from $2.2 million in the corresponding period of 2003. Hardware revenue, as a percentage of total revenues, was 12% and 7% in the three months ended March 31, 2004 and 2003, respectively. The increase was primarily attributable to the completion of certain milestones in the current quarter related to a large contract signed at the end of fiscal year 2003. This contract consisted of a large upgrade of hardware sold to an existing customer, which did not require significant software modification.

Revenue recognized for the three months ended March 31, 2004 and 2003 includes:

- amounts initially recorded as deferred revenue in which the Company has now completed its contractual commitments;
- service revenue relating to installation, training, seminars and financial services during the period; and
- revenues recognized on a cash-basis after the Company s contractual commitment has been completed.

The following table is a summary roll forward schedule of the deferred revenue (in thousands):

	For the Three Months Ended March 31,	
	2004	2003
	(unaudited)	(unaudited)
Deferred revenue, beginning balance	$ 48,502	$ 39,492
Add: revenue deferred	33,590	33,210
Less: deferred revenue recognized	(30,184)	(23,998)
Deferred revenue, ending balance	$ 51,908	$ 48,704

Cost of Revenue

Cost of Services and Other. Cost of services and other consists of salaries and related expenses associated with services performed for customer support, installation, maintenance and consulting services. Cost of services and other for the quarter ended March 31, 2004 of $9.7 million was $1.0 million less than the $10.7 million in the corresponding period of 2003. As a percentage of services and other revenue, cost of services and other was 50% and 61% for the three months ended March 31, 2004 and 2003, respectively. The decrease in absolute dollars was primarily due to a decrease in personnel costs and overall expenses for the Financial Services Division of $1.0 million. As of March 31, 2004, there were 132 employees in Financial Services Division compared to 187 employees as of March 31, 2003.

Cost of Licenses. Cost of licenses consists primarily of the cost of third-party software, royalties and amortization of capitalized and acquired software. A significant percentage of our total cost of revenue is attributable to the cost of third-party software royalties and licenses relating to software embedded within our software applications. Generally, third-party royalty fees fluctuate based on revenue or the number of the Company s customers and therefore will fluctuate on a quarter to quarter basis. Cost of licenses in the three months ended March 31, 2004 was $3.2 million, an increase of $1.3 million or 68%, compared to $1.9 million for the same period of 2003. As a percentage of license revenue, cost of licenses was 25% and 20% for the three months ended March 31, 2004 and 2003, respectively. The increase in cost of license revenue was mainly due to an increase in royalties of $1.1 million. Cost of operating system software included in the cost of license also increased by approximately $0.4 million in line with increased revenue, offset by a decrease in amortization of capitalized software of $0.2 million.

Cost of Hardware. Cost of hardware consists of third-party hardware and installation costs. Cost of hardware in the three months ended March 31, 2004 was $2.8 million, an increase of $1.0 million, compared to $1.8 million for the same period last year. As a percentage of hardware revenue, cost of hardware was 63% and 83% for the three months ended March 31, 2004 and 2003, respectively. Cost of hardware was directly affected by the increase in hardware revenue for the first quarter of 2004, primarily attributable to the Affinity product, in particular, to the large contract referred to under Revenue Hardware above.

Gross Margin

Gross margin on license revenue declined due to increased royalty expenses associated with HIM government revenue. Gross margin on services and other revenue improved due to efficiencies within the installation and maintenance departments, and due to lower revenues in the Financial Services Division, which generally has lower gross margins. The margin on hardware revenue improved due to more profitable hardware contracts in the current quarter compared to the same quarter last year.

Operating Expenses

General and Administration. General and administration expense includes compensation and benefit costs for executive, finance, legal, information technology, and administrative personnel. General and administration expense, excluding unusual charges, decreased to $7.6 million in the first quarter of 2004 compared to $7.9 million in the same quarter prior year. As a percentage of total revenues, general and administration expense was 21% and 27% in the three months ended March 31, 2004 and 2003, respectively. The decrease is mainly attributable to decreased wages and related costs of $1.8 million, offset by increases in legal and professional fees of $0.4 million, bad debt expense of $0.4 million and contractual and temporary services of $0.7 million. As of March 31, 2004, there were 99 employees in general and administration departments, excluding 19 employees assisting in transitioning the Finance group in Reston, compared to 107 employees as of March 31, 2003.

Software Development. Software development expense includes costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved, and quality assurance activities and primarily relates to compensation and benefits costs. Software development costs in the three months ended March 31, 2004 were $6.8 million compared to $5.3 million in the same period in 2003, representing an increase of $1.5 million. As a percentage of total revenues, software development costs were 19% and 18% for the quarters ended March 31, 2004 and 2003, respectively. The increase was primarily attributed to an increase in personnel costs and overall expenses for software development departments. As of March 31, 2004, there were 229 employees in software development departments compared to 191 employees as of March 31, 2003.

Sales and Marketing. Sales and marketing expense includes costs associated with our sales and marketing personnel and consists primarily of compensation and benefits, commissions and bonuses, promotional and advertising expenses. Sales and marketing expense increased $0.4 million in the first quarter of 2004 to $6.1 million from $5.7 million in the same period last year. As a percentage of total revenues, sales and marketing expenses decreased to 17% in the first quarter of 2004 from 20% in the same period of 2003. The increase in absolute dollars was primarily due to an increase in commission of $0.4 million. The advertising expense increased approximately $0.2 million but is offset by a decrease in other marketing costs of approximately $0.2 million. The headcount remained consistent at 115 employees as of March 31, 2004 compared to March 31, 2003.

Amortization of intangible assets and depreciation. Amortization of intangible assets and depreciation expense decreased to $1.3 million in the three months ended March 31, 2004 from $1.4 million in the corresponding period of 2003 mainly due to a decrease in depreciation expense as assets became fully depreciated.

Unusual charges. Unusual charges for the quarter ended March 31, 2004 includes $0.7 million in retention bonuses and severance payments made to San Rafael Finance group in connection with transitioning the Finance group to Reston Virginia, $0.4 million in salaries paid to transitioning Finance group in Reston and $0.5 million in net legal fees associated with for the settlement of securities class action litigation and the shareholder derivative litigation. As of March 31, 2004, there were 18 employees in the transitioning Finance group. The majority of the severance and retention bonuses were paid in the current quarter and approximately $0.3 million of severance payment was accrued as of March 31, 2004. Unusual charges for the quarter ended March 31, 2003 represents restatement costs.

Other Income (Expense)

Other Income (Expense), Net. Net other expense increased to $2.4 million in the quarter ended March 31, 2004 from $1.0 million in the corresponding quarter last year. The increase was primarily due to the additional interest expense on the new 2008 Notes entered into April 2003 and amortization of the discount related to the warrants.

Income Taxes

Provision (Benefits) for Income Taxes. For the quarter ended March 31, 2004, the Company had income tax benefit of $0.2 million, which represents tax refunds received as a result of the restatement of the Company s 2001 financial statements. There was no provision for income taxes for the three-month period ended March 31, 2003.

Overview of 2003 Results

Our operations and financial performance during 2003 were impacted by several challenges, including the required restatement of our financial statements, getting current with our SEC filings and the delisting of our common stock by NASDAQ, which, among other things, triggered a repurchase event under a May 1, 1998 indenture agreement for $115 million in debentures maturing on May 1, 2005 (the 2005 notes). Our sales activity was adversely affected because of the restatement and the challenging economic conditions and competition in the marketplace, and the relocation of our finance presence from California to Virginia. However, we were still able to perform and achieve the following financial results:

$71.0 million of new debt was issued and $61.8 million of existing debt was repurchased.

Total revenue increased $15.5 million or 14.2% to $125.1 million in 2003 from $109.6 million in 2002. The majority of the increase was due to increased license revenue.

Gross margin increased $13.5 million or 20.9% to $78.0 million in 2003 from $64.5 million in 2002. As a percentage of revenue, gross margin increased to 62.3% in 2003 from 58.8% in 2002.

Loss from operations improved to $16.2 million compared to $18.6 million and improved sequentially over the course of 2003 from a $10.7 million loss in the first quarter to $462,000 of income in the last quarter.

Net loss improved sequentially during 2003 as follows: $10.7 million in the first quarter, $6.3 million in the second quarter, $5.2 million in the third quarter and $1.8 million in the fourth quarter.

Cash and cash equivalents increased by $13.2 million to $36.9 million at December 31, 2003 from $23.7 million at December 31, 2002.

Cash flows from operations provided $802,000 in 2003 compared to a use of $982,000 in 2002.

Deferred revenue increased $9.0 million or 22.8% to $48.5 million in 2003 from $39.5 million in 2002 due to the increase in the size and volume of new contracts.

Days sales outstanding at December 31, 2003 was under 80 days as compared to over 120 days early in 2003.

In early 2004, we have 1) agreed to settle both the securities law class action and derivative litigation and 2) acquired Détente Systems Pty Limited. In 2004, we will need to focus on a few broad objectives:

Build the sales pipeline;

Deliver new products and improve technology;

Grow revenue and improve profitability;

Strengthen shareholder value;

Control expenses; and

Fill product line gaps through merger and acquisition activity.

Results of Operations

The following table sets forth selected data for the indicated periods. Percentages are expressed as a percentage of total revenues, except for cost of revenue, which is expressed as a percentage of the related revenue classification.

	Year ended December 31,					
	(In thousands, except percentages)					
	2003		2002		2001	
Revenue						
Services and other	$ 79,193	63.3 %	$ 77,539	70.8 %	$ 82,477	70.5 %
Licenses	45,912	36.7	32,046	29.2	34,569	29.5
Total revenue	125,105	100.0	109,585	100.0	117,046	100.0

Cost of revenue						
Cost of services and other	38,463	48.6	35,415	45.7	33,841	41.0
Cost of licenses	8,658	18.9	9,690	30.2	8,936	25.9
Total cost of revenue	47,121	37.7	45,105	41.2	42,777	36.5
Gross margin	77,984	62.3	64,480	58.8	74,269	63.5
Operating expenses						
General and administrative	43,983	35.2	38,478	35.1	35,265	30.1
Sales and marketing	22,433	17.9	21,348	19.5	20,710	17.7
Software development	22,203	17.7	17,061	15.6	14,813	12.6
Amortization and depreciation of intangible assets	5,523	4.4	6,198	5.6	9,069	7.8
Total operating expenses	94,142	75.3	83,085	75.8	79,857	68.2
Loss from operations	$ 16,158	12.9 %	$ 18,605	17.0 %	$ 5,588	4.8 %

Year Ended December 31, 2003 compared to 2002

Revenue

Total Revenue. Total revenue for 2003 of $125.1 million increased $15.5 million, or 14.2%, over 2002. Almost $13.9 million of the increase relates to license revenue, as discussed below under Licenses . Enterprise product solutions contributed $6.9 million and Health Information Management (HIM) product solutions contributed $6.9 million to the increase in license revenue. Service revenue increased $1.7 million but that included a $3.3 million decline attributable to the Financial Services segment.

2003 total revenue of the Enterprise product solutions increased to $77.0 million, $9.0 million or 13.3%, over 2002, HIM product solutions increased to $39.0 million, $9.8 million or 33.7% over 2002 and Financial Services decreased to $9.2 million, a decline of $3.3 million or 26.7% less than 2002.

Moderate sequential increases in total revenue took place over the first three quarters of 2003. Total revenue was approximately $29.5 million, per quarter, in the first three quarters of 2003 versus an average of $26.4 million, per quarter, in the first three quarters of 2002. Total revenue for the fourth quarter of 2003 of $36.7 million increased $7.0 million over third quarter 2003 and $6.2 million over fourth quarter 2002. The increases are primarily attributable to license revenue. $2.3 million relates to annual customer acceptance of one Affinity contract, $1.7 million to completing the installation of HIM contracts in the fourth quarter of 2003 and more than $1.1 million to new HIM contracts signed in the fourth quarter of 2003.

Services and Other. Services and other revenue consists of professional services, such as implementation and installation services, training, maintenance, which consists of technical support and product upgrades, hardware, reimbursable expenses and other service revenue. Professional services are typically provided over a period of three to six months for the HIM Software division and up to two years for the Enterprise division. These services are provided subsequent to the signing of a software license arrangement and depend in large part on our software license revenues. Financial Services revenue is recognized as services are performed. Our maintenance revenues depend on both licenses of our software products and renewals of maintenance agreements by our existing customer base. Services and other revenue increased $1.7 million or 2.2%, to $79.2 million in 2003 from $77.5 million in 2002. Maintenance revenue was $36.2 million and $35.2 million for 2003 and 2002, respectively. Hardware revenue was $4.8 million and $4.1 million for 2003 and 2002, respectively.

The majority of the increase was attributed to the growth in installation revenue of $1.4 million and support revenue of $720,000 from the Affinity suite of products. There were a number of contracts signed in 2002, which have now been recognized under percentage of completion in 2003. Additionally, in the last quarter of 2002, there were a number of vertical sales, which created an increase in revenue recognition for 2003. The Affinity suite of products continues to maintain and increase its levels in support revenue.

The improvement in productivity of the HIM s professional services organization resulted in an increase of $1.6 million in training and installation revenue in 2003.

The Financial Services business declined substantially during the year by approximately $3.3 million due to a decrease in the quality of assignments and average lower contract fees. The largest decrease was in Accounts Receivable Management as a result of loss of several major customers.

Licenses. License revenue consists of fees for licenses of proprietary and third-party software. We market our products through our direct sales force. License revenues increased $13.9 million in 2003 to $45.9 million from $32.0 million in 2002. The increase is primarily attributable to the timing of revenue recognition of certain large contracts, an expansion of our customer base, and new product introductions at the end of fiscal year 2002.

License revenue for HIM software products increased $6.9 million primarily due to acceptance and completion of installation and introduction of Quantim suite of products at the end of fiscal year 2002. License revenue from Quantim Coding and Record Management products increased by approximately $4.8 million and $0.8 million, respectively, offset by a decrease in nCoder products of $0.9 million. No single customer accounts for a significant portion of the Quantim Coding and Record Management increase. Increased productivity within operations resulted in the increase in acceptance and completion of installation of HIM software product. Government HIM revenue increased by $2.2 million year over year due to increased sales during 2003. Government contracts are primarily term based and recognized ratably over 12 months.

License revenue related to the Enterprise product solutions increased $7.0 million primarily due to timing of revenue recognition on a number of large contracts entered into the latter half of 2002. This resulted in increased revenue for Affinity, PFS, and Performance Measurement products of approximately $3.1 million, $0.8 million and $0.7 million, respectively. License revenue from EDI, Contract Management and MPI products also increased by approximately $0.5 million, $0.4 million and $0.1 million, respectively. In addition, there was a full year of license revenue in 2003, from the acquisition of Pharmacy Data Systems, Inc. (PDS) in June 2002 which accounted for an increase of $1.4 million. Additionally, there was a large contract where revenue was recognized at December 31, 2003 upon the expiration of a cancellation privilege, resulting in approximately $2.5 million of the $3.1 million increase in Affinity revenue.

