QUADRAMED CORP
Form 10-K
August 15, 2003

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

FOR THE FISCAL YEAR ENDED December 31, 2002

Or

[ ] Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 0-21031

QUADRAMED CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	52-1992861
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

12110 SUNSET HILLS ROAD, SUITE 600, RESTON, VIRGINIA 20190
(Address of Principal Executive Offices) (Zip Code)

(703) 709-2300
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.01 Par Value Per Share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes __ No X

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of voting stock held by non-affiliates of the

Registrant as of June 28, 2002 was approximately $189,735,393 (based upon the price quoted for shares of the Registrant's common stock as reported on the Nasdaq SmallCap Market on June 28, 2002). Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Act. Yes X No __

On July 31, 2003, 27,530,815 shares of the Registrant's common stock, $0.01 par value per share, were outstanding.

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QUADRAMED CORPORATION
FORM 10-K
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2002
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Cautionary Statement on Risks Associated With Forward-Looking Statements

This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. The words "believe", "expect", "anticipate", "predict", "intend", "plan", "estimate", "may", "will", "should", "could", and similar expressions and their negatives are intended to identify such statements. Forward-looking statements are not guarantees of future performance and are to be interpreted only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statement.

We advise investors that we discuss other risks and uncertainties that could cause our actual results to differ from these forward-looking statements in this Form 10-K under "Business Risks" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART I

Item 1. Business

Overview

QuadraMed Corporation along with all significant business divisions and subsidiaries, (the "Company" or "QuadraMed") is dedicated to improving healthcare delivery by providing innovative healthcare information technology and services. From clinical to patient information management and revenue cycle to health information management, QuadraMed delivers real-world solutions that help healthcare professionals deliver outstanding patient care with optimum efficiency. QuadraMed was reincorporated in Delaware in 1996, having been originally incorporated in California in 1993. QuadraMed can be located at www.quadramed.com. QuadraMed is managed in three distinct business segments which are as follows: Enterprise Division, Health Information Management Software Division and Financial Services Division.

We initiated a new branding strategy in 2001 that included the adoption of a new trademark, "We do technology. So you can do healthcare(tm)". This evolved in the year 2002. The strategy classified our healthcare technology products and services into four sub-brands, corresponding to the four distinct categories of hospital decision-makers who purchase our products:

- Affinity(r) Healthcare Information Systems, which are generally purchased in a committee decision involving hospital boards, chief executive officers, chief financial officers, chief medical officers, chief information officers, and outside consultants;

- Quantim(r) Health Information Management Software, which is generally procured by health information management professionals, chief financial officers, chief information officers, and outside consultants; and

- Chancellor(tm) Financial Products and Services, which are generally secured by chief financial officers and revenue officers.

We are dedicated to developing information technology and providing consulting services that help healthcare professionals improve productivity and deliver patient care. Management's strategy consists of:

- Increased sales activity to improve revenue growth;

- Continued expense discipline;

- Development and investment in research and development;

- Instituting key financial and operational improvements; and

- Selling non-strategic assets.

Technology and Product Development Strategy

We are continuously engaged in the design and development of new products and enhancements to our existing products. Our research and development is guided by the following technology trends and healthcare industry needs that affect software producers and consumers:

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

- Patient safety has become a top priority for healthcare organizations and a major factor to consider in choosing clinical information systems;

- Under the HIPAA standards, health care providers must establish procedures and mechanisms to protect the confidentiality, integrity and availability of electronic health systems;

- Hospital executives are under tremendous pressure to improve operational efficiency and return on investment;

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

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

In 2002, we made significant progress on the technology plan that was initiated in the second half of 2001. We focused on the development of new 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) in two product areas:

- We have extended the classical Affinity architecture to include a web-native, service-orientated Java (J2EE) based platform. On this platform, we delivered to the industry an innovative Clinical Workstation including Computerized Physician Order Entry (CPOE) application to its beta site, in the fourth quarter of 2002. The Affinity CPOE system with its unique Intelligent Care Sets establishes a new standard in patient safety. We also delivered Affinity Global Registration to its beta site in the fourth quarter of 2002. Global Registration is a fully scalable, single registration portal for one or multiple healthcare facilities. It features shared patient registration information for both hospital and physician practices from a secure, central database. This new application will reduce redundancies, improve efficiency and in turn, raise patient satisfaction. Designed with the assistance of human factors engineers and extensive usability testing, once operational it will be able to be deployed in a flexible manner on a variety of platforms, ranging from traditional PC desktops to wireless handheld tablet computers and personal digital assistants;

- In the Quantim product line, we successfully launched a full suite of Healthcare Information Management (HIM) applications, including Inpatient Compliance, Outpatient Compliance, APC Compliance, Facility Coding, Physician Coding, and Correspondence Management. Quantim is designed to provide seamless integration with a consistent look and feel using one platform to provide an end-to end health information management solution; and

- We completed real time interfacing between Quantim and Affinity.

Today we are the only HIS vendor offering a full suite of HIM products and the only one offering our own coding tool. The web-native applications have been well received by our clients. They are fully interfaced with our core Affinity revenue cycle management system. The service-oriented architecture also allows integration with existing web portals to make enterprise wide information web-accessible.

We will continue to leverage and expand our web-native and service-oriented technology platform to deliver end-to-end and real time automation across the continuum of care.

Description of Operating Division Products and Markets

In 2000, our operations were realigned into five distinct business segments. With the sale of the EZ-CAP managed care software business in August 2001, and the sale of the Health Information Management Services Division in December 2002, we are now managed in three distinct business segments. The three segments are as follows:

- Enterprise Division, which provides acute care hospitals with Affinity integrated enterprise information systems to manage patient registration, clinical, and financial information and related products;

- Health Information Management Software Division, which provides acute care hospitals and physician practices with health information management systems to manage coding, compliance, abstracting and record management processes; and

- Financial Services Division, which identifies and collects accounts receivables for hospitals and medical groups and provides other Chancellor products and services.

Enterprise Division

Our Enterprise Division provides hospitals, particularly acute care hospitals, with integrated enterprise information systems to manage patient registration, clinical, and financial information. Our Enterprise Division products are generally only sold only in the United States, although certain products are also sold in Canada.

The division's primary offices are in Reston, Virginia; Irvine, California; and Neptune, New Jersey.

Affinity is the Enterprise Division's core product. For the last five consecutive review periods, Affinity has been selected as one of the top "Major Acute Care" software solutions in a survey of approximately 3,500 hospital chief information officers and department directors, as reported by KLAS Enterprises in its Healthcare IT Top 20 report. The Affinity Pharmacy software solution was selected as the number one pharmacy solution in 2002 by KLAS, winning the 2002 "Best in KLAS" Award. Development of Affinity began in 1989. It was first released in 1991 by The Compucare Company ("Compucare"), which we acquired in 1999.

Affinity is a standards-based, integrated, healthcare information system. 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 ("IDNs"). It can be implemented on both Microsoft NT and UNIX operating systems and supports a number of hardware platforms, including Compaq, Hewlett Packard, IBM, and EMC. Affinity is built on a standards-based architecture constructed in ANSI-standard programming language and uses the Cache database with structured queried language ("SQL") access engineered by InterSystems Corporation.

Affinity's comprehensive and integrated product suite is comprised of 70 applications divided into four major functional and infrastructure areas:

- Affinity Patient Information Management;

- Affinity Clinical Care Management;

- Affinity Patient Revenue Management; and

- Affinity Financial Management.

Affinity clients typically purchase "core" applications, such as Registration, Medical Records, Patient Accounting, and Order Management, Pharmacy and Patient Charting. In addition to "core" applications, clients frequently purchase additional Affinity applications that are designed to:

- Streamline their workflow processes;

- Reduce administrative expenses;

- Improve the speed and accuracy of billing processes; and
- Assist in clinical decision-making and documentation.

Affinity's development cycle includes one major annual release to customers and up to four "update" releases. Content for the annual releases typically focuses on five major categories:

- Regulatory enhancements required by federal and state mandates;
- Strategic enhancements to the breadth and depth of functionality;
- User group enhancements voted on by Affinity customers pursuant to customer support agreements;
- Corrective maintenance to repair code; and
- Modification retrofits funded by customers.

In 2001, a prototype Affinity CPOE system, used to assist physicians in clinical decision-making and improve patient safety, was completed. It was successfully delivered to its beta site, Great Plains Medical Center, in October 2002 and was generally available in March 2003. Designed with the assistance of human factor engineers and extensive usability testing, it is designed to be deployed in a flexible manner on a variety of platforms, ranging from traditional PC desktops to wireless handheld tablet computers and personal digital assistants. The Affinity CPOE, Pharmacy and Patient Charting software solution provides a comprehensive, advanced clinical solution.

We elected to develop CPOE based on the existing Affinity system. The successful delivery of CPOE led to the establishment of the advanced clinical workstation environment which will now serve as the basis for future clinical systems developed by QuadraMed, a web-native service architecture and development platform focused on individuals and based on industry standards such as Health Level 7, version 3.

The Affinity Pharmacy Management system 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. The strategic acquisition of Pharmacy Data Systems was completed in June of 2002 and initiatives are underway to tightly integrate it with the Affinity Care Management solutions: ordering, dispensing, administration and charting. Additionally, we also offer a standalone solution for pharmacy management that includes inpatient, ambulatory, and long-term care pharmacy settings and provides electronic medication record and prescriber order entry tools to close the loop on medication management.

Over 2,000 Affinity applications are installed at over 500 hospitals in the United States and Canada. Affinity health information system is currently installed in 153 hospitals in 32 states and Canada. Hospitals generally use committees to make major information technology purchase decisions. Consequently, purchase decisions are often slow to be made. The average sales cycle for Affinity is typically 12 to 18 months from initial contact to

contract execution. Affinity sales are normally generated from six major sources:

- Requests for proposals sent directly to us by the hospital or its retained consultant;
- Referrals and recommendations from consulting firms;
- Healthcare trade shows;
- Our sales force;
- Telemarketing; and
- Direct mail.