Revenue recognized for the year ended December 31, 2003 includes:

amounts initially recorded as deferred revenue in which the Company has now completed its contractual commitments;

service revenue relating to installation, training, seminars and financial services during the period; and

revenues recognized on a cash-basis after the Company s contractual commitment has been completed.

The following table is a summary roll forward schedule of the deferred revenue (in thousands):

	For year ended December 31, 2003
	(unaudited)
Deferred revenue, beginning balance	$ 39,492
Add: revenue deferred	114,428
Less: deferred revenue recognized	(105,418)
Deferred revenue, ending balance	$ 48,502

Cost of Revenue and Gross Margin

Cost of Services and Other. Cost of services and other consists of salaries and related expenses associated with services performed for customer support and implementation and consulting services as well as third-party hardware costs. Cost of services and other increased $3.1 million or 8.8%, to $38.5 million in 2003 from $35.4 million in 2002. As a percentage of services and other revenue, cost of services and other was 48.6% in 2003 compared to 45.7% in 2002.

The increase was mainly due to increases in salary, bonuses and related benefits of $3.7 million, offset by a reduction in operating expenses of $1.1 million. Salary, bonuses and related benefits increased approximately $2.4 million and $1.3 million in the Enterprise division and HIM software division, respectively. In addition, there was a slight increase in Enterprise division hardware cost of $500,000, which corresponds to the increase in hardware revenue as well as recognition of deferred costs related to the applicable recognition of revenue based on completed contract. The Financial Services division cost of services was flat year over year.

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Cost of Licenses. Cost of license consists primarily of third party software, royalties and amortization of capitalized software. A significant percentage of our total cost of revenue is attributable to the cost of third-party software royalties and licenses relating to third-party software embedded within our software applications. Generally, royalty fees for third-party licenses will fluctuate based on revenue or the number of the Company s customers and therefore will fluctuate on a quarter to quarter basis. Cost of license decreased $1.0 million or 10.3% to $8.7 million in 2003 from $9.7 million in 2002. The decrease was associated with a reduction in third party software licenses related to Affinity product sales and a decrease in amortization of acquired software. The cost of third-party software royalties and licenses, as a percentage of total cost of revenue, was approximately 9.3%, 9.6% and 6.5% for the years ended December 31, 2003, 2002 and 2001, respectively.

Gross Margin. Total gross margin increased $13.5 million or 20.9% to $78.0 million in 2003 from $64.5 million in 2002. The increase in gross margin is primarily attributable to the higher software license revenue in 2003, which has higher margins relative to services and other revenue.

The HIM software division contributed $9.1 million increase in gross margin for the year, due to increased license revenue in 2003. There was an increase of $1.0 million in cost of services and other in the year. The Enterprise division gross margin also increased $7.3 million in 2003 predominately related to the license revenue growth offset by the costs in services and other.

The Financial Services division gross margins decreased $2.9 million in 2003 as expenses could not be reduced to offset the decline in revenue.

Operating Expenses

General and Administrative. General and administrative expense consists of compensation and benefit costs for executive, finance, legal, information technology, and administrative personnel. General and administrative expenses increased $5.5 million or 14.3% to $44.0 million in 2003 from $38.5 million in 2002. As a percentage of total revenue, general and administrative expense was 35.2% in 2003 compared to 35.1% in 2002.

The increase in general and administrative expense was primarily due to an increase in salaries, and related benefits of $1.7 million, retention bonuses for key personnel and incentive bonus expense due to achieving financial targets in 2003 of $2.2 million, $1.2 million increase to bad debt expense, plus increases in other operating expenses of $400,000.

General and administrative expense included $7.5 million in payments to accountants, attorneys and consultants in both the last half of 2002 and the first half of 2003 related to the restatement of the financial statements. The total cumulative amount spent for both years was $15.0 million.

General and administrative expenses increased $3.5 million to $12.3 million for the fourth quarter in 2003 compared to $8.8 million in third quarter of 2003. The increase was attributable to $2.0 million in bad debt expense and $1.0 million in retention bonus.

Sales and Marketing. Sales and marketing expense includes costs associated with our sales and marketing personnel and product marketing personnel and consists primarily of compensation and benefits, commissions and bonuses and promotional and advertising expenses. Sales and marketing expense increased $1.1 million or 5.2% to $22.4 million in 2003 compared to $21.3 million in 2002. As a percentage of revenue, sales and marketing expense was 17.9% compared to 19.5% in 2002.

The majority of the increase was related to salary, bonus and related benefits due to headcount increases and achieving targets on bonuses of $2.2 million offset by a decrease in marketing events and other operating expenses of $1.1 million in the Enterprise division.

Software development. Software development expense includes costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved, and quality assurance activities and primarily relates to compensation and benefits costs. Software development expenses increased $5.1 million or 29.8%, to $22.2 million in 2003 from $17.1 million in 2002. As a percentage of revenue, software development expense was 17.7% in 2003 compared to 15.6% in 2002.

The increase in software development expense was primarily due to the continued development of key products in the Enterprise division which was responsible for $4.0 million of such expense. The substantial increase in development investment was targeted at the continued development of advanced clinical systems including Computerized Physician Order Entry. Software development expenses in the HIM Software division were targeted at development of new modules of the Quantim suite of healthcare

information management products including Quantim Abstracting, and Quantim Electronic Document Management. There were no capitalized software costs from software development in 2003 compared to $1.8 million in 2002.

Amortization of Intangible Assets and Depreciation. Amortization of intangible assets represents amortization of identifiable intangible assets and in-process research and development. Amortization of intangible assets and depreciation decreased $675,000 to $5.5 million in 2003 compared to $6.2 million in 2002. The decrease is mainly due to a decrease in depreciation of $200,000 and a write-off of in-process research and development expense of $400,000 associated with the acquisition of PDS in 2002.

Other Income (Expense)

Other Income (Expense), Net. Net other expense increased $5.6 million to $7.8 million in 2003 from $2.3 million in 2002. The increase was primarily due to the additional interest expense on the new debt entered into April 2003, which has a current interest rate of 10%, and amortization of the associated expense related to the warrants, offset by other income. Additionally, included in 2002 was a $1.5 million earn-out provision credit from the sale of EZ-CAP.

Year ended December 31, 2002 compared to 2001

Revenue

Services and Other. Services and other revenue consists of consulting, maintenance, installation, hardware, reimbursable expenses and other service revenue. Service revenue was $77.5 million in 2002, a decrease of $5.0 million or 6.0% from $82.5 million in 2001. The decrease was primarily due to decrease in services of $3.3 million associated with the sale of the EZ-CAP Division in August 2001 and a $4.6 million reduction in Financial Services Division, offset by a slight increase in service revenue from the Enterprise and HIM Software Divisions.

Licenses. License revenue consists of license and third-party software sales. License revenue in 2002 was $32.0 million, a decrease of $2.6 million or 7.5% from $34.6 million in 2001. The decrease in license revenue was primarily attributable to the decrease in license of $3.0 million associated with the sale of EZ-CAP Division revenue offset by an increase of $2.2 million in HIM Software licenses.

Cost of Revenue

Cost of Services and Other. Cost of services and other consists of salaries and related expenses associated with services performed for customer support and consulting services as well as third-party hardware costs. Cost of services in 2002 was $35.4 million, an increase of $1.6 million or 4.7% from $33.8 million in 2001. The increase was related to increased costs at each division, with the Financial Services, Enterprise and HIM Software Divisions contributing $1.1 million, $300,000 and $200,000 to the increase, respectively. The increases result from increased salaries and benefits of approximately $900,000 and $1.3 million in expenses due to analysis of various accounts as part of the restatement review offset by a decrease in depreciation expense of $600,000 as the Company recorded depreciation expense within amortization of intangible assets and depreciation on the Consolidating Statement of Operations starting 2002.

Cost of Licenses. Cost of licenses consists of third party royalties and amortization of capitalized software. Cost of licenses increased $800,000 to $9.7 million in 2002 from $8.9 million in 2001. The increase was mainly due to amortization of acquired software of $766,000 included in cost of licenses in 2003.

Operating Expenses

General and Administration. General and administration expense consists of compensation and benefit costs for executive, finance, legal, information technology, and administrative personnel. General and administrative expenses were $38.5 million in 2002, an increase of $3.2 million or 9.1% compared to $35.3 million in 2001. As a percentage of total revenue, general and administration expense increased to 35.1% in 2002 from 30.1% in 2001. The increase was primarily due to an increase in accountants , consultants and attorneys fees, as part of the restatement process in the year of approximately $7.5 million, offset by other operating costs.

Sales and Marketing. Sales and marketing expense includes costs associated with our sales and marketing personnel and consists of compensation and benefits, commissions, promotional and advertising expenses. Sales and marketing expense increased by only $638,000 in 2002 to $21.3 million from $20.7 million in 2001.

Software development. Software development expense includes costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved, and quality assurance activities, and primarily includes compensation and benefits expense. Software development expense for 2002 was $17.1 million,

an 15.5% increase from 2001. Software development expenses increased to 15.6% of revenue in 2002 from 12.6% in 2001. The increase in software development expense was due to increased product development efforts on the Computerized Physician Order Entry product. In addition to these expenses, we capitalized $1.8 million in development costs representing 10.6% of software development expenditures in 2002, compared to $1.8 million or 12.2% of expenditures in 2001, on products qualifying for capitalization under the definition of technological feasibility.

Amortization, of Intangible Assets and Depreciation. Amortization of intangible assets and depreciation were $6.2 million and $9.1 million in 2002 and 2001, respectively. Amortization of intangible assets declined to $2.5 million in 2002 from $6.2 million in 2001 as certain assets reached the end of their amortized lives and goodwill was not amortized in 2002 compared to $3.4 million amortized in 2001. Depreciation expense of $3.9 million was included in 2002. Prior to 2002, the Company recorded depreciation expense as a part of cost of services, sales and marketing, general and administrative, and software development expenses.

Other Income (Expense)

Interest Income (Expense). Interest expense, net of interest income, was $2.8 million and $2.7 million for 2002 and 2001, respectively. Interest expense was principally due to our Debentures, offset by interest earned on our cash and investments.

Gain on Sale of Assets. In 2002, we recorded a gain of $8.8 million on the sale of the HIM Services Division and received $1.5 million related to an earn-out provision on the 2001 sale of EZ-CAP. We recorded a $7.1 million initial gain on the sale of our EZ-CAP business in 2001.

Gain on Redemption of Bonds. During 2001, we repurchased approximately $41.3 million of our Debentures on the open market for a total of $28.4 million in cash, resulting in a gain of $12.9 million.

Discontinued Operations

On December 31, 2002, we announced the sale of certain assets of our HIM Services Division to Precyse Solutions, LLC. We received $14 million in cash (of which $1.5 million is to be held in escrow for 18 months) and a $300,000 promissory note with a two-year term. We recorded a gain of $8.8 million in connection with the sale.

The results of operations for HIM Services have been presented as a discontinued operation for all periods presented. The HIM Services operating results were as follows (in thousands):

	Year ended December 31,	
	2002	**2001**
Revenue	$ 17,313	$ 19,735
Income (loss) from operations of discontinued operation	$ (2,280)	$ (2,539)

Gain on disposal	8,776	
Total income (loss) on discontinued operations	$ 6,496	$ (2,539)

Liquidity And Capital Resources

Balance Sheet

As of March 31, 2004, we had $34.8 million in cash, cash equivalents and short-term investments, compared to $36.9 million as of December 31, 2003. As of March 31, 2004, we had working capital of $6.5 million compared to $13.0 million as of December 31, 2003. Working capital, net of deferred revenue and related accounts receivable, was $51.6 million as of March 31, 2004 compared to $52.5 million as of December 31, 2003.

Accounts receivable increased by $2.0 million to $32.9 million as of March 31, 2004 from $30.9 million as of December 31, 2003 on a net basis. Accounts receivable increased due to annual maintenance billings that occurred during the current quarter and slow payment activity by certain customers of the Company increasing days sales outstanding (DSO) to 83 days at March 31, 2004 from 78 days at December 31, 2003. During the quarter ended March 31, 2004, the allowance for doubtful account increased $0.7 million offset by charges against the allowance of $0.9 million. QuadraMed maintains an allowance for doubtful accounts to reflect the expected non-collection of accounts receivable based on past collection history and specific risks identified within the portfolio. If the financial condition of QuadraMed s customers were to deteriorate resulting in an impairment of their ability to make payments, or if payments from customers are significantly delayed, additional allowance might be required.

Prepaid expenses and other current assets remained relatively consistent from December 31, 2003 to March 31, 2004, increasing approximately $0.3 million mainly due to a prepayment for hardware support for the Enterprise products.

Goodwill increased by approximately $3.7 million from December 31, 2003 to March 31, 2004 due to acquisition of Détente in the first quarter of 2004.

Accrued payroll and related expenses decreased by $2.6 million to $8.5 million at March 31, 2004 from $11.1 million at December 31, 2003 principally due to decreases in accrued severance and incentive bonuses. Other accrued liabilities remained relatively consistent from December 31, 2003 to March 31, 2004, decreasing approximately $0.1 million.

Deferred revenue increased by $3.4 million from December 31, 2003 to March 31, 2004 and the increase was mainly related to annual maintenance billings that occurred in the first quarter of the current fiscal year for our Enterprise products. Maintenance revenue is recognized ratably over the maintenance term, and term-based licenses are recognized over the term of the contract, which are both generally one to three years.

Long-term debt consisted of a principal balance of $72.3 million for the 2008 Notes (shown net of unamortized discount of $10.6 million) and $11.9 million for the 2005 Notes at March 31, 2004. Amortization of the discount was $0.5 million for the three months ended March 31, 2004.