In addition to Affinity, our Enterprise Division also markets an electronic document imaging and management system or "EDM", and a suite of Master Population Index ("MPI") Software and Services (MPIspy(r), SmartID(r), SmartMerge(r), MPI Cleanup), which enable the identification, correction, and elimination of duplicate patient records in a facility's master population

index. In January 2001, the division also began selling our Chancellor Decision Support tools, which includes: 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").

The following table provides a list of the major products and services offered by our Enterprise Division:

Affinity Patient Information Management	o Patient Scheduling o Patient Registration o Master Population Index o Community Master Population Index ("CMPI") o Medical Records Abstracting o Medical Records Control o DRG/Case Mix o Account Workflow o Electronic Data Interchange
Affinity Clinical Care Management	o Computerized Physician Order Entry ("CPOE") o Clinician Access o Order Management o Ancillary Department Management o Patient Charting o Medication Charting o Plan of Care o Acuity/Staff Requirements

	o Health Notes o Quality Management o Utilization Management
Affinity Pharmacy Management	o PharmPro o AmpPro o NurPro o pcMAR o Prescriber Order Entry
Affinity Financial Management	o General Ledger o Accounts Payable o Payroll Personnel o InSight Executive Decision Support o Performance Measurement
Affinity Patient Revenue Management	o Patient Accounting o Central Business Office o Account Workflow o Contract Management o Electronic Data Interchange
Affinity Professional Services	o Consulting Services o Interface and Conversion Services o Systems Operations Management Services o Query Services o Customer Training Courses o Professional Services
Affinity Electronic Document Management	o Medical Records o Patient Accounting o ColdView o Human Resources o Workflow
Affinity MPI Integrity Management	o MPIspy o SmartMerge o PreciseID Patient Search Algorithm

Chancellor Decision Support	o Contract Management o Performance Measurement o Clinical Outcome Practice Evaluator ("COPE")

We primarily market our Enterprise Division products to acute care hospitals. The non-federal acute care market consists of approximately 5,000 hospitals within the United States (American Hospital Association Statistics, 2001). Differentiation within this market is by locale (rural/urban) and bed size (number of beds). Approximately 2,800 hospitals are located in urban areas and approximately 2,200 are located in rural areas. Hospitals with fewer than 200 beds constitute approximately 71% of the total acute care market and account for approximately 20% of the aggregate expenditures by acute care

hospitals on information technology. Hospitals with more than 200 beds constitute approximately 29% of the acute care hospital market and account for approximately 80% of acute care hospital spending on information technology. The acute care hospital market is mature and has been in the process of consolidating over the past several years. Consequently, we believe that the greatest sales opportunities for our Enterprise Division between now and 2005 will be in the replacement market for legacy healthcare information systems. Given Affinity's functional flexibility and ability to interface with other clinical systems, we believe that we have significant opportunities in the 200-bed or larger hospital market.

From 1998 to 2000, hospital information system sales as a whole slowed due to expenditures on 2000 remediation, industry consolidation, and generally poor economic conditions for hospitals primarily due to reimbursement issues associated with managed care contracts and the Balanced Budget Act of 1997. We believe that demand for our Enterprise Division products has increased given that government regulatory bodies and the news media continue to scrutinize patient safety issues, which increase the need to reduce clinical error and improve quality measures. In addition, we believe that shortages of medical professionals, particularly in nursing, ancillary, and health information management departments, will increase the need for hospitals and other healthcare providers to acquire health information systems that reduce clinical errors, increase hospital efficiencies, reduce administrative cost, and improve the speed and accuracy of billing processes.

Health Information Management Software Division

Our Health Information Management Software Division provides acute care hospitals and physician practices with health information management systems to manage coding, compliance, abstracting and record management processes. The unique combination of complimentary solutions is designed to significantly improve the business of healthcare. The Health Information Management software solutions are designed to generate operational efficiencies, improve cash flow and measure the cost and quality of care. Our Health Information Management Products fall into four main areas:

- Compliance Management;
- Coding and Reimbursement Management;
- Abstracting; and
- Record Management.

Our Health Information Management Software Division products are sold in the United States, Puerto Rico, and Canada. The main offices are in Alameda and San Marcos, California.

Our current offering of Health Information Management software products includes a mix of older legacy products from previous acquisitions and our new internally developed Quantim applications that are based on an enterprise n-tiered architecture that supports a variety of database engines, including Microsoft SQL Server and Oracle Enterprise Edition. In 2001, we started development on Quantim with the vision of a single, fully integrated, web-native platform for our Health Information Management product suite that would significantly improve the functionality of several existing health information management product offerings in coding, compliance, abstracting, and record management. The first products to be offered on this new platform, Quantim Inpatient and Outpatient Compliance, were delivered to the beta site in the fourth quarter of 2001 and became generally available for purchase in February 2002. Other Quantim modules that became generally available in 2002 include

Quantim APC Compliance, Quantim Facility Coding, Quantim Physician Coding, and Quantim Correspondence Management.

Our coding software products, Quantim Facility Coding and Physician Coding as well as the legacy products of nCoder+, nCoder+MD, WinCoder+ and Cascade Encoder, identify ICD-9-CM and HCPCS/CPT codes to classify diagnosis and procedure codes and facilitate the calculation of hospital and physician service reimbursement. The encoding methodology is "knowledge-based" and adheres to the U.S. Department of Health and Human Services Office of the Inspector General ("OIG") recommended use of the ICD-9-CM Official Coding Guidelines. The encoding tools include official coding protocols, integrated OIG recommended references, and data quality edits, designed utilizing the professional knowledge of our credentialed health information management professionals.

We have historically sold our legacy-based coding products primarily to hospitals with less than 200 beds, which represent 71% of the approximately 5,000 non-federal acute care hospitals. With the introduction of the new Quantim software architecture, the scalability and web-native platform allow us to effectively market to the entire acute care market to include large hospitals and IDNs. We market a specialized coding product, nCoder+/PTF, for Veterans Administration facilities. In December 2001, we established a new marketing unit for sales to governmental agencies. In addition to facility coding products, we also sell a third party specialized coding product for the commercial physician market, nCoder+MD. We believe that opportunities exist in the physician market for coding product sales. We also believe that new opportunities for our coding products could develop with the anticipated implementation of ICD-10. This new coding classification system is expected to require the modification of coding, billing, and data collections systems and the conversion of statistical information for proper clinical reporting and claims submission. The new Quantim architecture is designed to accommodate the ICD-10 classification system and the knowledge based approach is recommended by the American Health Information Management Association ("AHIMA") in facilitating a smooth transition from ICD-9 to ICD-10.

Our Compliance Management products included our legacy inpatient (IP Facts), outpatient (OP Facts), and Ambulatory Patient Classifications (Analyzer+) compliance modules through 2001, with the introduction of the new compliance management products Quantim Outpatient, Quantim Inpatient and Quantim APC Compliance in 2002. The Quantim Compliance product line is designed to conduct automated prospective and retrospective reviews of all inpatient and outpatient claims data (UB92). The screenings within the Quantim Compliance Management tools include OIG and internally designed targets aimed to provide data quality, coding accuracy, and appropriate reimbursement. In addition to identifying claims with potential errors prior to billing, these tools work in conjunction with an organization's coding and billing compliance program to identify patterns in coding and physician documentation. Results of the auditing and monitoring activities are represented in executive reports summarizing clinical and financial results as well as detailed reports providing information needed to target specific areas for review. We also offer the ProFEE Compliance Suite, which is a compliance tool to screen professional fees and services (HCFA1500), exclusively for the Veteran's Administration facilities.

Our primary market for Quantim Compliance products is the acute care

hospital market. Market studies show that growth for the compliance market increased from 34% in 1999 to 39% in 2001, a fast growth segment in the HIM market. Billing practices for health care services are under close scrutiny by the OIG as high-risk areas for Medicare fraud and abuse. CMS has recommended increasing its efforts to maintain progress in reducing improper payments, specifically to increase its work with providers to ensure that medical record documentation support services provided. Hospitals must implement comprehensive coding and compliance programs in order to minimize payer submission errors and assure the receipt of anticipated revenues. An effective program includes clear, defined guidelines and procedures combined with technology solutions that enhance a hospital's system and effectively increase revenues and reduce costs. When the Inpatient and/or Outpatient Compliance modules are purchased with Facility Coding, the health care organization has the flexibility to incorporate both an interactive, pre-bill and retrospective review of the claim prior to submission for billing.

Our abstracting solutions enable healthcare facilities to accurately collect and report patient demographic and clinical information. Our current abstracting solutions include WinCODER+CS and the Cascade Master Systems. Both products provide the customer the ability to calculate inpatient and outpatient hospital reimbursements and customize data fields needed for state, federal, and JCAHO regulatory requirements. Standard and custom reports provide the customer the ability to generate facility-specific statistical reporting used for benchmarking, outcomes and performance improvement, marketing, and planning. Quantim Abstracting, currently in development, will provide healthcare organizations the flexibility to customize abstracting workflow to meet data collection reporting and analysis needs. Abstracting captures, structures, and analyzes clinical and financial data utilizing standard and customizable fields, rules and screen design. The Application Builder tool provides the user the ability to customize workflow by creating fields and rules and designing screen navigation. Quantim Abstracting will provide a report library of standard reports and an ad-hoc report writer to design and generate custom reports. When purchased with Quantim Coding and Quantim Compliance, Quantim Abstracting will provide an integrated solution that

enables the user to access both the Coding and Compliance tools within a patient encounter. Quantim Abstracting is scheduled to be beta ready in Q3 2003 and targeted for general availability in Q4 2003.

Our current record management product, MEDREC Millennium(r), automates the record tracking and location functions, monitors record completeness, and facilitates the release of information process within health information management departments. This product assists healthcare facilities in properly completing records pursuant to JCAHO, state, federal, and medical staff bylaw requirements. Our record management solution consists of these main modules that are sold individually or as a product suite and interface with a facility's patient information system. The primary market for our record management solution is acute care hospitals. The MEDREC Millennium Suite includes distinctive features for IDNs, outpatient providers, and Veterans Administration facilities. These tools are designed to monitor a facility's adherence to patient privacy, disclosure, and patient bill of rights requirements.

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 a record of what has been disclosed a minimum of 6 years, places an organization at risk. HIPAA calls for severe civil and criminal penalties for noncompliance, including fines up to $25,000 for multiple violations of the same standard in a calendar year and fines up to $250,000 and/or imprisonment up to 10 years for knowing misuse of individually identifiable health information. To provide our customers with the tools needed to comply with the HIPAA privacy ruling effective April 2003, Correspondence Management was added to the Quantim platform in December 2002.

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.

Correspondence Management generates disclosure accounting and audit reports, retains an on-line history of the Disclosure Accounting process and permits tracking of the specific disclosure type all within a secure environment. In addition, it tracks and monitors suspensions by health oversight and law enforcement agencies. The release of information features provide for tracking and monitoring of requests made by individuals or entities outside of the healthcare organization.

The HIM Software Division will continue to conduct strategic planning and development in 2003 to transition all the remaining Health Information Management product offerings on the Quantim platform.

The following table provides a list of software products offered by our Health Information Management Software Division:

Compliance Management	o Inpatient Compliance - Quantim Inpatient Compliance, IP Facts o Outpatient Compliance - Quantim Outpatient Compliance, OP Facts o APC Compliance - Quantim APC Compliance, Analyzer+ o VHA ProFee Compliance Suite o Auditing Services
Coding and Reimbursement Management	o Physician Coding - Quantim Physician Coding, nCoder+MD o Facility Coding - Quantim Facility Coding, nCoder+, Cascade Encoder, WinCoder Interactive o VA Coding - nCoder+/PTF
Abstracting	o WinCoder CS o Cascade Master System

Record Management	o MEDREC Millennium Record Management o Chart Completion o Chart Locator

	o Correspondence Management o Enterprise Search and Reporting o Electronic Signature o Quantim Correspondence Management
Complysource Regulatory Compliance	o Compliance Assessment and Management Tool
Complysource HIPAA Compliance	o HIPAA Assessment and Management Tool

Financial Services Division

Our Financial Services Division provides two services that identify and collect accounts receivables for hospitals and medical groups: (i) Chancellor Accounts Receivable Management; and (ii) Chancellor Managed Care Payment Review.

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

- Complete outsourcing that initially bill and collect 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 Financial Services Division provides services only to customers in the United States, and its primary offices are located in Escondido and San Diego, California.

We market our Chancellor Accounts Receivable Management services to large or multi-hospital facilities. Historically, most of our clients for this service have been in California. In 2000, we began to market the services in other states and hired national sales representatives. Consequently, the business grew throughout 2001 at a faster rate than in previous years. We anticipate that demand for our Accounts Receivable Management services should increase in the future as the hospital and healthcare industry continues to emphasize faster accounts receivable collections and increasingly complex reimbursement mechanisms.

Our Managed Care Payment Review Services audit 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.

In 2001, we ceased entering into new contracts for Capitated Payment Review ("CPR") services. Under CPR contracts, we audited payments for hospitals and medical groups that have accepted financial risk for Medicare

eligible health maintenance organizations ("HMO") enrollees and are paid by the HMO on a percentage of the U.S. Centers for Medicare and Medicaid premium. The service was only provided for healthcare providers with more than 3,000 Medicare HMO enrollees and most of the customers for this service were located in California. The decision to end these services was made because we were unable to achieve profitability from this service line.

Health Information Management Services Division

Our Health Information Management Services Division was disposed of in December 2002. Prior to the disposition, the division provided various services, such as Health Management Consulting and Department Outsourcing Services and Complysource Regulatory and HIPAA Compliance Services. Health Information Management Services Division provided services only in the United States and its main office was in Englewood, Colorado.

Effective December 31, 2002 we closed the sale 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. As a result of the sale, we recorded a fourth quarter 2002 after-tax gain of $8.8 million.

Financial Information About Segments

The financial statements and supplementary data, including financial information about our operating segments, are included in this Form 10-K beginning on page F-1.

Customers

We primarily market to acute care hospitals and IDNs, which account for approximately 90% of our revenues. We also sell products to specialty hospitals and hospital associations. As of December 31, 2002, we had customers located in all 50 states, the District of Columbia, Puerto Rico, and Canada. In 2002, 2001, and 2000, no single customer accounted for 10% or more of our total revenue.

Highly Competitive Market

Competition for products and services in the healthcare information management and technology industry is intense and is expected to so remain. We compete with other healthcare information software and services providers and healthcare consulting firms. Some principal competitors include:

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

Division: McKesson Corporation, SoftMed Corporation Inc., FileNet, Lanvision, MedPlus, and Eclipsys Corporation;

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

- In the decision support products market for the Enterprise Division: 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 coding, data collection, and record management products market for the Health Information Management Software Division: 3M Corporation, SoftMed Corporation, Inc., MetaHealth, Eclipsys Corporation, PricewaterhouseCoopers LLP, and HSS, Inc.; and

- In the Financial Services Division: Advanced Receivables Strategy, Inc., a division of Perot Systems Corporation, NCO Group, Inc., Outsourcing Solutions, Inc., Health Management Systems, Inc., and Triage Consulting Group.

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 employment agreements 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(tm)". 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. 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.

Employees

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 December 31, 2002, we had 939 employees: 463 in technical, consulting and support services, 214 in general and administration, 83 in sales and marketing, and 179 in research and development.

Item 2. Properties

We lease all our facilities and do not own any real property. As of December 31, 2002, our executive and corporate offices were located in Reston, Virginia, in approximately 49,000 square feet of leased office space under a lease that expires in 2011. The principal office locations related to our three business segments are described in Item 1. 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.

Item 3. Legal Proceedings

In October 2002, a series of securities law class action complaints were 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. The complaints seek unspecified monetary damages and other relief. These matters are at an early stage. No responses to the complaints have yet been filed, and no discovery has taken place. We intend to defend ourselves vigorously against these allegations. On December 31, 2002, the Court entered an order consolidating all related securities class actions against the Company.

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 and documents relating to this matter as part of an informal, preliminary inquiry. We provided that information, and expect to provide further information now that the restatement is completed. 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. We intend to continue to cooperate with the SEC in the event it requests other information. We cannot predict whether such information will be requested, when the SEC will conclude its inquiry, or the impact or outcome thereof.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted during the fourth quarter of 2002 to the vote of security holders through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Information

On March 4, 2003, our common stock was delisted from the Nasdaq National Market. From May 23, 2002 to March 3, 2003, the Nasdaq National Market quoted our common stock under the symbol "QMDC". From August 31, 2000 to May 22, 2002, our common stock had been quoted under the same symbol on the Nasdaq SmallCap Market. From October 16, 1996 to August 30, 2000, our common stock had been quoted under the same symbol on the Nasdaq National Market. 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 indicated periods:

	High	Low
Year Ended December 31, 2001		
First Quarter	$ 2.688	$ 0.750
Second Quarter	4.980	1.625
Third Quarter	6.300	3.090
Fourth Quarter	9.250	4.330
Year Ended December 31, 2002		
First Quarter	$ 11.550	$ 8.110
Second Quarter	9.640	5.570
Third Quarter	6.980	1.470
Fourth Quarter	3.000	1.160

(b) Holdings

On July 31, 2003, a bid for our common stock in the "Pink Sheets" over-the-counter market was $2.45 per share. As of that date, there were approximately 280 holders of record of common stock (excluding beneficial owners whose shares are held in the name of Cede & Co.).

(c) Dividends

At this time, we intend to retain all future earnings, if any, to fund the development and growth of our business and do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future.

(d) Recent Sales of Unregistered Securities

None.

(e) Securities Authorized for Issuance Under Equity Compensation Plans

This table provides information about our common stock subject to equity compensation plans as of December 31, 2002.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Approved By Stockholders*	6,022,632(1)	$ 5.36	2,465,620(2)

(f) Preferred Stock

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 shareholders. As of December 31, 2002, we had no outstanding preferred stock.

Item 6. Selected Financial Data

The selected consolidated financial data presented below for the five years ended December 31, 2002, is derived from our Consolidated Financial Statements and related notes thereto. This selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the Consolidated Financial Statements and related notes thereto included in Item 8 of this Form 10-K. Historical results are not necessarily indicative of future results.

	Year ended December 31,				
(in thousands, except per share amounts)	2002	2001	2000	1999	1998 (1)(2)
Consolidated Statement of Operations Data:					
Revenue	$109,585	$117,046	$121,012	$199,162	$172,228
Restatement costs	$ 7,463	$ --	$ --	$ --	$ --
Income (loss) from continuing operations	$(20,858)	$ 11,952	$(39,354)	$(52,527)	
Extraordinary gain on redemption of debentures	$ --	$ 12,907	$ --	$ --	$ --
Net income (loss)	$(14,362)	$ 9,413	$(36,675)	$(47,388)	$(21,376)
Basic income (loss) per share from continuing operations	$ (0.77)	$ 0.47	$ (1.53)	$ (2.20)	
Basic net income (loss) per share	$ (0.53)	$ 0.37	$ (1.43)	$ (1.99)	$ (0.91)
Diluted income (loss) per share from continuing operations	$ (0.77)	$ 0.47	$ (1.53)	$ (2.20)	
Diluted net income (loss) per share	$ (0.53)	$ 0.37	$ (1.43)	$ (1.99)	$ (0.91)

	December 31,				
(in thousands)	2002	2001	2000	1999	1998 (1)(2)
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short term investments	$ 26,191	$ 32,213	$ 39,664	$ 29,732	$ 89,574
Total assets	$126,927	$125,133	$149,286	$ 201,759	$ 264,733
Deferred revenue	$ 39,492	$ 30,721	$ 22,489	$ 7,258	$ 14,021
Working capital	$ 18,137	$ 32,509	$ 46,107	$ 61,030	$ 94,963

Debentures	$ 73,719	$ 73,719	$115,000	$ 115,000	$ 115,000
Stockholders' equity (deficit)	$ (7,235)	$ 4,221	$ (7,166)	$ 27,512	$ 68,988

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement on Risks Associated With Forward-Looking Statements

You should read the following discussion in conjunction with our Consolidated Financial Statements and related notes. This Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. The words "believe", "expect", "anticipate", "predict", "intend", "plan", "estimate", "may", "will", "should", "could", and similar expressions and their negatives are intended to identify such statements. Forward-looking statements are not guarantees of future performance and are to be interpreted only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statement. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described below and elsewhere in this Report, and in other documents we file with the SEC from time to time.