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Cash Flows

The Company s consolidated statement of cash flows (unaudited) for the three months ended March 31, 2004 and 2003 are summarized below (in thousands):

	For the Three Months Ended March 31,	
	2004	**2003**
	(unaudited)	**(unaudited)**
Cash provided by (used in) operating activties	$ 1,769	$ (6,405)
Cash provided by (used in) investing activties	(5,130)	3,593
Cash provided by financing activties	1,180	86
Net decrease in cash and cash equivalents	(2,181)	(2,726)

During the three months ended March 31, 2004, $1.8 million was provided by operating activities, compared to $6.4 million used in the same period last year. The net loss of $4.5 million was reduced by non-cash charges totaling $3.4 million, including depreciation and amortization of $2.7 million and bad debt expense of $0.7 million. An increase in accounts receivable reduced cash from operating activities by $2.6 million whereas increases in accounts payable and accrued liabilities and deferred revenues provided $5.2 million for operating activities. A decrease in prepaid expenses and other also provided $0.3 million. During the three months ended March 31, 2003, the Company used cash of $6.4 million to fund operating activities. These amounts primarily resulted from a net loss of $10.7 million, reduced by $2.5 million of depreciation and amortization and an increase of $9.2 million in deferred revenue and a decrease of $7.7 million in accounts receivable.

Cash flows from investing activities used $5.1 million during the first quarter of the current fiscal year. For the quarter ended March 31, 2004, the acquisition of Détente used cash of $4.1 million and purchases of equipment and leasehold improvements used cash of $1.2 million. For the quarter ended March 31, 2003, cash flows from investing activities of $3.6 million resulted from a $2.7 million payment received for the HIM Services sale and $1.5 million earn-out payment associated with the EZ-CAP sale offset by $0.5 million in fixed asset purchases.

Financing activities provided cash of $1.2 million for the quarter ended March 31, 2004 from the issuance of common stock under the employee stock purchase plan, issuance of common stock upon exercise of warrants and issuance of common stock and treasury stock upon the exercise of employee stock options. For the quarter ended March 31, 2003, the issuance of common stock under the employee stock purchase plan and issuance of common stock upon the exercise of employee stock options provided $0.1 million offset by a repayment of debt of $0.02 million.

At March 31, 2004, the Company s balance of cash and cash equivalents was $34.8 million. The Company believes that its current balance of cash and cash equivalents and funds generated from operations, if any, will be sufficient to fund the Company s current projected cash needs for the foreseeable future. The Company may pursue external sources of financing to support additional operational and capital requirements. There can be no assurance that external sources of financing will be available if required, or that such financing will be available on terms acceptable to the Company.

The Company s consolidated statement of cash flows for the years ended December 31, 2003, 2002 and 2001 are summarized below (in thousands):

	Year ended December 31,		
	2003	2002	2001
Cash provided by (used in) operating activities	$ 802	$ (982)	$ 13,844
Cash provided by (used in) investing activities	$ 3,613	$ (6,602)	$ 17,097
Cash provided by (used in) financing activities	$ 8,866	$ 1,448	$ (28,510)
Net increase (decrease) in cash and cash equivalents	$ 13,281	$ (6,136)	$ 2,431

Cash provided by (used in) operating activities was $802,000, $(982,000), and $13.8 million in 2003, 2002, and 2001, respectively. The $802,000 of cash provided by operations in 2003 arose from the $23.9 million loss from operations offset by non-cash expenses of $14.5 million and $10.2 million provided by changes in other working capital items. The $982,000 of cash used by operations in 2002 arose from the $20.9 million loss from continuing operations and $2.3 million cash used in discontinued operations offset by non-cash expenses of $12.2 million and $11.4 million provided by changes in other working capital items partially offset by

a non-cash gain of $1.5 million on the sale of assets. The $13.8 million of cash provided by operating activities in 2001 was primarily due to net income from continuing operations of $12.0 million, $1.7 million used in discontinued operations, net non-cash related expenses of $18.3 million, and a net decrease in operating assets and liabilities of $5.3 million, partially offset by non-cash gains on the redemption of debentures of $12.9 million and the sale of assets of $7.1 million.

Net cash provided by (used in) investing activities was $3.6 million, $(6.6) million, and $17.1 million in 2003, 2002, and 2001, respectively. Investing activities provided $3.6 million of cash in 2003 primarily from $4.2 million in cash received in 2003 from the 2001 and 2002 sale of assets associated with the EZ-CAP managed care software business and HIM Services division, respectively, and $2.4 million from the redemption of short-term investments partially offset by $3.3 million in purchases of equipment. Investing activities consumed $6.6 million of cash in 2002 primarily for the acquisition of businesses $(11.9) million, the purchases of equipment $(2.6) million, and the development of software $(1.8) million. These cash outflows were offset in part by $9.8 million received from the sale of assets. Of the $17.1 million provided in 2001, $8.1 million came from the sale of the EZ-CAP managed care software business, $1.3 million from the release of restricted cash, and $12.2 million from the sale of available-for-sale securities, offset in part by $2.7 million in equipment purchases and $1.8 million in expenditures on capitalizable software.

Net cash provided by (used in) financing activities was $8.9 million, $1.4 million, and $(28.5) million in 2003, 2002, and 2001, respectively. The $8.9 million of cash generated from financing activities in 2003 arose from $8.5 million in proceeds received in connection with the refinancing of our 2005 notes and issuance of our 2008 notes in April 2003 and $339,000 of proceeds from the issuance of common stock. The $1.4 million of cash generated by financing activities in 2002 arose from $1.9 million of proceeds from the issuance of common stock offset by $455,000 of debt repayments. Financing activities in 2001 included the repurchase of $41.3 million of our debentures at a $12.9 million gain, the purchase of 200,000 shares of treasury common stock amounting to $821,000 and $800,000 in proceeds from the issuance of common stock. The Board of Directors has authorized us to repurchase our 2005 notes at our discretion and to repurchase up to 6 million shares of treasury stock.

Cash provided by (used in) operating activities was $(6.4) million, $1.0 million, $4.1 million and $2.1 million, sequentially for the four quarters of 2003. The changes primarily relate to the reduction in net loss during the year, $(10.7) million, $(6.3) million, $(5.2) million, and $(1.8) million per quarter respectively, from the first quarter through the fourth quarter of 2003 as adjusted for non-cash depreciation and amortization and bad debt charges which averaged a combined $3.6 million per quarter and reductions in working capital of $1.5 million, $3.8 million, $6.2 million and $(1.3) million per quarter respectively, from the first quarter through the fourth quarter of 2003.

Commitments

The following table summarizes financial data for our contractual obligations and other commercial commitments, including interest obligations, as of March 31, 2004 (unaudited, in thousands):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term debt	$ 87,145	$	$ 11,931	$ 75,214	$
Interest on long term debt	31,598	4,964	15,353	11,281	
Operating leases [(1)]	26,455	3,311	12,515	7,123	3,506

Other long-term obligations	966	483	483		
Total contractual cash obligations	$ 146,164	$ 8,758	$ 40,282	$ 93,618	$ 3,506
Other Commercial Commitments					
Standby letters of credit [2]	$ 4,076	$ 1,100	$	$ 2,620	$ 356
Total commercial commitments	$ 4,076	$ 1,100	$	$ 2,620	$ 356

(1) The Company intends to vacate or sublease the San Rafael, California facility in 2004 in connection with the relocation of our headquarters to Reston, Virginia. The San Rafael minimum lease payments total approximately $5.4 million for years 2004 through 2009, which is included in the schedule above. As a result, these amounts may become payable prior to the original contract term.

(2) The 4-5 years amount of $2.6 million is for an existing surety bond requirement on December 31, 2002. Actual requirements may be less as work is completed towards the underlying contract.

We expect that cash provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, specifically the timing of when we recognize revenue, our accounts receivable collections and the timing of other payments. In addition, cash used in investing activities may fluctuate due to our software development efforts, which are expected to increase in 2004, any acquisition or disposition we may undertake, and costs associated with our investments in fixed assets and information technology. For additional discussion, see Risk Factors .

We do business directly and through our subsidiaries, all of which are wholly owned and operated under common management. Our cash flow and our ability to service our debt, including the 2008 notes, depend upon the earnings of our subsidiaries and on the distribution of earnings, loans or other payments by our subsidiaries to us. Distributions to us from our subsidiaries are most often made as dividends on the stock of a particular subsidiary and sometimes as an intercompany loan. We do not have arrangements or agreements with our subsidiaries that entitle us to distributions of earnings, loans or other payments other than our ownership of all of our subsidiaries stock. However, because our subsidiaries do not have material indebtedness or obligations for which QuadraMed is not also liable, we do not believe that there is any significant risk that our subsidiaries would be precluded from distributing funds which we would need to satisfy our obligations under our indebtedness. Payments to us by our subsidiaries will be determined, in the case of each subsidiary, according to the subsidiary s earnings, business condition, and other business considerations. In the unlikely event that our subsidiaries could not distribute the funds that we need to satisfy our obligations, we would seek alternative equity or debt financing. We believe that we will have sufficient liquidity and capital resources to fund our scheduled debt and other obligations through the next twelve months.

We depend on licenses from a number of third party vendors for certain technology, including the computer hardware, operating systems, database management systems, programming language, and runtime environment, upon which we develop and operate our products. We are materially reliant upon licenses with the following third party vendors: InterSystems Corporation, Oracle, Microsoft, Quovadx, the American Medical Association (AMA), and the American Hospital Association (AHA). Most of these licenses expire within three to five years. Such licenses can be renewed only by mutual consent and may be terminated if we breach the license terms and fail to cure the breach within a specified time period. If such licenses are terminated, we may not be able to continue using the technology on commercially reasonable terms or at all. As a result, we may have to discontinue, delay or reduce product shipments until equivalent technology is obtained, which could have a material adverse effect on our business, financial condition, and results of operations. However, as all application software companies, including QuadraMed and our competitors, are reliant on licensed technology and third party components, we believe our reliance on such technology and licenses places us at no competitive disadvantage.

At present, there is no equivalent technology for the InterSystems Corporation technology which is an integral component of our Affinity product line. The Company has entered into several agreements with InterSystems Corporation regarding the licensed technology relating to our Affinity product line. However, if InterSystems Corporation ceased to offer this technology and no other vendor provided the technology, we would be required to migrate our Affinity products to a new database platform or redesign our products to work with new software tools. This could be very costly and difficult to achieve and could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we would successfully migrate our Affinity products to a new platform. Most of our third-party licenses are non-exclusive and competitors may obtain the same or similar technology. In addition, if vendors choose to discontinue support of the licensed technology, we may not be able to modify or adapt our products.

Off-Balance Sheet Arrangements

We do not have any intercompany loans or any off-balance sheet arrangements.

Inflation

The majority of our revenue is derived from perpetual and long-term customer contracts. The term of contracts range from one to five years and the contracts generally allow for price increases annually based on external measures of inflation. We have increased some of our prices under these contract provisions. Our maintenance contract terms also allow annual price increases based on external measures of inflation. Accordingly, inflation has not had, and we do not believe that it will have, a significant impact on our financial condition.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates primarily relates to our investment portfolio. It is our intent to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk, and reinvestment risk. We invest in high-quality issuers, including money market funds, corporate debt securities, and debt securities issued by the United States government and U.S. governmental agencies. We have a policy of investing in securities with maturities of two years or less. We do not invest in derivative financial or foreign investments.

The table that follows presents fair values of principal amounts and weighted average interest rates for our investment portfolio as of March 31, 2004 (unaudited) and December 31, 2003 and 2002 (in thousands, except average interest rates).

	Aggregate Fair Value			Weighted Average Interest Rate		
		December 31,			December 31,	
	March 31, 2004	2003	2002	March 31, 2004	2003	2002
	(unaudited)			(unaudited)		
Cash and cash equivalents						
Cash	$ 11,157	$ 10,060	$ 12,896			
Money Market funds	23,606	26,884	10,767	1.07%	1.08%	1.10%
Total cash and cash equivalents	$ 34,763	$ 36,944	$ 23,663			
Short-term investments						
Corporate debt securities	$	$	$ 2,528			1.68%
Long-term investments						
Corporate debt securities	$ 638	$ 477	$ 529	5.23%	5.27%	5.57%
Debt issued by the U.S. government	711	908	768	4.74%	5.04%	4.70%
Total long-term investments	$ 1,349	$ 1,385	$ 1,297			

At March 31, 2004, long-term debt consists of a principal balance of $11.9 million for the 2005 Notes and $72.3 million for the 2008 Notes, net of unamortized discount of $10.6 million. The 2005 Notes bear interest at a fixed rate of 5.25% per annum and the 2008 Notes, at an initial rate of 10% per annum which will be reduced to 9% pending re-listing of our stock on a national exchange.

Performance of Equity Markets

The performance of the equity markets can have an effect on our operations as certain of our variable life insurance policies have premiums invested in equity securities.

Foreign Currency Risk

Although we sell our products internationally from time to time, all such transactions are denominated in U.S. Dollars, and there is no foreign currency fluctuation risk associated with such sales.

CHANGES IN REGISTRANT S CERTIFYING ACCOUNTANTS

On April 5, 2002, QuadraMed, upon the approval of our Audit Committee and our Board of Directors, appointed PricewaterhouseCoopers, LLP (PwC) as our independent public accountant and dismissed Pisenti & Brinker, LLP (P&B), which had been appointed our independent public accountants on May 8, 2000, and had served in such capacity for the fiscal years ending December 31, 2000 and 2001, and subsequent interim periods.

P&B s reports on our financial statements for the fiscal years 2000 and 2001 and any subsequent interim period did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. There were no disagreements between QuadraMed and P&B on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of P&B, would have caused them to make reference to the subject matter of such disagreements in connection with their reports during our fiscal years 2000 and 2001, and any subsequent interim period.

Furthermore, during QuadraMed s fiscal years 2000 and 2001, and any subsequent interim period, P&B never advised QuadraMed that it had concerns with our internal controls, management s representations, financial statements prepared by management, scope of their audit, or previously issued financial statements and Reports of Independent Auditors.

We asked P&B to provide us with a letter addressed to the SEC stating whether it agreed with QuadraMed s disclosures and, if not, to specify in which respects it did not agree. A copy of such letter, dated May 15, 2002, is filed as an exhibit to the registration statement of which this prospectus is a part.

On April 28, 2003, QuadraMed dismissed PwC as our independent accountants. Our Audit Committee made the decision to change independent accountants.

PwC did not report on our consolidated financial statements for any fiscal year. During their retention as our independent accountants from April 5, 2002 through April 28, 2003, there were no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused them to make reference thereto in their report on the consolidated financial statements.

PwC did, however, inform both management and our Audit Committee of its concerns regarding material weaknesses in the company s system of internal controls, policies and procedures, including the adequacy and reliability of certain financial information, and certain financial personnel. Specifically, PwC reported material weaknesses in 1) the accounting for software revenue and related expense recognition, 2) the reporting of discontinued operations, 3) the accounting for the company s investment in certain non-consolidated subsidiaries, 4) the accounting for certain life insurance contracts and the Supplemental Executive Retirement Plan (SERP), 5) the accounting and reporting of non-recurring charges, 6) the accounting for stock-based compensation, 7) the accounting and reporting of capitalized software development costs, 8) the accounting for income taxes, 9) the documentation supporting the accounting for certain business combinations, and 10) timely analysis and reconciliation of general ledger accounts.

PwC further stated that these material weaknesses would require PwC to expand the scope of its uncompleted audit of fiscal year 2002, and that its findings to date may materially impact the fairness and reliability of our previously issued financial statements as previously filed with the SEC and the report of the prior independent public accountants on those financial statements. We requested that PwC furnish us with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter, dated May 5, 2003, was filed on our Current Report on Form 8-K with the SEC on May 5, 2003 and is filed as an exhibit to the registration statement of which this prospectus is a part.

We engaged BDO Seidman, LLP (BDO) as our new independent accountants as of May 5, 2003.

As a result of the matters discussed above, as well as management s discovery and analysis of accounting and financial reporting errors, the Audit Committee concluded at a meeting on August 9, 2002 that the restatement of the company s consolidated financial statements for the years ended December 31, 2001 and 2000 and the unaudited condensed consolidated financial statements for the quarter ended March 31, 2002, was required. Deloitte & Touche LLP (Deloitte) was engaged to perform forensic accounting and other services in connection with accounting, disclosure and other issues that resulted in the restatements and rendered an extensive report to the Audit Committee and the company. The Audit Committee re-engaged Pisenti & Brinker, LLP (P&B), the company s independent public accountants who immediately preceded PwC, to reaudit the years ended December 31, 2000 and 2001.

In October 2002, the Audit Committee further concluded after additional meetings that the year ended December 31, 1999, a year previously audited by Arthur Andersen LLP, required restatement as well, for the same reasons as mentioned above. Upon the completion of the audit of the restated years by P&B, we filed an amended Form 10-K/A for the year ended December 31, 2001 on June 6, 2003, and an amended Form 10-Q/A for the period ended March 31, 2002 on August 15, 2003.

Also as of December 31, 2003, our CEO and CFO evaluated the effectiveness of our internal controls over financial reporting. They concluded that our practices and procedures are appropriate under the circumstances except for the following material weakness. In connection with performing its audit of our financial results for 2002 and 2003, in February 2004, BDO Seidman, LLP informed us that they noted a matter involving our system of internal controls, policies and procedures to track movements in deferred revenue on a roll forward basis, that they considered to be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions are matters coming to the auditor s attention that relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Given this weakness in our Enterprise Division, it was difficult for management to continually monitor movements in this account. Analytical Review work was done at the end of each period but not on an overall roll forward basis.

The company has now implemented procedures to report movements in deferred revenue on an overall roll forward basis. We are also in the process of upgrading our computer software and adding new modules that will provide the aforementioned overall roll forward analysis.

As of March 31, 2004, an evaluation was performed under the supervision and with the participation of the company s management, including the Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), of the effectiveness of the design and operation of the company s disclosure controls and procedures (as defined in Rules 13a-15(e), and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the company s management, including the CEO and CFO, concluded that the company s disclosure controls and procedures were effective as of March 31, 2004. There have been no significant changes in the company s disclosure controls over financial reporting that

occurred during the quarter ended March 31, 2004 that have materially affected, or are reasonably likely to materially affect, our disclosure controls over financial reporting.

Our management, including the CEO and CFO, does not expect that our internal controls will necessarily prevent all error and all fraud. A control system, no matter how well designed and operated, cannot provide absolute assurance that the control system s objectives will be met. In addition, the design of such internal controls must take into account the costs of designing and maintaining such a control system. Certain inherent limitations exist in control systems to make absolute assurances difficult, including the realities that judgments in decision-making can be faulty, that breakdowns can occur because of a simple error or mistake, and that individuals can circumvent controls. The design of any control system is based in part upon existing business conditions and risk assessments. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies and procedures. As a result, they may require change or revision. Because of the inherent limitations in a control system, misstatement due to error or fraud may occur and may not be detected. Nevertheless, management believes that the company s internal controls over financial reporting for the first quarter of fiscal year 2004 are adequate.

BUSINESS

Overview

QuadraMed Corporation along with our subsidiaries, is dedicated to improving healthcare delivery by providing innovative healthcare information technology and services. We provide healthcare information technology products and services that help healthcare providers to improve the quality of the care they deliver and the efficiency with which it is delivered. We accomplish our mission by developing and implementing sophisticated, user-friendly software applications designed and developed by the healthcare professionals and software specialists we employ.

Our products are designed to eliminate paper, improve processes, and decrease error through the efficient management of patient clinical and financial records. They are suitable for acute care hospitals, specialty hospitals, Veterans Health Administration facilities and associated/affiliated businesses such as outpatient clinics, long-term care facilities, and rehabilitation hospitals and are used by healthcare organizations of varying size from small single entity hospitals to large multi-facility care delivery organizations. Our products are sold as standalone, bundled, or fully integrated software packages. We also provide services to support the hospital s collection of receivables and its administration of contractual reimbursements from managed care companies. As of December 31, 2003, approximately 1,900 healthcare provider facilities were utilizing at least one of our products.

We do business directly and through our subsidiaries, all of which are wholly owned and operated under common management. Until November 2003, we were managed in three distinct business segments, which are as follows: Enterprise Division, Health Information Management Software Division and Financial Services Division. On November 5, 2003, we consolidated the HIM Software Division and Enterprise Division into a single functional software organization. This reorganization is designed to use existing resources more efficiently and to facilitate the integration of products and technologies. The change does not affect the Financial Services Division.

Our cash flow and our ability to service our debt, including the 2008 notes, depend upon the earnings of our subsidiaries and on the distribution of earnings, loans or other payments by our subsidiaries to us. Distributions to us from our subsidiaries are most often made as dividends on the stock of a particular subsidiary and sometimes as an intercompany loan. We do not have arrangements or agreements with our subsidiaries that entitle us to distributions of earnings, loans or other payments other than our ownership of all of our subsidiaries stock. Payments to us by our subsidiaries will be determined, in the case of each subsidiary, according to the subsidiary s earnings, business condition, and other business considerations.

Our headquarters office is located at 12110 Sunset Hills Road, Reston, Virginia in the Washington, D.C. metropolitan area. The company was incorporated in 1993 and reincorporated in Delaware in 1996. Our telephone number is (703) 709-2300. Our website can be found at www.quadramed.com where all of our current SEC filings can be accessed free of charge.

Healthcare Market

The healthcare industry is under increasing pressure from government, consumers, employers, and third party payers to increase the use of technology to improve efficiency, eliminate errors, and to enhance the quality of care. This fact is demonstrated by the number of government, private industry and consumer-driven initiatives that are acting as catalysts and driving the business decisions made by healthcare executives.

The need to increase the use of technology to improve patient safety became evident in 1999 when the Institute of Medicine of the National Academy of Science (IOM) published a report entitled To Err is Human . This report detailed the extent of preventable medical errors in today s hospitals errors which were estimated to cause between 44,000 and 98,000 deaths each year. In their most current report (November 2003), the IOM advises health care organizations to adopt information technology systems that collect and share health information on patients and their care in order to significantly reduce deaths and injuries caused by medical errors. The report goes on to recommend that the systems that health care organizations implement should operate as part of a national network of health information accessible by all healthcare organizations.

In addition to the IOM report, private industry has identified healthcare and the associated cost attributed to medical errors as an area requiring significant change. More than 145 public and private organizations formed a coalition called the Leapfrog Group. These organizations have significant healthcare purchasing power which has brought their initiative to the forefront in the public arena. They are demanding changes designed to improve the quality of care, reduce errors and to lower the associated cost. One of Leapfrog s recommendations is that hospitals implement a Computerized Physician Order Entry (CPOE) system to reduce or eliminate adverse drug events, one of the most common medical errors.

The federal government is another key player driving the need for information technology. The Centers for Medicare and Medicaid Services (CMS) is encouraging the use of Electronic Health Record Systems (EHR-S) to improve care quality based on better clinical data. The focus of the EHR-S is the centralization of and access to electronic health information on a patient level. CMS will be initiating a demonstration project in which hospitals are rewarded financially for providing higher levels of quality care. The need to capture, store, access and communicate patient information electronically will further drive the need for healthcare organizations to implement sophisticated information technology solutions based on industry recognized data standards.

In May 2003, the Department of Health and Human Services (DHHS) issued a report entitled Toward a National Health Information Infrastructure: A Key Strategy for Improving Quality in Long-Term Care. This report establishes the path for the future development of healthcare information technology based on a national infrastructure. The report states:

> Demands for readily available health care information have increased dramatically in recent years. Demographic changes such as an aging population with increased chronic illness and a more mobile population have created needs for larger volumes of health information and more easily transferable information...The delivery of cost-effective, high quality health care in order to meet national goals for healthy people and healthy populations is now clearly linked to the availability of information.

This report cites a number of examples of how a national infrastructure can improve the quality of healthcare. These include the ability for consumers to manage their own health care needs and decision-making by having access to their information, providing healthcare providers access to more accurate and complete real-time patient data and use of systems with knowledge and content for better decision-making, and the ability for public health officials to access aggregate data to identify health problems and trends. The federal government is strongly advocating the implementation of an electronic medical record based on data and technology standards that allow systems to communicate and share information across all care settings.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) legislation has had a significant impact on healthcare organizations and their need for technology to help them comply with the resulting regulations. For example, prior to HIPAA legislation, the Health Information Department had sole responsibility for facilitating disclosure of patient information. Under HIPAA s privacy requirements, disclosures must be tracked and aggregated from all departments in the organization, not just the Health Information Department. The complexity of tracking disclosures throughout the organization, as well as providing the patient with a record of what has been disclosed for a minimum of six years, places both a burden and a risk on the organization. In addition, the legislation requires electronic transmission of standards and includes requirements for maintenance and transmission of health information that identifies individual patients.

These standards are designed to:

- Improve the efficiency and effectiveness of the healthcare infrastructure by standardizing the interchange of electronic data for specified administrative and financial transactions; and
- Protect the security and confidentiality of a patient s health information.

The requirements outlined by the law and the regulations promulgated by DHHS are far-reaching ***all healthcare organizations that maintain or transmit electronic health information must comply.*** Healthcare information technology companies, particularly Healthcare Information System (HIS) vendors, must partner with healthcare organizations in meeting the significant regulatory requirements mandated by the HIPAA legislation.

QuadraMed s Strategy

QuadraMed s strategy focuses on its core software business. We plan to achieve the status of industry leader by:

Continually enhancing the functionality of our existing product solutions and their underlying technology and our support services to meet the emerging needs of health care providers;

Developing or acquiring additional software applications to complement our product line;

Focusing on selling new and enhanced applications to our existing customer base;

Acquiring new customers through expanded professional sales and marketing activities;

Maintenance of expense discipline; and

Divestiture of non-strategic assets.

Our goal is to increase market share by offering affordable and user-friendly clinical, administrative, financial and medical records software products and services to meet the growing demand among hospitals and other healthcare providers for better patient safety, fewer medical errors and improved efficiencies. To achieve this goal, we have combined the considerable healthcare expertise of our product managers with the technological skill of our development engineers in an effort to assure that our products are designed and supported by people who understand healthcare providers and are built using modern technology.

QuadraMed s Products and Solutions

QuadraMed provides comprehensive software and service solutions that help our customers achieve clinical and financial efficiency across the full continuum of patient care. A significant portion of our software license arrangements are generated from providing product maintenance and implementation services to customers. These services include installations, maintenance, consulting and training. **Affinity** integrated enterprise information systems enable the customer to manage patient registration, clinical, and financial information, and **Quantim** health information management software provides acute care hospitals, VA facilities and physicians with the tools to manage coding, compliance, abstracting and record management processes. In addition, we have standalone solutions that fulfill niche needs including Identity Manager (MPI), Decision Support, EDI and Pharmacy. Furthermore, our Financial Services Solutions identify and collect accounts receivable, recover underpayments from managed care contracts, and provide educational services for hospitals and medical groups.

Software Solutions

The following table provides a list of our major software products and associated services:

Affinity Patient Access Management

Patient Scheduling

Patient Registration

Master Population Index

Community Master Population Index (CMPI)

Medical Records Abstracting

Medical Records Control

DRG/Case Mix

Account Workflow

Electronic Data Interchange

Affinity Care Management

Computerized Physician Order Entry (CPOE)

Clinician Access

Order Management

Ancillary Department Management

Patient Charting

Medication Charting

Plan of Care

Acuity/Staff Requirements

Health Notes

Quality Management

Utilization Management

Medication Management

Pharmacy Management

Affinity Healthcare Information Management

Abstracting

Coding

Compliance

Affinity Financial General Office

General Ledger

Accounts Payable

Payroll Personnel

InSight Executive Decision Support

Performance Measurement

Affinity Financial Patient Financial Management

Patient Accounting

Central Business Office

Account Workflow

Contract Management

Electronic Data Interchange

Affinity Professional Services

Consulting Services

Interface and Conversion Services

Systems Operations Management Services

Query Services

Customer Training Courses

Professional Services

Quantim Health Information Management

Abstracting

Coding Physician and Facility

Compliance Inpatient and Outpatient

Correspondence Management

Pharmacy Management

Inpatient

Outpatient/Clinic

Long-Term Care

pcMAR

MPI Integrity Management

MPIspy

SmartMerge

PreciseID Patient Search Algorithm

MPI Clean Up Services

Decision Support

Contract Management

Performance Measurement

Clinical Outcome Practice Evaluator (COPE)

EDI

EDI Transaction Services

Other Compliance Management Products

VHA ProFee Compliance Suite

Other Coding and Reimbursement Products

Physician Coding nCoder+MD

Facility Coding nCoder+, Cascade Encoder, WinCoder Interactive

VA Coding nCoder+/PTF

Other Abstracting Products

WinCoder + CS, Cascade Master System

Record Management

MEDREC Millennium Record Management

Chart Completion

Chart Locator

Correspondence Management

Enterprise Search and Reporting

Affinity. Affinity is our brand name for the product family that includes integrated enterprise wide solutions. The core product is a standards-based, integrated, healthcare information system (HIS). It is highly scaleable and flexible and supports the business application needs of hospitals of varying sizes, from small community facilities to large multi-entity integrated delivery networks. It can be implemented on both Microsoft NT and UNIX operating systems and supports a number of hardware platforms, including Hewlett Packard/Compaq, Sun Microsystems, IBM, and EMC. Affinity applications are designed to:

Streamline workflow processes;

Reduce administrative expenses;

Improve the speed and accuracy of billing processes; and

Improve patient safety and care by supporting clinical decision-making and documentation.

The Affinity system provides a fully integrated healthcare information system from patient access and identification to care management, health information management and financial management. The system can be installed fully integrated and bundled in best-of-suite configurations.