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 account, investments, capitalized software, income taxes, restructuring, pensions and other benefits, and contingencies and 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 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 including the years ended 2001, 2000 and 1999 and all respective quarters. This report is also being filed simultaneously with the restatement of our Quarterly Report on Form 10-Q/A for the three months ended March 31, 2002. The restatement process which lasted approximately ten months, due to restating three years, new auditors and staffing to diligently review and account for transactions, adversely affected our revenue and business in the latter half of fiscal 2002. Additionally, the Company spent $7.5 million in restatement fees, which included accountants', consultants' and attorneys' fees in fiscal 2002.

Revenue Recognition

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

Our license revenue consists of fees for licenses of our software and hosted services. Cost of license revenue primarily includes product, delivery and royalty costs and facilities costs. Our services revenue 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 and seminars. 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 and training personnel.

We license 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 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 Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements.

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.

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. Revenue from hosted applications is recognized ratably over the term of the arrangement. The proportion of revenue recognized upon delivery may vary from quarter to quarter depending upon the relative mix of licensing arrangements and the availability of VSOE of fair value for undelivered elements.

Certain of our perpetual and time-based licenses include unspecified additional products and/or payment terms that extend beyond 12 months. We recognize revenue from perpetual and time-based licenses that include unspecified additional software products ratably over the term of the arrangement.

Contract accounting is utilized for services revenues from fixed-price contracts and those requiring significant software modification, development or customization. In such instances, the arrangement fee is accounted for in accordance with SOP 81-1, whereby the arrangement fee is recognized, generally using the percentage-of-completion method measured on labor input costs. 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 rates, 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 101. When all criteria for revenue recognition, as noted above, have been met, revenue is recognized upon invoicing. If collectibility is not considered probable, revenue is recognized when the fee is collected.

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 based on past collection history and specific risks identified within our portfolio. 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.

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 five business segments then in place. 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. See note 18 for more information regarding our business segments. Based on an analysis by an independent third party appraiser, we then 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, we re-engaged the same independent appraiser to review the goodwill as of this date 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, we establish technological feasibility upon completion of a detailed program design determined on a project-by-project basis, which substantiates that the computer software product can be produced in accordance with its design specifications. 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, 2002, 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 $2.5 million, $2.7 million and $2.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Stock Based Compensation

SFAS 123, Accounting for Stock Based Compensation, 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 Pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of SFAS No. 143 are required to be applied starting with fiscal years beginning after June 15, 2002. We expect that implementation of the new standard will not have a significant impact on our financial condition, results of operations, and cash flows.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement updates and clarifies existing pronouncements relating to the 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. The provisions of SFAS No. 145 are required to be applied starting with fiscal years beginning after May 15, 2002. We anticipate that implementation of this new standard will not have a significant impact on our financial condition, results of operations and cash flows.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, effective for exit or disposal activities initiated after December 31, 2002. Under SFAS 146 a liability for the cost associated with an exit or disposal activity is recognized when the liability is incurred. Under prior guidance, a liability for such costs could be recognized at the date of commitment to an exit plan. SFAS 146 also requires that the liability be measured and recorded at fair value. Accordingly, the adoption of this standard may affect the timing of recognizing future restructuring costs as well as the amounts recognized. We will adopt the provisions of SFAS 146 prospectively for all restructuring activities initiated after December 31, 2002.

In November 2002, the FASB reached a consensus on Emerging Issues Task Force ("EITF") No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. The guidance in EITF 00-21 is effective for revenue arrangements entered into in fiscal years beginning after June 15, 2003. This issue

addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one earnings process and, if it does, how to divide the arrangement into separate units of accounting consistent with the identified earning processes for revenue recognition purposes. This issue also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. We are evaluating the effect implementation of this new guidance will have on our financial condition, results of operations and cash flows.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including indirect Guarantees of Indebtedness of Others. FIN 45 requires that we recognize the fair value for guarantee and indemnification arrangements issued or modified by us after December 31, 2002, if these arrangements are within the scope of the interpretation. In addition, we must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If we determine it is probable that a loss has occurred then any such estimable loss would be recognized under those guarantees and indemnifications. Some of the software licenses granted by us contain provisions that indemnify licensees of our software from damages and costs resulting from claims alleging that our software infringes the intellectual property rights of a third party. We have historically received only a limited number of requests for indemnification under these provisions and have not been required to make material payments pursuant to these

provisions. Accordingly, we have not recorded a liability related to these indemnification provisions. We will be required to implement the provisions of FIN 45 as of January 1, 2003 and do not believe that FIN 45 will have a material impact on our financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, effective for fiscal years ending after December 15, 2002. SFAS 148 amends SFAS 123, to provide alternative methods of transition to the voluntary fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require that disclosure of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed in tabular format within a Company's summary of significant accounting policies. We have not yet adopted SFAS 148 and accordingly, the accompanying financial statements reflect the required disclosures of SFAS 123.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. FIN 46 expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal

structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Disclosure requirements apply to any financial statements issued after January 31, 2003. We have considered the provisions of FIN 46 and believe it will not be necessary to include in our financial statements any assets, liabilities, or activities of the third-party entities holding our corporate headquarters leases. We will continue to evaluate the impact of FIN 46 on other areas of our financial statements and disclosures.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We are currently evaluating the impact of SFAS 149 on our consolidated financial position and results of operations. We do not expect the adoption of SFAS 149 to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the adoption of SFAS 150 to have a material impact on our consolidated financial position, results of operations or cash flows.

Results of Operations

The following table sets forth certain items from our consolidated statement of operations, expressed as percentage of total revenue.

	Year ended December 31,		
	2002	2001	2000
Revenue			
Services	70.1%	70.5%	76.4%
Licenses	29.9	29.5	23.6
Total revenue	100.0	100.0	100.0
Cost of revenue			
Cost of services	32.9	29.1	45.3
Cost of licenses	8.3	7.4	5.9
Total cost of revenue	41.2	36.5	51.2
Gross margin	58.8	63.5	48.8
Operating expenses			
General and administration	37.5	30.5	47.1
Sales and marketing	19.7	17.7	19.6
Research and Development	15.7	12.3	20.3
Amortization, impairment and other operating charges	2.8	7.7	9.2
Total operating expenses	75.7	68.2	96.2
Loss from operations	(16.9)	(4.7)	(47.4)
Other income (expense)			
Interest expense	(3.2)	(4.1)	(5.4)
Interest income	0.6	1.7	1.8
Gain on sale of assets	1.4	6.1	22.5
Other income (expense), net	(0.9)	0.3	(3.4)
Other income (expense), net	(2.1)	4.0	15.5
Loss from continuing operations before income taxes and extraordinary item	(19.0)	(0.7)	(31.9)
Provision for income taxes	--	(0.1)	(0.5)
Loss from continuing operations before extraordinary item	(19.0)	(0.8)	(32.4)
Gain on redemption of debentures	--	11.0	--
Net income (loss) from continuing operations	(19.0)	10.2	(32.4)
Income (loss) from discontinued operations (net of income taxes)	(2.1)	(2.2)	2.2
Gain on disposal of discontinued operations	8.0	--	--

Net income (loss)	(13.1)%	8.0%	(30.2)%

Years ended December 31, 2002, 2001 and 2000

Revenue

Services.

Service revenue consists of consulting, maintenance, installation, hardware, reimbursable expenses and other service revenue. Service revenue was $76.8 million in 2002, a decrease of $5.7 million or 6.9% from $82.5 million in 2001. The decrease was primarily due to decrease in services associated with the sale of the EZ-CAP Division in August 2001 and reduction in Financial Services Division.

Service revenue of $82.5 million in 2001 represented a decrease of $9.9 million or 10.7% from the $92.4 million reported 2000. The decrease was primarily due to a substantial decrease of $23.8 million due to the sale of the ROI Division in 2000, a decrease in Health Management Services Division, slight decrease due to the sale of EZ-CAP Service Division in August 2001, offset by an increase in the Enterprise Division installation and services and increase in Health Management Software Division maintenance revenue and Financial Services Division revenue.

Licenses.

License revenue consists of license and third-party software sales. License revenue in 2002 was $32.8 million, a decrease of $1.8 million or 5.2% from $34.6 million in 2001. The decrease in license revenue was primarily attributable to the decrease in license associated with the sale of EZ-CAP Division revenue offset by an increase in Health Management Software government licenses.

License revenue of $34.6 million in 2001 showed an increase of $6.0 million or 20.8% from the $28.6 million in 2000. The increase was primarily attributable to an increase in the Enterprise Division and Health Management Software Division.

Cost of Revenue

Cost of Services.

Cost of services 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 $36.1 million, an increase of $2.0 million or 5.8% from $34.1 million in 2001. The increase was

primarily due to an increase in salaries and benefits offset by a slight decrease in third-party hardware costs. The gross margin earned on services revenue in 2002 was 53.0%, which was 5.7 percentage points less than the 2001 level of 58.7%.

Cost of services in 2001 of $34.1 million was $20.7 million or 37.8% below the 2000 cost of $54.8 million. Cost of services decreased primarily due to salary and benefits expense reduction in the consulting organization.