Affinity Patient Access Management is designed to ensure that accurate patient information is accessible across an organization, improving workflow, compliance and patient safety. By centralizing all patient information in an integrated, scalable system, our access management solutions enable healthcare professionals to quickly and accurately track patients from registration through billing.

Affinity Care Management provides improved integration, streamlined workflow, better documentation and better decision support for patient safety. The system supports order control/results reporting, acuity/staff requirements, plan of care, vital signs and intake/output, charting and assessment, pharmacy/medical management, department management, physician access, and computerized physician order entry. The Affinity CPOE, Pharmacy and Patient Charting applications provide a comprehensive, advanced clinical solution focused on patient safety. The Affinity Pharmacy Management component provides a comprehensive solution to help healthcare organizations manage the daily operations of their pharmacy departments and is fundamental in addressing patient safety concerns that are driving clinical decisions.

Additionally, we offer a standalone solution for pharmacy management for the inpatient, ambulatory, and long-term care settings. Our pharmacy solution also provides a point of care electronic medication charting tool.

Affinity Health Information Management includes our proprietary coding, compliance and record management systems and automates the management of the patient revenue cycle.

Affinity Financial Management solutions provide acute care hospitals with comprehensive revenue cycle management capabilities. Affinity helps hospitals capture and manage revenue throughout the patient revenue cycle. By combining clinical, financial and patient information within a single patient-centered database, Affinity helps organizations reduce accounts receivable days, improve cash flow, increase productivity and improve operational and strategic decision-making.

Quantim. Quantim is our brand name for our product family of standalone Health Information Management solutions. When sold as standalone products, these solutions are frequently integrated with other vendors HIS systems. Quantim is an integrated health information management system that provides acute care hospitals and physician practices with the tools to manage coding, compliance, abstracting and record management processes. This combination of integrated solutions is designed to significantly improve the business of healthcare. Quantim software solutions are designed to generate operational efficiencies, improve cash flow and measure the cost and quality of care. Quantim provides a single, fully integrated, web-native platform for our health information management product suite. Quantim represents a significant improvement over the functionality of traditional health information management product offerings in the areas of coding, compliance, abstracting, and medical records management.

Quantim Abstracting captures, structures, and analyzes clinical and financial data using standard and customizable fields, rules and screen design. The Application Builder tool provides users the ability to customize workflow by creating fields and rules and designing screen navigation. Quantim Abstracting provides an integrated solution that enables the user to access both the Coding and Compliance tools within a patient encounter and provides timely and accurate data for clinical and business decisions.

Quantim Coding provides advanced search functionality while maintaining a solid knowledge-based approach to coding. It includes a sophisticated search engine to facilitate the encoding process and improve coding accuracy. Coding accuracy is enhanced through Quantim Coding s powerful simultaneous encoding and grouping system, designed to maximize productivity and minimize duplication.

Quantim Compliance is a transaction based software solution that facilitates accurate ICD-9-CM, CPT/HCPCS, DRG and APC assignment. Quantim Compliance automates the selection process and assists the user in monitoring appropriate and accurate coding for both inpatient and outpatient encounters. Quantim Compliance improves the quality of data and acts as an early warning system to identify potential areas of noncompliance.

Quantim Correspondence Management provides complete functionality to facilitate a healthcare organization s compliance with the disclosure management aspect of the HIPAA privacy mandate. In addition, it provides the tools needed by HIM to automate the entire release of information workflow process, including robust accounts receivable management.

Other Solutions. In addition to Affinity and Quantim, we also market standalone solutions that fulfill specific needs, including QuadraMed MPI, a suite of Master Person Index (MPI) Software and Services (MPIspy®, SmartID®, SmartMerge®, MPI Cleanup), which enable the identification, correction, and elimination of duplicate patient records in a facility s master population index; Decision Support tools, including: Contract Management, a managed care contract management system; Performance Measurement, a clinical and financial outcome analysis and decision support system; and, Clinical Outcome Practice Evaluator (COPE), which electronically captures, abstracts, and enters data required for Core Measures of the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). We also market an electronic transaction service (EDI).

Financial Services Solutions

We provide two services that identify and collect accounts receivable for hospitals and medical groups: (i) Accounts Receivable Management; and (ii) Managed Care Payment Review.

Our Accounts Receivable Management services provide a variety of third-party collection services, including:

- Complete outsourcing that initially bills and collects accounts from time of service;
- Early out programs that collect accounts of pre-designated age or amount;
- Aged accounts placement that collects aged accounts on a one-time basis;
- Resolution of accounts unable to be transferred as part of conversion to a provider s new health information system;
- Operational assessments of hospital revenue cycles; and
- Training and education on business office operations and compliance issues related to collection.

We also offer customization of accounts receivable services and detailed reconciliation reports on our work.

Our Managed Care Payment Review Service audits managed care patient accounts for appropriate payment pursuant to managed care contracts. In providing this service, we use our own proprietary software that automates many audit functions and permits greater reporting options.

Product Development Strategy

The key drivers for our technology development are portability of information, flexibility of deployment, access anywhere and anytime, and data standardization. Our technology strategy is guided by the following technology trends:

The Internet and distributed computing have had and will likely continue to have a significant impact on the way software is developed and delivered;

Web-native applications with a modern Internet architecture will likely have a significant role in the future; and

Computing power, storage capacity, and network bandwidth have in the past doubled, and may continue to double, every 18, 12, and 6 months, respectively.

The principles upon which our core products are developed will enhance their ability to be easily accessed, scaled, extended, and integrated with the customer s legacy systems: These principles include:

Standards Based: Our products support industry standards, such as Health Level 7 (HL7), X12 EDI and XML. This enables QuadraMed customers to preserve their investments in previously installed departmental systems and to support a corporate-wide integration strategy. Increasingly, our products will make it possible to integrate information from different environments into a single, patient-centered database.

Platform Independent: We intend to isolate the application business logic and user interface from the underlying hardware and operating system through an adaptive technology framework and core services. A QuadraMed customer will be able to pursue the most advantageous hardware route generally without affecting data portability.

Scalable and Reliable: Our architecture is based upon the communications and networking facilities of UNIX and Windows. The adaptive architecture offers total scalability and reliability from small to large enterprise systems.

Flexible and Customizable: Our architecture includes powerful tools that allow users to adapt the system to their specific needs. At the institution level, customers can design custom data entry screens, reports, and workflow all without programming. At the user level, the framework supports end user authoring which allows physicians and clinicians to easily configure the system to provide the information that they need, in a format that they are comfortable with, organized to support the way they work.

Ease of Installation and Implementation: Our emerging architecture makes it easy to install and implement. The use of web based thin clients eliminates the need for manual software installation and configuration on individual workstations. QuadraMed has a record in successful installations and customer satisfaction. Our products are designed to support incremental installation and we specialize in interfacing with legacy systems, thereby providing the customer with a rapid return on investment.

Web Accessible: Our newer applications are fully web accessible, including a web-native and Java (J2EE)-based framework that is fully integrated with core enterprise-wide registration, clinical and financial systems. This architecture also allows integration with existing web portals to make enterprise wide information web-accessible.

We depend on licenses from a number of third party vendors for certain technology, including the computer hardware, operating systems, database management systems, programming language, and runtime environment, upon which we develop and operate our products. We are materially reliant upon licenses with the following third party vendors: InterSystems Corporation, Oracle, Microsoft, Quovadx, the American Medical Association (AMA), and the American Hospital Association (AHA). All application software companies, including QuadraMed and our competitors, are reliant on licensed technology and third party components for the development and operation of their software products. Therefore, we believe that our reliance on licensed technology does not place us at a competitive disadvantage. Moreover, as discussed above, a key component of our product development strategy is to become platform-independent, which we believe will mitigate the risks of our reliance on third party licenses.

Most of our licenses expire within three to five years. Such licenses can be renewed only by mutual consent. Most of our third party licenses are non-exclusive and competitors may obtain the same or similar technology. See application software companies, including our competitors, are reliant on licensed technology and third-party components for the development and operation of these software products. Therefore, our reliance does not place us at a competitive disadvantage. Our overall strategy is to become platform-independent.

Technical Architecture

To eliminate the disparity of technical architectures that resulted from our many acquisitions, we have established a technical architecture which guides the development and integration of our products. We have focused on integrating the functionality of our products through the development of web-native applications (designed to run in a web browser) built on n-tiered architecture (developed in discrete layers separating the user interface from the business rules and data storage to provide maximum platform independence). The layers of this architecture are as follows:

Platform the platform layer is the computer hardware and operating system. Our software is designed to be system independent, which means it can run on a variety of hardware and operating systems from a number of vendors. Our systems can run on computers from any manufacturer that supports Microsoft Windows® or commercial Unix operating systems.

Database the database layer consists of a commercial relational database management system such as Oracle®, Microsoft SQL Server, or InterSystems Cache. Our software is designed to be database independent and is capable of being deployed on a variety of database management systems.

EDR the Enterprise Data Repository (EDR) is the developed implementation of a healthcare specific data model. The design of the EDR has been heavily influenced by the HL7 Reference Information Model (RIM). HL7 is the recognized governing standards body for healthcare information technology. The RIM includes definitions for all objects and acts specific to healthcare, including complete conceptual definitions of terms like patient, provider, procedure, and diagnosis, and the potential relationships among the terms.

Framework the Framework layer is a developed layer that implements a set of core services which are reusable across our applications. By developing a set of core services one time in a common framework we are able to support our product

families and leverage the vast amount of healthcare domain knowledge that is embedded in products like Quantim Coding or Affinity CPOE.

Application Logic the Application Logic layer is a developed layer that implements specific applications such as Quantim Coding or Affinity Pharmacy. Application layers use combinations of Framework layer services and application specific business logic. The differentiating code that makes one product distinct from another is developed in this layer.

Thin Client the Thin Client or presentation layer is responsible for the presentation of the software to the end user what the user sees on the screen. By designing our systems to run in a web browser we build in a great deal of flexibility in the deployment of our applications. By separating the presentation layer from the application layer, we greatly simplify the task of supporting new end-user devices as they become available.

Product Families the architecture supports our product strategy. QuadraMed s two major product families, Affinity and Quantim, are being developed in the QuadraMed architecture which is an integrated, standards-based software platform which simplifies and automates workflow across the continuum of patient care. It is this core technology that supports all QuadraMed products and enables their integration into a new or existing system.

Customers

We primarily market to acute care hospitals and multi-facility care delivery organizations or integrated delivery networks. We also sell products to Veterans Health Administration facilities, specialty hospitals, hospital associations, and physicians. We have customers located in all 50 states, the District of Columbia, Puerto Rico, and Canada. In 2003, 2002, and 2001, no single customer accounted for 10% or more of our total revenue. During the years ended December 31, 2003, 2002 and 2001, 23%, 21% and 10%, respectively, of our HIM services revenues were attributable to sales of products and services to the U.S. Government. In all, our products are used in approximately 1,900 healthcare provider facilities.

Highly Competitive Market

Competition for our products and services is intense and is expected to increase. We compete with other providers of healthcare information software and services, as well as healthcare consulting firms. Our principal competitors include McKesson Corporation, Inc., Siemens Medical Services Health Services Corp. (formerly Shared Medical Systems or SMS), Meditech Corporation, Eclipsys Corporation, Cerner, GE Medical Systems, IDX Corporation, 3M, and Softmed. Other competitors include niche providers of electronic document management software, MPI products and services, decision support products, and financial services consulting and outsourcing.

Some of our competitors may be in a position to devote greater resources to the development, marketing and sales of their products and services. The trend towards merger and consolidation could further increase the level of competition providing other companies with greater ability to develop products on more aggressive schedules. Some of the main considerations of our customers that impact competition are customer service and support, ability to install systems in a reasonable timeframe, use of open standards as well as industry standards that allow disparate systems to work together, product functionality, company reputation and stability, and price.

Environmental

The company believes that its compliance with federal, state, and local environmental laws and regulations has no material effect on its capital expenditures, earnings, and competitive position.

Government Regulation and Healthcare Reform

Computer products used or intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease or other conditions or that affect the structure or function of the body are subject to regulation by the U.S. Food and Drug Administration (FDA) under the Federal Food, Drug and Cosmetic Act. At present, none of our software products are so regulated by the FDA.

There is substantial state and federal regulation of the confidentiality of patient medical records and the circumstances under which such records may be used by, disclosed to or processed by us as a consequence of our contacts with various health providers. Although compliance with these laws and regulations is presently the principal responsibility of covered entities including hospitals, physicians, or other healthcare providers, regulations governing patient confidentiality rights are rapidly evolving. Additional federal and state legislation governing the dissemination of medical record information may be adopted which may have a material affect on our business. Those laws, including HIPAA and ICD 10 implementation, may significantly affect our future business and materially impact our product development, revenue and working capital. During the past several years, the healthcare industry also has been

subject to increasing levels of governmental regulation of, among other things, reimbursement rates and certain capital expenditures. We are unable to predict what, if any, changes will occur as a result of such regulation.

Intellectual Property

We rely on a combination of copyright, trademark and trade secret law, and nondisclosure and non-compete agreements to protect our proprietary methodologies, computer software, and databases. We maintain the confidentiality of proprietary technology through a policy of obtaining agreements with our employees that (i) prohibit employees from disclosing or using our confidential information, and (ii) require the disclosure and assignment to us of new ideas, developments, discoveries or inventions related to our business. We also initiated a new branding strategy in 2001 that included the adoption of a new trademark, We do technology. So you can do healthcare. We also enter into non-disclosure agreements with business partners and customers in the ordinary course of business. We have obtained trademark registrations in the United States for most of our corporate and product trademarks, including QuadraMed, Affinity, Quantim, and Complysource. We had not filed for or obtained any patents for our proprietary technology until 2001, when we sought a patent on our Affinity CPOE software application. This patent application has lapsed. We may in the future seek patents for new products if, in our business judgment, their importance warrants such steps and is susceptible to protection under the patent laws. We also depend on licenses for certain technology used to develop our products from third-party vendors.

Research and Development

All of the Company s research and development expense represents software development costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved, and quality assurance activities. It primarily relates to employee compensation and benefit costs. As of March 31, 2004, we had 229 full-time employees engaged in software development. Our software development expense was $6.8 million, $5.3 million, $23.1 million, $17.5 million and $14.8 million for three months ended March 31, 2004 and 2003 and the years ended December 31, 2003, 2002, and 2001, respectively.

Employees

QuadraMed s staff includes product management and development teams with healthcare experience, software engineers trained in 21st century technology, sales and marketing, and corporate support/administrative. We believe that we have a satisfactory relationship with our employees, none of whom are represented by a union or other collective bargaining group. As of March 31, 2004, we had approximately 900 employees: 99 in general and administration, 115 in sales and marketing, and the remaining employees in technical, consulting, software development, and support services.