Cost of Licenses.

Cost of licenses consists of third party royalties, amortization of capitalized software and documentation and production costs of our software. Cost of licenses in 2002 was $9.1 million, 5.3% above the corresponding 2001 level of $8.7 million. Gross margin on license revenue was 72.1%, a deterioration of 2.8 percentage points from the 2001 level of 74.9%. The absolute dollars were consistent from period to period.

Cost of licenses in 2001 of $8.7 million was up $1.6 million or 21.8% from $7.1 million in 2000. Gross margin was consistent from period to period.

Amortization of capitalized software development costs totaled $2.4 million, $2.0 million, and $1.7 million in 2002, 2001, and 2000, respectively.

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 $41.1 million in 2002, an increase of $5.4 million or 15.2% compared to $35.7 million in 2001. As a percentage of total revenue, general and administration expense increased to 37.5% in 2002 from 30.5% 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. We anticipate that general and administration expenses will be lower in absolute dollars in 2003 than in 2002.

General and administration expense of $35.7 million in 2001 reflected a decrease of $21.3 million or 37.4% compared to $57.0 million in 2000. The decrease was primarily due to severance costs and provision for bad debt expense in the prior period. As a percentage of total revenue, general and administration expense decreased to 30.5% in 2001, compared to 47.1% in 2000.

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, promotional and advertising expenses. Sales and marketing expense increased by only $841,000 in 2002 to $21.6 million from $20.7 million in 2001. Sales and marketing expenses were

consistent from period to period. We anticipate that sales and marketing expense will be slightly higher in absolute dollars and as a percentage of revenue in 2003 than in 2002 due to increased promotional expenditures.

Sales and marketing expense of $20.7 million in 2001 was $3.1 million less than the $23.8 million recorded in 2000 reflecting a decrease as a percentage of revenue to 17.7% from 19.6% in the prior year. The decline in sales and marketing expense was primarily due to a decrease in commission expense.

Research and Development.

Research and 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. Research and development expense for 2002 was $17.2 million, a 19.4% increase from 2001. As a percentage of revenue, the increase was 3.4 percentage points to 15.7% in 2002 from 12.3% in 2001. The increase in research and 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% of research and development expenditures in 2002, compared to $1.8 million or 11.0% of expenditures in 2001, on products qualifying for capitalization under the definition of technological feasibility. We anticipate that research and development expenses will increase in absolute dollars in 2003 due to increased development of products.

Research and development expense in 2001 was $10.2 million less than in 2000, a decline of 41.5%. As a percentage of revenue, the decrease was 8.0 percentage points to 12.3% in 2001 from 20.3% in 2000. The decline in research and development expense was due to the elimination of corporate research and development projects to shift our focus to specific product line development, elimination of support costs for divested products, and the termination of several product development efforts that were not critical to our core strategies. In addition to these expenses, we capitalized $1.8 million in development costs compared to $527,000 or 2.1% of expenditures in 2000.

Amortization, Impairment and Other Operating Charges.

Amortization, impairment and other operating charges were $3.1 million, $9.1 million and $11.1 million in 2002, 2001 and 2000, respectively, which primarily consists of the following items:

- Amortization of goodwill and other intangible assets, excluding capitalized software development costs, declined to $2.5 million in 2002 from $6.2 million in 2001 and $7.8 million in 2000 as certain assets reached the end of their amortized lives and goodwill was not amortized in 2002.

- During 2000, we recorded $1.2 million in charges to write-down certain software assets primarily related to our 1998 acquisition of IMN.

- Charges of $4.7 million were incurred during the year ended December 31, 2000. The charges consisted of $3.4 million associated with separation

agreements for officers and $1.3 million for employee severance and closure of facilities. As of December 31, 2002, there is no remaining liability for restructuring costs.

Other Income (Expense)

Interest Income (Expense)

Interest expense, net of interest income, was $2.8 million, $2.7 million and $4.4 million for 2002, 2001 and 2000, respectively. Interest expense was principally due to our Debentures, offset by interest earned on our cash and investments. The change from 2001 to 2002 was not significant as expected, while the decrease in 2001 of $1.1 million compared to 2000 is attributable to the retirement of $41.3 million of our Debentures during 2001.

On April 16, 2003, we announced that we had executed an agreement with certain of our bondholders to refinance $61.8 million of our 2005 Debt and issue new 2008 Debt with an interest rate of 10% and 11.3 million detachable warrants. As a result, we will incur higher interest charges in 2003 through 2008.

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. Our gain of $27.2 million in 2000 resulted primarily from the sale of the ROI division to ChartOne.

Extraordinary Item

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

	Year ended December 31,		
	2002	2001	2000

Revenue	$ 17,313	$ 19,735	$ 29,968
Income (loss) from operations of discontinued operation	$ (2,270)	$ (2,539)	$ 2,679
Gain on disposal	8,776	--	--
Total income (loss) on discontinued operations	$ 6,506	$ (2,539)	$ 2,679

Provision for Income Taxes

There was no provision for income taxes in 2002 due to a current book and tax loss. There was a $150,000 provision for income taxes in 2001 due to state tax liabilities on certain of our legal entities. For financial reporting purposes, a 100% valuation allowance has been recorded against our deferred tax assets under SFAS No. 109, Accounting for Income Taxes, as our history of losses makes realization of the asset uncertain. We had federal net operating loss carryforwards of approximately $76.1 million and state net operating loss carryforwards of approximately $2.0 million as of December 31, 2002. In addition, we had gross federal and California research and development credit carryforwards of approximately $4.2 million and $1.8 million respectively.

Liquidity And Capital Resources

As of December 31, 2002, we had $26.2 million in cash, cash equivalents and short-term investments, compared to $32.2 million as of December 31, 2001. As of December 31, 2002, we had a positive working capital of $18.1 million compared to $32.5 million as of December 31, 2001. On June 30, 2003, we had approximately $32.0 million in cash, cash equivalents and short-term investments.

	Year ended December 31,		
(in thousands)	2002	2001	2000
Cash (used in) provided by operating activities	$ (982)	$ 13,844	$(30,275)
Cash (used in) provided by investing activities	$ (6,602)	$ 17,097	$ 46,132
Cash provided (used in) financing activities	$ 1,448	$(28,510)	$ (18)

Cash (used in) provided by operating activities was $(982,000), $13.8 million, and $(30.3) million in 2002, 2001 and 2000, respectively. 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 plus $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. The $30.3 million of cash used in operating activities in 2000 was due principally to the $39.4 million net loss from continuing operations, $3.4 million provided by discontinued operations and $27.2 million of non-cash gains offset by $29.7 million of net non-cash expenses and a $3.2 million decrease in operating assets and liabilities.

Net cash (used in) provided by investing activities was $(6.6) million, $17.1 million and $46.1 million in 2002, 2001 and 2000, respectively. 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. In 2000 the $46.1 million provided by investing activities arose from the proceeds of $38.4 million from the sale of ROI assets and $18.3 million from the sale of available-for-sale securities, offset by a $7.0 million increase in restricted cash, $3.1 million in equipment purchases and $527,000 in capitalized software costs.

Net cash provided by (used in) used in financing activities was $1.4 million, $(28.5) million and $(18,000) in 2002, 2001 and 2000, respectively. 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 activity in 2000 consisted of $945,000 in repayment of debt and $927,000 from the issuance of common stock. The Board of Directors has authorized us to repurchase the debentures at our discretion and to repurchase up to 6 million shares of treasury stock.

The following table summarizes financial data for our contractual obligations and other commercial commitments, including interest obligations, as of December 31, 2002 (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$ 82,749	$ 3,870	$ 78,879	$ --	$ --
Operating leases	30,440	4,981	8,334	7,245	9,880
Other long-term obligations	1,449	483	966	--	--
Total contractual cash					

obligations	$114,638	$ 9,334	$ 88,179	$ 7,245	$ 9,880
Other Commercial Commitments					
Standby letters of credit(1)	$ 4,409	$ 1,166	$ 105	$ 2,620	$ 518
Total commercial commitments	$ 4,409	$ 1,166	$ 105	$ 2,620	$ 518

As of December 31, 2002, we had $73.7 million in outstanding 5.25% Convertible Subordinated Debentures due 2005 (the "2005 Debt"), which bear interest at 5.25% per annum. On April 16, 2003, we announced that we had executed an agreement with certain of our bondholders to refinance our 2005 Debt. On April 17, 2003, under the terms of the refinance agreement, we issued $71.0 million of our Senior Secured Notes due 2008 (the "2008 Debt"). The proceeds from the issuance of the 2008 Debt were used to repurchase $61.8 million (plus $1.5 million in accrued interest) of the 2005 Debt which became subject to repurchase by us as a result of our delisting from the Nasdaq National Market on March 4, 2003. Accordingly, the net proceeds to us as a result of the issuance of the 2008 Debt less the costs (including fees) associated with the repurchase of the 2005 Debt was $7.6 million, with $11.9 million of the 2005 Debt remaining outstanding. Additionally, the repurchase right on the 2005 Debt remaining outstanding expired on April 17, 2003. The 2008 Debt bears interest at an initial rate of 10% which will be reduced to 9% upon the relisting of QuadraMed's common stock on the Nasdaq, including Nasdaq SmallCap or U.S. National Market and is secured by certain intellectual property of QuadraMed. However, we may be obligated to redeem the 2005 and 2008 debentures earlier than the maturity dates based upon certain events of default occurring as defined within the debenture agreements. These events include: failure to timely repay principal or interest owed on the debentures, default under any other borrowing, and bankruptcy.

In addition, as of December 31, 2002, we had approximately $30.4 million in minimum operating lease commitments that will be repaid through 2011. Finally, we have a Supplemental Executive Retirement Plan that will require total payments from 2008 through 2027 estimated at $7.8 million. We owe annual premiums of $483,000 on the SERP through 2005 to fund this obligation.

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 the capitalization of our software development efforts, which are expected to increase in 2003, and costs associated with our investments in fixed assets and information technology. For additional discussion, see the Risk Factors section.

We believe that we will have sufficient liquidity and capital resources to fund our scheduled debt and other obligations through the next twelve months.

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.

Business Risks

Factors that have affected our results of operations in the past and are likely to affect our results of operations in the future, include the following:

Our Vendors, Suppliers and Customers May React Adversely to the Lack of Timely SEC Filings of Our Historical Financial Statements.

Our future success depends in large part on the support of our vendors and suppliers, who may react adversely to the lack of timely SEC filings of our historical financial statements. The restatement of our historical financial statements has resulted in negative publicity about us, which may cause some of our potential customers to defer purchases of our products. Our vendors and suppliers may re-examine their willingness to do business with us, to develop critical interfaces for us or to supply software and services if they lose confidence in our ability to fulfill our commitments.

We Are Currently the Target of Securities Litigation and May Be the Target of Further Actions, Which May Be Costly and Time Consuming to Defend.

In October 2002, a series of securities law class action complaints were 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. The complaints seek unspecified monetary damages and other relief.

The ultimate outcome of these matters cannot presently be determined and may require significant commitment of our financial and management resources and time, which may seriously harm our business, financial condition and results of operations. We cannot assure you that any of the allegations discussed above can be resolved without costly and protracted litigation, and the outcome may have a materially adverse impact upon our financial position, results of operations and cash flows.

In addition, securities class action litigation has often been brought against a company following a decline in the market price of its securities. The uncertainty of the currently pending investigation and litigation could lead to more volatility in our stock price. We may in the future be the target of securities class action claims similar to those described above.

We Are Subject to a Formal SEC Inquiry as a Result of the Restatement of Our Financial Statements.

Following our August 12, 2002 announcement that it 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. We provided that information, and expect to provide additional information now that the restatement is completed. We intend to continue to cooperate with the SEC in the event it requests other information. We cannot predict whether such information will be requested, when the SEC will conclude its inquiry, or the outcome or impact thereof.

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. We intend to continue to cooperate with the SEC and comply with the SEC's requests for information. We cannot predict when the SEC will conclude its inquiry, or the outcome and impact thereof.

Our Common Stock Has Been Delisted from the Nasdaq Stock Market.

We received a notice from the Nasdaq Stock Market that we are required 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 and the quarter ended March 31, 2002. Our trading symbol as of August

22, 2002 was amended from "QMDC" to "QMDCE", as a result of the delinquent filings. We requested an appeals hearing before a Nasdaq Listing Qualifications Panel (the "Panel"). The Panel notified us on February 6, 2003, that Nasdaq would continue to list our common shares on the Nasdaq Stock Market until February 28, 2003, by which date we must file our Quarterly Report on Form 10-Q for the interim periods ended June 30, 2002 and September 30, 2002 and our amended SEC filings for the years ended December 31, 2001, 2000 and 1999 and the interim period ended March 31, 2002. Further, we were required to file timely all other annual and periodic reports with the SEC and evidence our continued compliance with all requirements for continued listing on the Nasdaq National Market upon the filing of these documents as well as an ability to sustain compliance with those requirements over the long term. We were unable to meet these requirements in a timely manner, and on March 4, 2003, our common stock was delisted from the Nasdaq Stock Market. Although we intend to return to compliance, we can offer no assurances that we will be relisted on the Nasdaq Stock Market.

The delisting constitutes a "Repurchase Event" under the provisions of our Convertible Subordinated Debentures. Upon such an event, our Debentures provide the holders with the individual option to redeem the Debentures (see below).

Our Debentures Have Been Partially Refinanced with Notes that Are Subject to New Terms.

We issued Debentures through a public offering on May 1, 1998 that mature on May 1, 2005 in the principal amount of $115 million (the "2005 Notes"). Our net proceeds from the offering were $110.8 million. The 2005 Notes bear interest at 5.25% per annum and are convertible into common stock at any time prior to the redemption or final maturity, initially at the conversion price of $33.25 per share (resulting in an initial conversion ratio of 30.075 shares per $1,000 principal amount).

We are obligated to provide holders of the 2005 Notes with notice of and the holders have the individual option to redeem the 2005 Notes should we, (i) cease to be traded on a U.S. national securities exchange or cease to be approved for trading on a U.S. automated over-the-counter securities market; or (ii) experience defined Changes of Control, including a merger in which we are not the surviving entity or our shareholders do not control 50% of the new entity, the sale of substantially all of our assets, a liquidation, or if there is a substantial change in the board of directors over a two-year period. Additionally, we are obligated to redeem the 2005 Notes upon defined Events of Default, including failure to timely repay principal or interest under the 2005 Notes, default under any other borrowing, and bankruptcy. On March 4, 2003, our common stock was delisted from the Nasdaq Stock Market, and a repurchase event was triggered.

On April 17, 2003, QuadraMed Corporation closed the partial refinancing of its 2005 Notes. In conjunction with its repurchase of $61.8 million of its outstanding 2005 Notes pursuant to its offer to repurchase such Notes previously announced on March 19, 2003, the Company issued $71 million of its Senior Secured Notes due 2008 (the "2008 Notes"), together with warrants to purchase 11,303,842 shares of the Company's common stock. Investors in the 2008 Notes included certain holders of 2005 Notes as well as new investors. Additional warrants to purchase 2,047,978 shares of the Company's common stock will be issued to holders of the 2008 Notes if the Company does 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. The Company also issued warrants to purchase 282,596 shares of the Company's common stock to Philadelphia Brokerage Corporation as consideration in connection with the transaction. The warrants have a term of five 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 2008 Notes bear an initial interest rate of 10%, which interest rate is required to be reduced to 9% upon the listing of the Company's common stock for trading on a U.S. national securities exchange or upon the common stock's relisting on the Nasdaq National Market or the Nasdaq SmallCap Market. The terms of the 2008 Notes provide that interest is initially payable 6% in cash and 4% in additional notes for the first year and payable entirely in cash thereafter. The 2008 Notes are also secured by certain intellectual property of the Company.

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 5 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 the Company 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, which is classified into three classes of directors serving staggered, three-year terms, 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 the Company 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 in control of the Company. 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 Trading Price of Our Common Stock Has Been, and Is Expected to Continue to Be, Volatile.

The Nasdaq SmallCap Market on which our common stock was listed, the "Pink Sheets" over-the-counter market, 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;
- Governmental regulatory action;
- Resolution of pending or unasserted litigation, including the existing shareholder lawsuits;
- 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.

Future Sales of a Substantial Number of Shares of Our Common Stock Could Cause the Price of the Stock to Decrease or Fluctuate Substantially.

Our existing stockholders hold a significant number of shares of common stock that may be sold in the future under Rule 144 of the Securities Act or through the exercise of registration rights. Sales of a substantial number of the aforementioned shares in the public markets or the prospect of such sales could adversely affect or cause substantial fluctuations in the market price of our common stock and debt securities and impair our ability to raise additional capital through the sale of our securities.

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

A substantial number of the unissued shares of our common stock are subject to stock options 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 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.

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.

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. 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 depend on licenses from a number of third-party vendors for certain technology used to develop and operate our products. 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. 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.

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 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.

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 research and development expenses.

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 disease 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 made several regulatory proposals, which are in various stages of development.

First, HHS has published a final regulation governing transaction and code-set standards that had a 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 file an extension by October 16, 2003, the covered entity would receive an additional year to comply with the HIPAA transaction and code sets requirements.

Second, HHS has published a final HIPAA privacy rule which has a compliance date of April 14, 2003. The HIPAA privacy rule is complex and far reaching. Similar to the HIPAA transaction and code sets rule, the HIPAA privacy rule applies to covered entities. Covered entities are required to execute a contract with any business associate that performs certain services on the covered entity's behalf. We may be implicated by the HIPAA privacy rule as a business associate of a covered entity. The HIPAA privacy rule and state healthcare privacy regulations could materially restrict the ability of healthcare providers to disclose individually identifiable health information from patient records using our products and services or could require us to make substantial capital expenditures to be in compliance. Accordingly, the HIPAA Privacy Rule 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 published the final HIPAA security rule with a compliance date of April 20, 2005. The HIPAA security rule 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.

Government Regulation to Adopt and Implement ICD-10-CM and ICD-10-PCS Medical Code Set Standards.

Prominent HIM organizations 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 R & D capital and decrease future business prospects for our current product line.

Government Regulation of the Health Care Delivery System May Affect Health Care Providers' Discretionary Spending.

During the past several years, the healthcare industry has been subject to, among other things, increasing levels of governmental regulation of reimbursement rates and certain capital expenditures. Certain proposals to reform the healthcare system have been and are being considered by Congress. These proposals, if enacted, could change the operating environment for our clients in ways that could have a negative impact on our business, financial condition, and results of operations. We are unable to predict what, if any,

changes will occur.

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 IDNs 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 the use of electronic transmissions for large Medicare providers 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 revert to a fee-for-service model. In addition, many of our customers provide services under capitated service agreements, and a reduction in the use of capitation arrangements as a result of regulatory or market changes could have a material adverse effect on our business. During the past several years, the healthcare industry has been subject to increasing levels of governmental regulation of, among other things, reimbursement rates and capital expenditures. Proposals to reform the healthcare system have been and are being considered by the United States Congress. These proposals, if enacted, could 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.

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, research and 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;
- The fines and penalties a healthcare provider or system may incur due to fraudulent billing practices; and
- Increases in third party royalty fees associated with embedded products in QuadraMed software applications.

Our operating expense levels, which increase with the addition of acquired

businesses, are relatively fixed. Accordingly, if future revenues were 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.

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 customers, and such decisions require significant capital expenditures by them. As a result, we typically experience sales cycles that extend over several quarters. In addition, certain products we acquired with Compucare have higher average selling prices and longer sales cycles 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.