Properties

We lease all of our facilities and do not own any real property. Our executive and corporate offices are located in Reston, Virginia, in approximately 72,000 square feet of leased office space under a lease that expires in 2011. We also lease approximately 41,000 and 34,000 square feet of office space in San Marcos, California and San Rafael, California, respectively. These leases both expire in 2009. We believe that our facilities provide sufficient space for our present needs, and that additional suitable space, if needed, would be available on reasonable terms. In connection with the relocation of our corporate headquarters to Reston, Virginia, we intend to vacate or sublease the San Rafael, California facility in 2004.

Legal Proceedings

In October 2002, a series of securities law class action complaints was filed in the United States District Court, California Northern District, against us and certain of our officers and directors. The plaintiffs in these actions allege, among other things, violations of the Securities Exchange Act of 1934 due to issuing a series of allegedly false and misleading statements concerning our business and financial condition between May 11, 2000 and August 11, 2002. Also in October 2002, a shareholders derivative suit was filed on the Company s behalf in Marin County Superior Court of California against the Company as a nominal defendant and certain of our current and former officers and directors. The derivative action plaintiffs allege that certain of our current and former officers and directors breached their fiduciary duties to the Company based on assertions similar to those in the federal securities class action litigation. Both actions seek unspecified monetary damages and other relief.

On May 3, 2004, the final settlement agreement related to the securities class action litigation was filed with the court. The agreement is subject to a statutory notice and opt-out period, and a final hearing is scheduled for July 30, 2004. On April 21, 2004, the final settlement agreement relating to the shareholders derivative litigation was approved by the court. Approximately $1.3 million was accrued as of March 31, 2004 related to these settlements, representing the portion of settlement not expected to be covered by insurance.

On February 28, 2003, QuadraMed reported that the SEC issued a formal non-public order of investigation concerning QuadraMed s accounting and financial reporting practices for the period beginning January 1, 1998. On October 10, 2003, QuadraMed announced that the Staff of the San Francisco District Office of the Securities and Exchange Commission (the Staff) informed QuadraMed that the Staff intended to recommend to the SEC that it institute an enforcement action against QuadraMed for violations of the antifraud, periodic filing and books and records provisions of the federal securities laws. The proposed recommendation concerned QuadraMed s accounting for transactions that it entered into with Health+Cast LLP in 1998 and 1999. The 1999 transactions were restated as part of the recent restatement of our 1999 financial statements. None of the individuals who were involved with the Health+Cast transactions are any longer associated with QuadraMed. On April 30, 2004, that matter was settled with the issuance by the SEC of a Cease and Desist Order, to which QuadraMed consented without admitting or denying the findings in the Order. No fine was assessed against QuadraMed in the order, which requires QuadraMed to cease and desist from violations of the antifraud, periodic reporting and books and records provisions of the Securities Exchange Act of 1934.

In June 2000, QuadraMed entered into a Separation Agreement with James Durham upon his resignation as the company s Chief Executive Officer. This agreement was amended in July 2001 when Mr. Durham resigned from our Board of Directors. Pursuant to the agreement as amended, upon these resignations, Mr. Durham received approximately $3.2 million as of the dates of the agreements, a $250,000 per year salary through January 1, 2001, a $2,000 per month salary until December 31, 2003, the vesting of approximately 100,000 unvested options, the vesting of interest in the company s Supplemental Employee Retirement Plan (the SERP), and payments of approximately $500,000 per year by the company into his account in the SERP Trust, all subject to the terms and conditions of the agreement, as amended. Among other terms, the Separation Agreement contained a provision for non-disparagement, requiring Mr. Durham to refrain from directly or indirectly disparaging the company or its stockholders, directors, officers, employees, or agents for the term in which Mr. Durham was receiving payments under the Separation Agreement and for a period of one year thereafter. In a November 2002 article published in the *Marin Independent Journal* for which he was interviewed, Mr. Durham made repeated disparaging remarks about the company and our management. The Company notified him that his published remarks were in breach of his Separation Agreement. Subsequent to the publication of this article, Mr. Durham requested a lump sum election for his SERP benefits. The amount of payment called for in the SERP is described in note 14 Employee Benefit Plans Supplemental Executive Retirement Plan to our audited consolidated Financial Statements beginning on page F-24 of this prospectus.

In light of Mr. Durham s breach of his Separation Agreement, QuadraMed has notified Mr. Durham and his counsel that it is not obligated to fund additional SERP payments on behalf of Mr. Durham and that it will not pay him a lump sum for his SERP benefits. In January 2004, Mr. Durham filed an amended complaint against the company in the Superior Court of the State of California, Marin County, alleging a breach of his SERP contract and a breach of good faith and fair dealing under this contract. This amended complaint seeks payment of his lump sum SERP benefits, interest, attorneys fees, and other relief. On January 30, 2004, this matter was moved to the United States District Court, California Northern District. We have filed an answer and a motion to dismiss Mr. Durham s allegations of breach of good faith and fair dealing under this contract for failure to state a claim. These matters are at an early stage and no discovery has taken place. QuadraMed intends to defend itself vigorously against these allegations and feels that it is in the best interests of the company and its stockholders to defend this action, due to Mr. Durham s disparaging comments after his resignation and his breach of the Separation Agreement, as amended. The ultimate outcome of these matters cannot presently be determined. For additional information concerning the calculation and amount of this obligation, please see note 14 Employee Benefit Plans Supplemental Executive Retirement Plan to our audited consolidated Financial Statements beginning on page F-24 of this prospectus.

MANAGEMENT

Our directors and executive officers as of June 14, 2004 are as follows:

Name	Age	Position
Lawrence P. English	63	Chairman of the Board and Chief Executive Officer
F. Scott Gross	57	Director
William K. Jurika	63	Director
Robert L. Pevenstein	57	Director
Michael J. King	64	Director
Cornelius T. Ryan	72	Director
Joseph L. Feshbach	49	Director
Robert W. Miller	62	Director
Michael S. Wilstead	46	President and Chief Operating Officer
Dean A. Souleles	43	Executive Vice President and Chief Technology Officer
John C. Wright	55	Executive Vice President, Chief Financial Officer and Corporate Secretary
Frank J. Pecaitis	40	Senior Vice President, Client Development

Mr. English has been our Chairman of the Board since December 2000, and our Chief Executive Officer since June 2000. He was the Founder and Chief Executive Officer of Lawrence P. English, Inc., a private turn-around management firm, from January 1999 to June 2000. He has served as Director of Curative Healthcare Corporation since May 2000. He was the Chairman of the Board and Chief Executive Officer of Aesthetics Medical Management, Inc., a physician practice management company for plastic surgeons, from July 1997 to January 1999. Until he resigned in September 2002, he served as Director of Clarent Hospital Corporation, formerly Paracelsus Healthcare Corporation, since May 1999 and as the Non-Executive Chairman of the Board since February 2000. He was the President of CIGNA Healthcare, one of the largest HMO providers in the United States, from March 1992 until August 1996. Prior to 1992, Mr. English held numerous senior level positions at CIGNA. Mr. English possesses a Bachelor of Arts degree from Rutgers University and a Masters of Business Administration from George Washington University, and is a graduate of Harvard Business School s Advanced Management Program.

Mr. Gross has been a Director since 2000, he is Chairman and Chief Executive Officer of Rivien Health LLC, an outpatient physical therapy and rehabilitation service company in the United States and Canada since February 2004, and immediately prior to that he was a private investor. He was the founder, President, and Chief Executive Officer of Primus Management, Inc., a health services management company (formerly known as Alpha Hospital Management Inc.) from 1989 to December 2001. He has been a Director of Fountain View, Inc., a nursing home chain, since 1999. Mr. Gross earned a Bachelor of Science degree in Biology from California State University at Northridge, and a Masters degree in Public Administration (Healthcare Management Option) from the University of Southern California.

Mr. Jurika has been a Director since July 2003. He has been a private investor since 2001. He co-founded JMK Investment Partners LLC, an investment company, and founded Jurika & Voyles, Inc., an investment management firm, in 1976, where he served as the Chief Executive Officer and then Chairman of the Board until 2001. He received a Bachelor of Science degree in Marketing from the University of Denver.

Mr. Pevenstein has been a Director since September 2003. He has been a Director of the University of Maryland Medical System, which includes six community hospitals, and a Regent of the University System of Maryland, which includes thirteen higher education institutions,

since 2003. In 1998 he became the President of Princeville Partners LLC, a mergers and acquisitions and business consulting group. He was the Senior Vice President and Chief Financial Officer of UNC Incorporated, an aviation services and manufacturing company, from 1987 to 1997. Mr. Pevenstein is a Certified Public Accountant, with a Masters of Business Administration from Pepperdine University and Bachelor of Science degrees in Business Administration and Accounting from the University of Maryland.

Mr. King has been a Director since 1999. He has served as the Chairman and Chief Executive Officer of HealthScribe, Inc., a computerized medical transcription company, since May 1999. He was the Chairman of the Board of Directors and Chief Executive Officer of The Compucare Company, a healthcare information systems company acquired by QuadraMed in March 1999, from 1996 to 1999. Since 1999 he has served as the Director of Osprey Systems, an e-business consulting services firm. He has a degree in Mechanical Engineering from the University of Sheffield and a Masters of Business Administration equivalent in Management Studies from the University of Hatfield.

Mr. Ryan has been a Director since 2000, and previously served as a Director from 1995 to 1999. He is the Founding General Partner of Oxford Partners, LP, a Delaware limited partnership, since 1981 and of Oxford Bioscience Partners LP, since 1991. Oxford is a venture capital firm specializing in life sciences currently managing over $850 million in committed capital. Mr. Ryan has been a Trustee of Capital Cash Management Trust, a registered investment company, since 1976, a Trustee of Aquila Rocky Mountain Equity Fund, a registered investment company, since 1996, a Trustee of Churchill Cash Reserves Trust, a registered investment company, since 2003, and a Director of various registered investment companies within the Neuberger Berman Complex of funds since 1982. He possesses a Bachelor of Commerce from the University of Ottowa and a Master of Business Administration from the Wharton School of Business at the University of Pennsylvania.

Mr. Feshbach has been a Director since 2001. He has served as Chairman of the Board and Chief Executive Officer of Curative Health Services, Inc., a disease management company focused on chronic wound care and specialty pharmacy, since October 2000. He joined Curative s Board in February 2000. He has been a private investor in QuadraMed since 1998. From 1985 to 1998, he was the General Partner of Feshbach Brothers, a money management and stock brokerage firm.

Mr. Miller has been a Director since May 2003. Currently, he is an Adjunct Professor of Law, Emory University School of Law. He served as Director of Magellan Health Services, Inc from 1998-2004 and was a non-executive Chairman from 1998-2001. He was a Partner in the law firm of King & Spalding from 1985 until his retirement in 1997. He has a Bachelor of Arts degree in History from the University of Georgia, and earned an LL.B. from Yale Law School.

Mr. Wilstead has been President of QuadraMed since March 2003 and Chief Operating Officer since December 2001. He previously served as President of the Health Information Management Service and Software Divisions and the former EZ-CAP Division. He joined QuadraMed in July 1998 as Vice President of Sales. He was the Group President at STERIS Corporation, an infection control and surgical support products company, from 1995 to 1998. He held various positions at AMSCO International, a medical equipment company that was purchased by STERIS in 1995, from 1990 to 1995. Mr. Wilstead earned a Bachelor of Science degree in Business Administration from the University of Phoenix.

Mr. Souleles became Chief Technology Officer in August 2000. From September 2002 until November 2003, he served as the Executive Vice President of the Enterprise Software Division. He joined QuadraMed in February 2000 as Vice President of Development. He served as the Chief Technology Officer and Director of Research and Development for Chase Systems, Inc., a software and technical services firm serving the mortgage credit reporting industry, from March 1997 to February 2000. He was Chief Technology Officer of SureNet Corporation, an Internet service provider, from October 1995 to December 1996. He was also a consultant to NASA s Jet Propulsion Laboratory as principal engineer and system architect on various space, civil, and defense programs from March 1986 to October 1995. A recipient of the Department of Transportation, Federal Aviation Administration Weather and Flight Service Systems Director s Award, Mr. Souleles was educated in Computer Science at California State University, Northridge.

Mr. Wright has been the Executive Vice President and Corporate Secretary since September 2003 and Chief Financial Officer since April 1, 2004. He is a Certified Public Accountant, and acted as an advisor to our Audit Committee from January 2003 to July 2003. He served as the Chief Financial Officer of Teligent, Inc. from September 2000 to March 2001. Prior thereto, he was a partner with Ernst & Young from 1982. Mr. Wright earned his Bachelor of Science Degree in Accounting from the University of North Carolina at Chapel Hill, and is a veteran of the U.S. Army Reserve.

Mr. Pecaitis is the Senior Vice President of Client Development. He joined QuadraMed as a result of the company s acquisition of Compucare in 1999 where he served as a sales executive and expert in Hospital Information Systems. Before assuming his present position in October 2003, Mr. Pecaitis served as Senior Vice President of Sales and Client Management for our Enterprise Division, Chief Marketing Officer, West Area Vice President of Sales, and as Senior Vice President of Sales and Marketing for the Enterprise Division. Previously, he worked as a Vice President of Western Field Sales after several years as a top sales performer with Compucare. In 1985, Mr. Pecaitis began his career as an Administrative Resident at the Hospital of the University of Pennsylvania and later held several client services and sales positions with Professional Healthcare Systems prior to joining Compucare in 1992. Mr. Pecaitis graduated from The Pennsylvania State University with a Bachelor of Science degree in Health Planning and Administration.

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Committees of the Board

The table below shows the current membership of the standing Board committees:

Name	Audit	Compensation	Nominating and Governance	Strategic Planning
Lawrence P. English				
F. Scott Gross	X	X	X*	X
William K. Jurika		X	X	
Robert L. Pevenstein**	X*	X		
Michael J. King				X
Cornelius T. Ryan		X*	X	
Joseph L. Feshbach				X*
Robert W. Miller	X		X	

* Chairman

** Lead Independent Director

The principal responsibilities and functions of the standing Board committees are as follows:

Audit Committee

Acts under a written charter that was amended, restated, adopted, and approved by our Board of Directors on September 24, 2003.

Reviews the integrity and accuracy of our auditing, accounting, and reporting processes and consideration and approval of appropriate changes.

Reviews our financial reports and other financial information provided to the public and filed with the SEC.

Reviews our internal controls regarding finance, accounting, legal compliance, and ethics.

Recommends our independent accountants and annually reviews their performance.

Performs other functions that the Board may assign to the Committee regarding QuadraMed s accounting and financial reporting processes, and the audits of the financial statements of QuadraMed.

Our Board of Directors has determined that Mr. Pevenstein is an audit committee financial expert , as defined in Item 401(h) of Regulation S-K. All members of the Audit Committee are independent as required by the Sarbanes-Oxley Act of 2002 and Nasdaq listing requirements.

Compensation Committee

Acts under a written charter that was adopted and approved by our Board of Directors on December 23, 2003.

Oversees the administration of our employee stock compensation plans, employee stock purchase plan, and disinterested administration of employee benefit plans in which executive officers may participate.

Determines senior management compensation and collaborates with senior management on benefit and compensation programs for our employees.

Note: All members of the Compensation Committee are independent.

Nominating and Governance Committee

Acts under a written charter that was adopted and approved by our Board of Directors on December 11, 2003.

Recommends candidates for election to the Board.

Reviews candidates for election to the Board submitted by stockholders before the deadline for stockholder proposals.

Develops and makes recommendations to the Board regarding the size and composition of the Board and its committees.

Develops and makes recommendations to the Board with respect to corporate governance principles.

Responsible for overseeing corporate governance.

Note: All members of the Compensation Committee are independent.

Strategic Planning Committee

Provides supervision and guidance on our growth strategies, including mergers, acquisitions, divestitures, and organic growth initiatives.

The Board of Directors held 13 meetings in 2003, either in person or by telephone. Each director attended at least 75% of all Board and applicable committee meetings during 2003. The standing Board Committees and the number of meetings they held in 2003 were as follows:

Audit Committee 13

Compensation Committee 10

Nominating and Governance Committee 2

Strategic Planning Committee 1

Compensation Committee Interlocks And Insider Participation

Directors Ryan, Jurika and Gross were members of the Compensation Committee during 2003. None of the members of the Compensation Committee has ever been an officer or employee of QuadraMed Corporation or any of its subsidiaries.

In 2003, none of QuadraMed s executive officers:

Served as a member of the compensation committee (or committee performing a similar function, or in the absence of such committee, the Board of Directors) of another entity, one of whose executive officers served on QuadraMed s Compensation Committee;

Served as a director of another entity, one of whose executive officers served on QuadraMed s Compensation Committee; or

Served as a member of the compensation committee (or committee performing a similar function, or in the absence of such committee, the Board of Directors) of another entity, one of whose executive officers served on QuadraMed s Board of Directors.

Director Compensation

QuadraMed executive officers do not receive additional compensation for service as a director. Compensation for non-employee directors in 2003 is shown in the following table:

COMPENSATION	2003
Annual Retainer Fee[1]	$15,000
Annual Option Grant[2]	34,500 shares to ongoing directors[3]
Board Meeting Attendance	$1,500 in person or by telephone
Committee Meeting Attendance	$1,500 in person or by telephone
	$2,000 in person or by telephone for Audit Committee Meetings[4][5]
Expenses	Reasonable
Option Grant Upon First Election[2]	46,000 shares to new directors[6]
Option Grant Upon Election as Committee Chairman	None

(1) Non-employee directors may elect to participate in the Director Fee Option Grant Program under QuadraMed s 1996 Stock Incentive Plan. This program allows non-employee directors to apply all or a percentage of their annual retainer fee otherwise payable in cash to a special option grant. The terms of the special option grant are:

Exercise Price:	One-third (1/3) of the fair market value of QuadraMed common stock, as determined by the closing price reported on a nationally recognized stock exchange or market, on the first trading day of January (FMV).
No. of Option Shares:	Equal to the amount of annual retainer fee elected divided by two-thirds (2/3) of the FMV, rounded down to the next whole share.
Vesting:	Fifty percent (50%) on completion of six (6) months of Board service
	Remaining fifty-percent (50%) in six (6) equal monthly installments thereafter
	Immediate vesting upon director s death or disability
	Immediate vesting upon the occurrence of a Corporate Transaction or Change of Control (each as defined in QuadraMed s 1996 Stock Incentive Plan) while the director is a Board member.
Term:	Ten (10) years.

(2) The terms of the stock option are:

Exercise Price:	Equal to the fair market value of QuadraMed common stock, as determined by the closing price reported on a nationally recognized stock exchange or market, as of the date of grant.
Vesting:	Death or disability.
	Change of Control.
Term:	Ten (10) years.

(3) These 34,500 shares are the aggregate annual option grants for fiscal years 2003, 2004, and 2005. These shares vest 33% on grant, 33% on the one-year anniversary, and 33% on the two-year anniversary of the date of grant. Prior to May 29, 2003, the annual option grant to existing directors was 11,500 shares.

(4) Mr. Gross received a total of $105,000 for services on the company s Audit Committee from March 2003 through September 2003 and a total of $30,000 for services on a Special Committee of the Board evaluating strategic opportunities for the company for March and April 2003.

(5) Prior to May 29, 2003, directors received $1,500 for attendance at each Audit Committee meeting.

(6) These 46,000 shares are the annual option grants for new directors for fiscal years 2003, 2004 and 2005. These shares vest 50% on the one-year anniversary and 50% on the two-year anniversary of the date of grant. Prior to May 29, 2003, the grant to a new director was 23,000 shares.

Executive Compensation

The following tables show, for the last three completed fiscal years, compensation information for QuadraMed s Chief Executive Officer and the next four most highly compensated executives. Other tables that follow provide more detail about the specific type of compensation. Each of these officers is referred to as a named executive officer .

Summary Compensation Table

		Annual Compensation			Long Term Compensation		
Name and Principal Position	Fiscal Year	Salary ($) [1]	Bonus ($) [2]	Other Compensation ($)	Restricted Stock Awards ($) [3]	Securities Underlying Options (#)	All Other Compensation ($) [4]
Lawrence P. English [5]							
	2003	410,000	431,000[6]		1,687,500	925,000	4,000
Chairman of the Board and Chief	2002	407,500	200,000			110,000	4,000
Executive Officer	2001	400,000			360,000		46,886[7]
Michael S. Wilstead [8]							
	2003	296,250	296,250[9]		843,750	492,500	4,000
President and Chief Operating	2002	285,000	113,125		62,090	40,000	4,000
Officer	2001	237,083	111,625		367,000	100,000	3,400
Charles J. Stahl [10]	2003	202,971	100,000[11]		86,250	300,000	
	2002	N/A	N/A	N/A	N/A	N/A	N/A
Former Chief Financial Officer	2001	N/A	N/A	N/A	N/A	N/A	N/A
Dean A. Souleles [12]							
	2003	224,257	138,795[13]	71,104[14]		142,900	4,000
Executive Vice President and Chief	2002	202,500	87,500	111,045[15]		55,000	3,400
Technology Officer	2001	180,000	63,250		180,000		1,650
Frank J. Pecaitis [16]	2003	184,050	326,973[17]			417,900	
	2002	180,000		662,889[18]		17,900	
Senior Vice President	2001	180,000	68,828				

(1) If approved by the Compensation Committee, selected executive officers may elect to apply from $10,000 to $50,000 of their annual base salary to a special option grant under the Salary Investment Option Grant Program of the 1996 Stock Incentive Plan (1996 Plan). There were no executive officers selected for the program by the Compensation Committee in 2003.

(2) Bonus payments in each year were made pursuant to the preceding year s Incentive Plan.

(3) The amounts shown represent the dollar value of QuadraMed common stock on the date the restricted stock was granted. All such grants of restricted stock (Restricted Shares) were made under the 1996 Stock Incentive Plan. The Restricted Shares cliff vest on the third anniversary of the grant, except for the 2003 grants to Mr. English and Mr. Wilstead, which cliff vest on April 15, 2007. The Restricted Shares are subject to forfeiture if employment terminates before becoming fully vested and non-forfeitable.

The following is a summary of all outstanding grants of Restricted Shares to the named executive officers:

On June 8, 2001, Mr. English received a grant of 150,000 Restricted Shares; and Messrs. Wilstead and Souleles each received grants of 75,000 Restricted Shares.

On December 13, 2001, Mr. Wilstead received a grant of 25,000 Restricted Shares.

On February 19, 2002, Mr. Wilstead received a grant of 7,000 Restricted Shares.

On April 15, 2003, Mr. Stahl received a grant of 75,000 Restricted Shares.

On December 30, 2003, Mr. English received a grant of 675,000 Restricted Shares, and Mr. Wilstead received a grant of 337,500 Restricted Shares.

As of December 31, 2003, the aggregate number of all Restricted Shares held by each named executive officer and the dollar values of the Restricted Shares (equal to the product of the number of Restricted Shares multiplied by $2.65, the closing price reported by the Over-the-Counter Bulletin Board on December 31, 2003) were as follows: Mr. English, 825,000 shares ($2,186,250); Mr. Wilstead, 444,500 shares ($1,177,925); Mr. Stahl, 75,000 shares ($198,750); and Mr. Souleles 75,000 shares ($198,750).

(4) Unless otherwise noted, amount shown is QuadraMed s annual contribution on behalf of the named executive officer to the QuadraMed 401(k) Plan.

(5) Mr. English was appointed QuadraMed s Chief Executive Officer effective June 12, 2000 and elected Chairman of the Board effective December 31, 2000.

(6) This represents a $123,000 bonus payment and a $308,000 payment under his Key Employment Retention agreement. See Management Key Employee Retention Agreements .

(7) Includes QuadraMed s annual contribution of $6,410 on behalf of Mr. English to QuadraMed s 401(k) Plan, $35,801 attributable to the net increase in Mr. English s state income tax solely related to pre-employment gross adjusted income, and payment of professional fees of $4,675 associated with preparation of Mr. English s personal tax returns. Although provided in his employment agreement, Mr. English did not lease an automobile.

(8) Mr. Wilstead joined QuadraMed in July 1998 and was appointed Chief Operating Officer in December 2001 and President in March 2003.

(9) This represents a $71,250 bonus payment and a $225,000 payment under his Key Employment Retention agreement. See Management Key Employee Retention Agreements .

(10) On April 15, 2003, QuadraMed appointed Mr. Stahl as Chief Financial Officer and Executive Vice President. From December 23, 2002 to April 15, 2003, Mr. Stahl served as a consultant and, for his services, he received $192,000 in compensation. This compensation is not reflected in this table. On March 31, 2004, Mr. Stahl ceased to be Chief Financial Officer and Executive Vice President.

(11) Mr. Stahl received a signing bonus of $100,000 upon the commencement of his employment with QuadraMed.

(12) Mr. Souleles joined QuadraMed in February 2000 and was appointed Chief Technology Officer in November 2003. From September 2002 to November 2003, he was Executive Vice President of the Enterprise software division. From August 2000 to September 2002, he was Chief Technology Officer.

(13) This represents a $55,000 bonus payment and a $83,795 payment under his Key Employment Retention agreement. See Management Key Employee Retention Agreements .

(14) This represents $71,104 in relocation expenses.

(15) Represents amount of gain from exercise of options by Mr. Souleles.

(16) Mr. Pecaitis joined QuadraMed in February 1999 and was appointed Senior Vice President in February 2001.

(17) This represents a $224,273 bonus payment, a $10,000 merit bonus, and a $92,700 payment under his Key Employment Retention agreement. See Management Key Employee Retention Agreements .

(18) This represents commissions in the amount of $263,027 and an amount of gain on stock options of $399,861.

Option Grants In Last Fiscal Year

This table shows stock options granted to the named executive officers during the 2003 fiscal year. All stock options listed below were granted to executive officers under the 1996 Stock Incentive Plan.

	Individual Grants [(1)]				**Potential Realizable Value at Assumed Annual Rates of**

Name	Number of Securities Underlying Options Granted [2]	% Of Total Options Granted to Employees In Fiscal 2003	Exercise of Base Price ($/Sh) [3]	Expiration Date	Stock Price Appreciation For Option Term ($) [4] 5%	10%
Lawrence P. English	825,000[5]	14.94%	$ 2.50	12/30/13	$ 1,297,095	$ 3,287,094
	100,000	1.81%	$ 0.98	03/14/13	72,323	183,280
Michael S. Wilstead	50,000	0.91%	$ 1.45	01/14/13	45,595	115,546
	30,000	0.54%	$ 1.14	02/20/13	21,508	54,506
	412,500[5]	7.47%	$ 2.50	12/30/13	648,548	1,643,547
Charles J. Stahl	300,000	5.43%	$ 1.15	04/15/13	216,969	549,841
Dean A. Souleles	25,000	0.45%	$ 1.45	01/14/13	22,797	57,773
	17,900	0.32%	$ 1.14	02/20/13	12,833	32,522
	100,000	1.81%	$ 1.15	04/15/13	72,323	183,280
Frank J. Pecaitis	25,000	0.45%	$ 1.45	01/14/13	22,797	57,773
	17,900	0.32%	$ 1.14	02/20/13	12,833	32,522
	375,000	6.79%	$ 1.15	04/15/13	271,211	687,301

(1) This table does not include the 1,500,000 and 750,000 options of Mr. English and Mr. Wilstead, respectively, granted by the Board of Directors and later surrendered to the company by Mr. English and Mr. Wilstead due to an insufficient number of shares being available under the 1996 Stock Incentive Plan. Mr. English and Mr. Wilstead received options in December 2003 when the number of shares available in the 1996 Stock Incentive Plan had been increased. All such December 2003 options are reflected in this table.

(2) The option has a maximum term of ten years, subject to earlier cancellation upon termination of the named executive officer s service with QuadraMed. In general, in the event of an acquisition of QuadraMed by merger or asset sale, the vesting will accelerate and the option shares will become fully exercisable unless assumed by the successor corporation, unless provided otherwise in an option agreement. If terminated other than for cause, a recipient s option shares shall vest. However, if the recipient ceases to remain employed with us for any reason (other than death, permanent disability, misconduct, or termination for cause) while his option is outstanding, then he shall have a period of

twenty-four (24) months, or thirty-six months (36) in the case of Mr. English and Mr. Wilstead s December 2003 option grants, (commencing with the date of such termination of employment) during which to exercise this option, but in no event shall this option be exercisable at any time after the expiration date.

(3) The exercise price is equal to the fair market value of QuadraMed common stock, as determined by the closing price reported on The Nasdaq Stock Market, the Pink Sheets , or the Over-the-Counter Bulletin Board on the date of grant.

(4) There can be no assurance provided to the named executive officer or any other holder of QuadraMed s securities that the actual stock price appreciation over the 10-year option term will be at the assumed 5% and 10% compounded annual rates or at any other defined level. Unless the market price of QuadraMed common stock appreciates over the option term, no value will be realized from the option granted to the named executive officer.