If We Are Unable to Compete Effectively, We Could Experience Price Reduction, Reduced Gross Margins and Loss of Market Share.

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 in the Enterprise Division: 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 in the Enterprise Division: McKesson Corporation, SoftMed Corporation Inc., FileNet, Lanvision, MedPlus, and, Eclipsys Corporation;
- In the market for MPI products and services in the Enterprise Division: Madison Technologies, Inc., McKesson Corporation, Shared Medical Systems, Inc., a division of Siemens, and, Medibase;

- In the market for decision support products in the Enterprise Division: 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, PricewaterhouseCoopers LLP and, HSS, Inc.;

- In the Financial Services Division: 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.

Our Services Face Review and Scrutiny from the Department of Health and Human Services, the Department of Justice and Other Law Enforcement Agencies.

As a result of rising health care costs, federal and state governments have placed an increased emphasis on detecting and eliminating fraud and abuse in Medicare, Medicaid, and other health care programs. Numerous laws and regulations now exist to prevent fraudulent or abusive billing, to protect patients' privacy rights, and to ensure patients' access to health care. Violation of the laws or regulations governing our operations could result in the imposition of civil or criminal penalties, including temporary or permanent exclusion from participation in government health care programs such as Medicare and Medicaid, the cancellation of our contracts to provide managed care services, and the suspension or revocation of our licenses. We routinely conduct internal audits in our effort to ensure compliance with all applicable laws and regulations. If errors, discrepancies or violations of laws are discovered in the course of these audits or otherwise, we may be required by law to disclose the relevant facts, once known, to the appropriate authorities.

We Face Risks Associated with U.S. Government Contracting.

We have been awarded a U.S. General Services Administration ("GSA") Schedule Contract for Federal Supply Service of commercial information technology. The willingness of government agencies to enter into future contracts depends upon (i) our ability to continue supporting existing products; (ii) maintaining ongoing relationships with third party suppliers of certain elements of our products; and (iii) developing new products with third party suppliers to address new regulatory requirements of government agencies and having these products added to our GSA commercial price list. These contracts are subject to cancellation at the convenience of the contracting government agency.

As a commercial vendor, we must file a quarterly sales report with the GSA and remit a 1% "Industrial Funding Fee" based on the sales value of the contract. Reductions or delays in federal funds available for projects we are performing could also have an adverse impact on our government business. Contracts involving time and material fees are also subject to the risks of disallowance of costs upon audit, changes in government procurement policies, required competitive bidding for products not identified on the GSA commercial product price list, and, with respect to contracts involving prime contractors or government-designated subcontractors, the inability of those parties to perform under their contracts.

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 encountering significant challenges integrating the acquired businesses into our operations and, in years 2000 and 2002 focused in particular on their integration. 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;
- 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.

New Accounting Standards May Make Acquisitions Necessary for Our Growth Less Accretive and Less Attractive.

In June 2001, the FASB issued SFAS No. 141, Business Combinations. The statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and SFAS No. 38, Accounting for Pre-acquisition Contingencies of Purchased Enterprises. From 1993-1999, we completed 28 acquisitions, certain of which were accounted for using the pooling-of-interests methodology, which is no longer acceptable under SFAS 141. Effective June 2001, prospective business combinations are required to be accounted for using purchase accounting. As a result, any amounts paid in excess of fair value of the assets acquired are capitalized and recorded as intangible assets or goodwill whose amortization or impairment may reduce future earnings. Accordingly, future business combinations may be less attractive as our reported generally accepted accounting principles ("GAAP") operating results are likely to be negatively impacted.

We May Suffer Losses Due to the Investment Performance of Variable Life Insurance Policies That Are Tied to the Performance of Equity Markets That May Lead to Delays in Repayments of Premiums Pursuant to Certain Split-Dollar Life Insurance Agreements or Result in Increased Supplemental Executive Retirement Plan (SERP) Expenses in Future Periods.

We have an investment interest in three variable life insurance policies. Each of the variable life insurance policies provides for the investment of the cash value portion of policies into various sub-accounts that are similar in nature to mutual funds. Two policies are issued pursuant to split-dollar agreements with the former executives, and trusts established for their benefit make the investment decisions on these policies. The third policy is a corporate-owned policy that we contributed to a grantor or "rabbi" trust established to make contributions to satisfy our obligations under the SERP and two other subsequently terminated benefit plans. We make the investment decisions only on this policy. The performance of the variable life insurance policies for cash value and premium amounts will vary depending on the performance of the selected underlying sub-accounts. Pursuant to FTB 85-4 and

FTB 97-14, we report the amounts that could be realized under these variable life insurance contracts as an asset valued as of the balance sheet date and treat the change in cash surrender value during the reported period as an adjustment of premiums paid in determining the expense or income to be recognized. The reduced value of the variable life insurance policies and future adverse changes in the condition of equity markets or poor operating results of underlying policy sub-accounts could result in (i) the delayed repayment of advanced premiums in the case of the split-dollar policies, and/or (ii) increased SERP expenses in future periods.

A Significant Amount of Our Assets Are Comprised of Goodwill, Capitalized Software, 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 are comprised of capitalized software and 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, capitalized software and other intangible assets beyond their economic life for impairment at least annually, and adjust them when impaired to the appropriate net realizable value. We engaged a valuation firm to perform an impairment test on the carrying value of our goodwill and intangibles as of December 31, 2002 and 2001. The valuation firm 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 the capitalized software, we will be required to adjust the carrying value of the capitalized software 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.

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 our facilities in Neptune, New Jersey; Irving, Texas; Kansas City, Missouri; and San Rafael, California. 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In addition to the market risks discussed herein, refer to our discussion of business risks in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, above.

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. 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 December 31, (in thousands, except average interest rates).

	Aggregate Fair Value		Weighted Average Interest Rate	
	2002	2001	2002	2001
Cash and cash equivalents				
Cash	$ 12,896	$ 4,682		
Money Market funds	10,767	25,117	1.10%	1.78%
Total cash and cash equivalents	$ 23,663	$ 29,799		
Short-term investments				
Corporate debt securities	$ 2,528	$ 2,380	1.68%	3.75%
Debt issued by the U.S. government	--	34		6.37%
Total short-term investments	$ 2,528	$ 2,414		
Long-term investments				
Corporate debt securities	$ 529	$ 575	5.57%	6.09%
Debt issued by the U.S. government	768	562	4.70%	5.50%

Total long-term investments	$ 1,297	$ 1,137

On December 31, 2002 our long-term debt consists solely of our Debentures totaling $73.7 million, at a fixed interest rate of 5.25% maturing in 2005. On April 17, 2003, we refinanced our Debentures due 2005 and issued $71.0 million of Senior Secured Notes due 2008 with an initial interest rate of 10%. Refer to the discussion in note 22 of the Notes to the Financial Statements.

Performance of Equity Markets

The performance of equity markets can have an effect on our operations, and recent declines in equity markets, if sustained, will have an adverse effect on us related to certain variable life insurance policies in which we have an investment interest.

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.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data regarding us are included in this Report on Form 10-K beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

With the approval of the Audit Committee, QuadraMed has changed its independent public accountants twice in the past three fiscal years. Pisenti & Brinker, LLP ("P&B") served as QuadraMed's independent public accountants for fiscal years 2000 and 2001. On April 5, 2002 the Audit Committee appointed, and the Board of Directors approved, PricewaterhouseCoopers LLP ("PwC") to act as QuadraMed's independent public accountants for the fiscal year ended December 31, 2002. On April 28, 2003 QuadraMed dismissed PwC as its independent public accountants following a decision by the Audit Committee and on May 5, 2003 a Form 8-K was filed with the SEC. On May 5, 2003 BDO Seidman, LLP ("BDO") was appointed as QuadraMed's independent public accountants for the fiscal year ended December 31, 2002.

There were no disagreements between QuadraMed and its independent public accountants on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.

PART III

Item 10. Directors and Executive Officers of the Registrant

NAME, AGE, TITLE	OCCUPATION AND BACKGROUND
Lawrence P. English, 62 Chairman of the Board and Chief Executive Officer	o Chairman of the Board since December 2000 and Chief Executive Officer since June 2000. o Founder and Chief Executive Officer of Lawrence P. English, Inc., a private turn-around management firm that consulted with companies such as Amedex Insurance Company and Paracelsus Healthcare Corporation, from January 1999 to June 2000. o 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. o President of CIGNA Healthcare, one of the largest HMO providers in the United States, from March 1992 until August 1996. o Director of Curative Healthcare Corporation since May 2000. o Director of Clarent Hospital Corporation, formerly Paracelsus Healthcare Corporation, since May 1999. Non-Executive Chairman of the Board since February 2000. o Bachelor of Arts degree from Rutgers University. o Master of Business Administration from George Washington University. o Graduate of Harvard Business School's Advanced Management Program.
Michael S. Wilstead, 45 President and Chief Operating Officer	o President since March 2003 and Chief Operating Officer since December 2001. Previously, President of the Health Information Management Service and Software Divisions and the former EZ-CAP Division. Joined QuadraMed in July 1998 as Vice President of Sales. o Group President at STERIS Corporation, an infection control and surgical support products company, from 1995 to 1998. o Various positions at AMSCO International, a medical equipment company, from 1990 to 1995. o Bachelor of Science degree in Business Administration from the University of Phoenix.
Charles J. Stahl, 56 Executive Vice President and Chief Financial Officer	o Executive Vice President and Chief Financial Officer since April 2003. o Certified Public Accountant. o Partner with Deloitte & Touche LLP from 1978 to 2001 with various roles and responsibilities including Managing Partner of the Valuation and Realty Consulting Group, National Director of Financial Consulting and audit partner in the

technology industry.