(5) Twenty-five percent (25%) of the option shares vest on April 15, 2004, and the balance vests in equal monthly installments over the next three years of service.

Aggregated Option Exercises In 2003 and Year-End Option Values

This table shows the value of unexercised stock options held by each named executive officer as of December 31, 2003. None of the named executive officers exercised any options in 2003.

	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In the Money Options At Fiscal Year End ($) [1]	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Lawrence P. English	925,417	1,109,583	$ 131,250	$ 309,500
Michael S. Wilstead	308,749	585,751	72,325	182,300
Charles J. Stahl	100,000	200,000	150,000	300,000
Dean A. Souleles	80,105	192,795	33,741	115,868
Frank J. Pecaitis	102,634	453,117	69,383	650,212

(1) Calculated by subtracting the option exercise price from the closing price of QuadraMed common stock on December 31, 2003, as reported on Over-the-Counter Bulletin Board, and multiplying the difference by the applicable number of exercisable or unexercisable option shares.

Employment Agreements and Termination and Change of Control Provisions

QuadraMed has employment agreements with its Chairman and CEO, Lawrence P. English, and the other named executive officers, Michael S. Wilstead, Dean A. Souleles, and Frank J. Pecaitis. All of these agreements are at will and have similar terms and conditions as set forth in the following table. The employment agreement with Charles J. Stahl does not have terms similar to the following table since his agreement contemplates his employment terminating on or about March 31, 2004.

Term

	Two years, automatically renewed unless three months prior notice for Mr. English and Mr. Wilstead.
	One year, automatically renewed for terms of one year unless one month s prior notice for the other named executive officers.
CEO English s Compensation	Annual base rate of salary determined by the Compensation Committee.
	Discretionary bonus target of 60% of annual base rate of salary determined by the Compensation Committee.
	Enhanced cash bonus of 50% of target annual bonus to be paid on December 31, 2003 if QuadraMed exceeds the cash flow goals determined by the Board for 2001, 2002, and 2003 or the three year aggregate total, only if the executive remains employed by QuadraMed.
	Additional discretionary bonuses determined by the Compensation Committee based on achievement of specified goals established by the Board.
Other Executive Officer Compensation	Annual base rate of salary approved by the Compensation Committee. Discretionary bonus target of 50% of annual base rate of salary determined by the Compensation Committee. Enhanced cash bonus of 50% of target annual bonus to be paid on December 31, 2003, if QuadraMed exceeds the cash flow goals determined by the Board for 2001, 2002, and 2003 or the three year aggregate total, only if the executive remains employed by QuadraMed.

	Additional discretionary bonuses determined by the Compensation Committee based on achievement of specified goals established by the Board.
Benefits	Participation in group life, medical, and dental insurance.
	Accidental death and dismemberment plan.
	Other employee benefits, including 401(k) plan, profit sharing, stock purchase and option plans.
Vacation	Four weeks.
Options	Issued pursuant to QuadraMed s 1996 Stock Incentive Plan.
Expenses	Customary, ordinary, and necessary business expenses.
	Relocation.
	Preparation of personal tax returns for Mr. English only.
	Automobile lease for Mr. English only.
Termination for Cause or Nonperformance	Acts of fraud, embezzlement, or misappropriation of proprietary information, trade secrets, or confidential information.
	Failure to adhere to QuadraMed policies.
	Failure to devote full working time and effort to performance of duties.(1)
Change of Control	Merger or acquisition in which QuadraMed is not the surviving entity.
	Stockholder approved sale, transfer, or disposition of all or substantially all of QuadraMed s assets.
	Transfer of substantially all of QuadraMed s assets pursuant to a partnership or joint venture in which QuadraMed s interest is less than 50%.
	Reverse merger in which QuadraMed is the surviving entity but in which more than 50% of QuadraMed s shares are transferred.
	Change in ownership such that one person or entity becomes beneficial owner of more than 50% of QuadraMed s shares.
	Majority of the Board is replaced in a 12-month period by Directors not endorsed by the majority of the existing Board.
Involuntary Termination	Termination not for cause.
	Involuntary discharge or dismissal.
	Failure to renew employment agreement.
	Material reduction in responsibilities.
CEO English s Severance on Involuntary Termination Other Than in Connection with a Change of Control	Two times then current annual base salary.
	Acceleration of unvested options so that at least 250,000 shares will be vested and exercisable as of the date of termination.

	Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code.
	Severance conditioned on complete and unconditional release.
CEO English s Severance on Change of Control or Involuntary Termination Within 24 Months of a Change of Control	Two times then current annual base salary and annual target bonus.
	Two years of life, health, and disability plan coverage.
	Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code.
	To extent not assumed by the acquiring company, acceleration of all unvested options, which terminate pursuant to the terms of the grant.
	Acceleration of unvested options and restricted stock.
	In lieu of other severance, Mr. English may voluntarily terminate his employment, contingent on continued employment for a minimum of 60 days, whereupon one-half of unvested options shall accelerate and, together with all vested options, remain exercisable for the full term of the option.
Other Executive Officer Severance On Involuntary Termination Other Than in Connection With a Change of Control	One times then current annual base salary.
	One year of life, health, and disability plan coverage.
	Acceleration of unvested options, restricted stock, and phantom stock.
	Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code.
	Severance conditioned on complete and unconditional release.

Other Executive Officer Severance On Change of Control or Involuntary Termination within 24 months of a Change of Control	One times then current annual base salary and annual target bonus. Two years of life, health, and disability plan coverage. To extent not assumed by the acquiring company, acceleration of all unvested options. Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code.

(1) Mr. English, pursuant to his agreement, is permitted to serve as a member of up to three outside boards of directors.

Key Employee Retention Agreements

In March 2003, at a time in which the company was preparing the restatement of its financial statements and anticipated being delisted from the Nasdaq Stock Market, QuadraMed s Board of Directors approved its Special Committee s recommendation that the company enter into retention agreements with a total of fifteen key employees, including its Chairman and CEO, Lawrence P. English, and three other named executive officers, Michael S. Wilstead, Dean A. Souleles, and Frank J. Pecaitis. The purpose of such agreements was to provide additional incentives to these employees to continue their employment with the company through the successful achievement of one of certain strategic objectives. Each of the key employee retention agreements requires that in exchange for the employee s continued employment with the company (unless terminated earlier by the company for cause), commitment to use his or her best efforts to achieve the selected strategic objective, and agreement not to disclose any of the company s confidential or proprietary information, the company will pay the applicable employee an amount as follows: (i) 25% of such amount on the date the company s common stock is delisted from the Nasdaq Stock Market; (ii) 25% of such amount upon the earlier of three months from the delisting or the announcement of a filing of a plan of reorganization in bankruptcy; and (iii) 50% of such amount upon the earliest of (A) the listing of our common stock on a U.S. national securities exchange or upon the relisting of our common stock on the Nasdaq National Market or Nasdaq SmallCap Market, (B) the closing date of the sale of the company and/or its assets, (C) the closing date of the sale of the division of the company in which the employee is employed, or (D) the emergence of the company and/or its assets from a plan of reorganization. The total retention benefit payable to the company s named executive officers is as follows: Lawrence P. English, $615,000; Michael S. Wilstead, $450,000; Dean A. Souleles, $167,590; and Frank J. Pecaitis, $185,400, of which 50% has been paid to each key employee in accordance with the terms of their agreement.

SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table and the accompanying notes set forth certain information, as of June 14, 2004, concerning the beneficial ownership of our common stock by: (1) each person who is known by us to beneficially own more than five percent of our common stock, (2) each director of our company, (3) each named executive officer, and (4) all directors and named executive officers as a group. The beneficial ownership percentages have been calculated based on 36,043,018 shares of common stock outstanding on June 9, 2004.

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
David M. Knott [1][2]	1,731,300		1,731,300	4.8%
Zazove Associates, LLC [3][4]	1,219,088	2,069,718[5]	3,288,806	8.6%
Mackay Shields LLC[6][7]	7,073,960		7,073,960	19.6%
Lawrence P. English [8][9]	925,000[10]	1,358,203	2,283,203	6.1%
F. Scott Gross [8]		94,060	94,060	*
William K. Jurika [8]	3,806,040	30,282	3,836,322	10.6%
Robert L. Pevenstein [8]	10,000		10,000	*
Michael J. King [8]		220,876	220,876	*
Cornelius T. Ryan [8]	5,000	89,514	94,514	*
Joseph L. Feshbach [8]	20,000	79,013	99,013	*
Robert W. Miller [8]	3,000	23,000	26,000	*
Michael S. Wilstead [9]	447,000[11]	501,510	948,510	2.6%
Charles J. Stahl [15]	75,000[12]	187,500	262,500	*
Dean A. Souleles [9]	75,000[13]	149,361	224,361	*
Frank Pecaitis [9]	7,027	257,731	264,758	*
John Wright [9]	100,000[14]	187,500	287,500	*
All directors and executive officers as a group (13 people)	5,473,067	3,178,820	8,651,887	22.1%

* Less than 1% of our outstanding shares of common stock.

(1) Address: 485 Underhill Boulevard, Suite 205, Syosset, New York 11791

(2) This information was obtained from the Schedule 13G/A filed with the SEC by Mr. Knott on February 11, 2004.

(3) Address: 940 Southwood Boulevard, Suite 200, Incline Village, NY 89451

(4) This information was obtained from the Schedule 13G filed with the SEC by Zazove Associates on January 9, 2004.

(5) Represents the number shares issuable upon the exercise of warrants to purchase common stock owned by Zazove Associates, LLC, as reflected in its Schedule 13G filed on January 9, 2004. Zazove Associates, LLC is controlled by Gene T. Pretti, its Chief Executive Officer and majority equity holder.

(6) Address: 9 West 57th Street, New York, NY 10019.

(7) This information was obtained from the Schedule 13G filed with the SEC by Mackay Shields LLC on May 7, 2004.

(8) Director

(9) Executive Officer

(10) This number of shares includes 825,000 restricted shares for which Mr. English has sole voting power, but which are subject to contractual limitations on transfer.

(11) This number of shares includes 444,500 restricted shares for which Mr. Wilstead has sole voting power, but which are subject to contractual limitations on transfer.

(12) This number of shares includes 75,000 restricted shares for which Mr. Stahl has sole voting power, but which are subject to contractual limitations on transfer.

(13) This number of shares includes 75,000 restricted shares for which Mr. Souleles has sole voting power, but which are subject to contractual limitations on transfer.

(14) This number of shares includes 100,000 restricted shares for which Mr. Wright has sole voting power, but which are subject to contractual limitations on transfer.

(15) Mr. Stahl ceased to be Chief Financial Officer and Executive Vice President as of March 31, 2004.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Lawrence P. English, QuadraMed s Chairman and Chief Executive Officer, is a director of Curative Health Services, Inc. and serves as Chairman of its Executive Committee and as a member of its Audit Committee. Joseph L. Feshbach, a QuadraMed director, is the Chairman of the Board of Curative Health Services, Inc.

Joseph L. Feshbach, elected to QuadraMed s Board in August 2001, provided consulting and advisory services to QuadraMed related to the development of financial and merger and acquisition strategies from April to August 2001. For these services, Mr. Feshbach was paid $25,000 and he received an option to purchase 20,000 shares of QuadraMed stock with an exercise price of $2.42 that vested fully on July 31, 2001. Mr. Feshbach exercised this option on December 6, 2001, at a fair market value of $8.30 per share, as determined by the closing price reported on The Nasdaq Stock Market on the date of exercise. In 2001, he was attributed with income of $117,600 as a result of the exercise. On January 3, 2002, Mr. Feshbach sold 10,000 shares of those acquired in the 2001 exercise at an average sale price of $10.031per share, and thereby realized an additional aggregate net gain of $17,310 on the option shares. Mr. Feshbach held the remaining 10,000 option shares as of March 1, 2002.

Michael J. King, a QuadraMed director, is a former QuadraMed employee and was president of the Compucare Company, acquired by QuadraMed in 1999. Mr. King is the Chief Executive Officer of HealthScribe, Inc., a provider of transcription services. Prior to Mr. King s appointment as HealthScribe s CEO, QuadraMed entered into a subcontract for transcription services at a healthcare facility managed by QuadraMed. During 2001, QuadraMed paid HealthScribe, Inc. a total of $253,240 for transcription services. At the end of March 2001, this subcontract was terminated and the healthcare facility managed by QuadraMed contracted directly with HealthScribe for services.

OTHER INDEBTEDNESS

On May 1, 1998, we issued $115,000,000 aggregate principal amount of our 5.25% Convertible Subordinated Debentures Agreements due 2005 and 3,458,647 shares of our common stock, par value $.01 per share, which were initially issuable upon conversion of the notes, plus such additional indeterminate number of shares of common stock as became issuable upon conversion of the notes as a result of adjustments to the conversion price thereunder. The 2005 notes were convertible into our common stock at any time at or before maturity, unless previously redeemed, at a conversion price of $33.25 per share, subject to adjustment in certain events. The 2005 notes are our unsecured obligations and are subordinate to all of our present and future senior indebtedness. The indenture did not restrict the incurrence of any other indebtedness or liabilities by the company or our subsidiaries.

The 2005 notes did not provide for a sinking fund. After May 4, 2001, the 2005 notes were redeemable at our option, in whole or in part, at redemption prices varying from 103% to 100%, together with accrued interest. Upon a repurchase event, each holder of the 2005 notes had the right, at the holder s option, to require us to repurchase such holder s 2005 notes at a purchase price equal to 100% of the principal amount thereof, plus accrued interest.

The delisting of our common stock from a U.S. national securities exchange constituted a repurchase event under the 2005 notes indenture. On April 17, 2003, we issued $71.0 million of our Senior Secured Notes due 2008. We used proceeds from the issuance of the 2008 notes to repurchase $61.8 million (plus $1.5 million in accrued interest) of the 2005 notes required to be repurchased. Accordingly, the net proceeds as a result of the issuance of the 2008 notes, less the costs (including fees) associated with the repurchase of the 2005 notes, were $8.5 million, with $11.9 million of the 2005 notes remaining outstanding. The repurchase right on the 2005 notes remaining outstanding expired on April 17, 2003.

DESCRIPTION OF SECURITIES

As used in this description of securities, the words we, us, our or QuadraMed refer only to QuadraMed Corporation and do not include any current or future subsidiary of QuadraMed Corporation.

Description of Capital Stock

The following summary is a description of the material terms of our capital stock. This summary is not intended to be a complete description of our capital stock, and it is subject in all respects to the applicable provisions of Delaware law and of our constituent documents and of the constituent documents of our subsidiaries. For more information, please review our amended and restated certificate of incorporation and bylaws.