Dean A. Souleles, 41 Executive Vice President, Enterprise Division	o Executive Vice President, Enterprise Division, since September 2002. o Chief Technology Officer beginning August 2000. Joined QuadraMed in February 2000 as Vice President of Development. o Chief Technology Officer and Director of Research and Development for Chase Credit Systems, Inc., a software and technical services firm serving the mortgage credit reporting industry, from March 1997 to February 2000. o Technology consultant to Forest Lawn Mortuary from January to June 1997. o Chief Technology Officer, SureNet Corporation, an Internet service provider, from October 1995 to December 1996. o 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.
Joseph L. Feshbach, 49	o Chairman of the Board and Chief Executive Officer of Curative Health Services, Inc. (Nasdaq: CURE), a disease management company focused on chronic wound care and specialty pharmacy, since October 2000. Directory since February 2000. o Private investor since 1998. o General Partner of Feshbach Brothers, a money management and stock brokerage firm, from 1985 to 1998. o Director of Accordant Health Services Corporation, a private specialty disease management company.
William K. Jurika, 63	o Private investor since 2001. o Co-founder of JMK Investment Partners, LLC, an investment company. o Chief Executive Officer and then Chairman of the Board until 2001 of Jurika & Voyles, Inc., an investment management firm that Mr. Jurika founded in 1976. o Bachelor of Science degree in Marketing from the University of Denver.
Albert L. Greene, 53	o Chief Executive Officer, Queen of Angels Hollywood Presbyterian Medical Center since January 2002. o Chairman of the Board and Chief Executive Officer of HealthCentral.com, an online consumer health information and products service company, from September 1998 to February 2001. o Chief Executive Officer of Sutter Health East Bay, a healthcare delivery system and the parent company of Alta Bates Health System, from June

	1996 to September 1998. o President and Chief Executive Officer of Alta Bates Medical Center, a 527-bed acute care hospital located in Berkeley, California, from May 1990 to March 1998. o President and Chief Executive Officer of Alta Bates Health System, the parent company of Alta Bates Medical Center, from January 1996 to March 1998. o Director of Sierra Health Services, a health and worker insurance company, since April 2000. o Masters of Hospital Administration from the University of Michigan. o Diplomat of the American College of Healthcare Executives and a member of the American Hospital Association. o Past chair of the California Healthcare Association.
F. Scott Gross, 57	o Private investor since January of 2002. o 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. o Director of Fountain View, Inc., a nursing home chain, since 1999. o Bachelor of Science degree in Biology from California State University, Northridge. o Masters Degree in Public Administration (Healthcare Management Option) from the University of Southern California.
Michael J. King, 64	o Chairman and Chief Executive Officer of HealthScribe, Inc., a computerized medical transcription company, since May 1999. o 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. o Director of Osprey Systems, an e-business consulting services firm, since 1999. o Degree in Mechanical Engineering from the University of Sheffield. o Master of Business Administration equivalent in Management Studies from the University of Hatfield.

Robert W. Miller, 62	o Adjunct Professor of Law, Emory University School of Law o Director and Audit Committee Chairman of Magellan Health Services, Inc. o A.B. in History from the University of Georgia o LL.B. from the Yale Law School
Cornelius T. Ryan, 71	o 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 $800 million in committed capital.

- Bachelor of Commerce in Economics from the University of Ottawa.
- Master of Business Administration from the Wharton School of Business, University of Pennsylvania.

In November 2002, the Company announced its intention to move its corporate headquarters, including its accounting and finance resources, to its facility in Reston, Virginia. Such a move has not yet occurred, and no date has been set to complete it nor will such a date be set until the Company is confident that the transition can be made without disrupting its control, reporting and disclosure capabilities. The Company does not anticipate that the transition will take place prior to the filing of its 2003 Form 10-K. Nevertheless the Company believes it is in its long term best interests to consolidate its headquarters in Reston. Charles J. Stahl, the Company's current Chief Financial Officer, has indicated that he does not intend to relocate to Reston. Given Mr. Stahl's position, the Company will employ John Wright as an Executive Vice President. Mr. Wright will join the Company later this year. It is the Company's intention that Mr. Wright will succeed Mr. Stahl as CFO, concurrent with the Company's move to Reston. In the interim, Mr. Wright will, among other things, work with Mr. Stahl to ensure the stability of the Company's accounting and finance resources and the development of a smooth transition plan. Mr. Wright, 55, is a Certified Public Accountant and spent most of his career as a partner with Ernst & Young. He has been serving as a consultant to the Audit Committee of the Board since January of 2003 to the Company since July of 2003.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires QuadraMed's directors and executive officers, and persons who own more than ten percent (10%) of a registered class of QuadraMed's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of QuadraMed's equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish QuadraMed with copies of all Section 16(a) reports their file. Based solely on its review of the copies of such forms received by it, or written representation from certain reporting persons that no Forms 5 were required for those persons, QuadraMed believes that all reporting requirements under Section 16(a) for the fiscal year ended December 31, 2002, were met in a timely manner by its directors, executive officers, and greater than ten percent (10%) beneficial owners.

Item 11. Executive Compensation

The following tables show, for the last three 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".

		Annual Compensation			Long Term Compensation		
Name and Principle Position	Fiscal Year	Salary ($)(1)	Bonus ($)(2)	Other Compensation ($)	Restricted Stock Awards ($)(3)	Securities Underlying Options(#)	401(k) Compensati ($)(4)
Lawrence P. English (5)	2002	407,500	250,000	--	--	110,000	4,000
CHAIRMAN OF THE BOARD	2001	400,000	200,000	--	360,000	--	46,886 (
AND CHIEF EXECUTIVE OFFICER	2000	222,820	--	--	--	1,000,000	708
Michael S. Wilstead	2002	285,000	113,125	--	62,090	40,000	4,000
PRESIDENT AND CHIEF	2001	237,083	111,625	--	367,000	100,000	3,400
OPERATING OFFICER	2000	226,250	50,000	--	--	126,700	--
Mark N. Thomas (7)	2002	285,000	111,250	--	285,840	40,000	4,000
CHIEF FINANCIAL OFFICER	2001	250,000	278,500	--	180,000	--	3,400
	2000	135,416	--	2,987 (8)	--	350,000	
Michael H. Lanza (9)	2002	215,000	61,875	2,200 (13)	--	21,675	4,000
EXECUTIVE VICE PRESIDENT	2001	221,250	108,975	109,180 (10)	180,000	--	8,300(1
	2000	61,250	--	--	--	200,000	1,650
Dean A. Souleles (12)	2002	202,500	87,500	111,045 (14)	--	55,000	4,000
EXECUTIVE VICE PRESIDENT	2001	180,000	63,250	--	180,000	--	3,400
	2000	142,119	--	--	--	100,000	1,650

Option Grants In Last Fiscal Year

This table shows stock options granted to named executive officers during the 2002 fiscal year. No stock appreciation rights were granted during the 2002 fiscal year to the named executive officers. Stock options may be granted to executive officers only under the 1996 Stock Incentive Plan.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term($)(3)
	Number of Securities Underlying Options	% Of Total Options Granted to Employees In Fiscal	Exercise of Base Price	Expiration	

Name	Granted (1)	2001	($/Sh) (2)	Date	5%	10%
Lawrence P. English	110,000	6.8%	$ 8.87	02/19/12	$613,612	$1,555,015
Michael S. Wilstead	40,000	2.5%	8.87	02/19/12	223,132	565,460
Mark N. Thomas	40,000	2.5%	8.87	02/19/12	223,132	565,460
Michael H. Lanza	20,000	1.2%	8.87	02/19/12	111,566	282,730
	1,675	0.1%	2.98	01/02/12	3,139	7,955
Dean A. Souleles	30,000	1.9%	8.87	02/19/12	167,349	424,095
	25,000	1.5%	2.67	11/05/12	41,979	106,382

Aggregated Option Exercises In 2002 And Year-End Option Values

This table provides information about stock options exercised by named executive officers, and shows the value of unexercised stock options held by each named executive officer as of December 31, 2002.

			Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In the Money Options At Fiscal Year End ($) (2)	
Name	Shares Acquired On Exercise	Value Realized (1)	Exercisable	Unexercisable	Exercisable	Unexercisab
Lawrence P. English	--	$ --	625,000	485,000	$1,637,500	$ 982,500
Michael S. Wilstead	--	--	220,521	181,479	201,957	125,543
Mark N. Thomas	--	--	130,417	179,583	341,693	365,707
Michael H. Lanza	--	--	114,035	107,640	294,750	87,503
Dean A. Souleles	15,000	111,045	34,583	95,417	90,607	171,390

Director Compensation

QuadraMed executive officers do not receive additional compensation for service as a director.

Compensation for non-employee directors in 2002 is shown in the following table:

COMPENSATION	2002
Annual Retainer Fee(1)	$15,000
Annual Option Grant(2)	6,000 shares
Board Meeting Attendance	$ 1,500 in person $ 1,000 by telephone
Committee Meeting Attendance	$ 1,500 in person $ 1,000 by telephone
Expenses	Reasonable
Option Grant Upon First Election(3)	20,000 shares
Option Grant Upon Election as Committee Chairman (4)	20,000 shares

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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, Mark N. Thomas, Michael H. Lanza, and Dean A. Souleles. All of these agreements are "at will" and have similar terms and conditions as set forth in the following table:

Term	o Two years, automatically renewed unless three month's prior notice.(1) o One year, automatically renewed for terms of one year unless one month's prior notice.(2)
CEO English's Compensation	o Annual base rate of salary determined by the Compensation Committee. o Discretionary bonus target of up to 50% of annual base rate of salary determined by the Compensation Committee. o 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. o Additional discretionary bonuses determined by the Compensation Committee based on achievement of specified goals established by the Board. o Amounts equal to the net increase in state income tax attributable to becoming a California resident solely as related to pre-employment gross adjusted income, as

	determined by QuadraMed's independent accountants.
Other Executive Officer Compensation	o Annual base rate of salary determined by the Compensation Committee. o Discretionary bonus target of up to 50% of annual base rate of salary determined by the Compensation Committee. o 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. o Additional discretionary bonuses determined by the Compensation Committee based on achievement of specified goals established by the Board. o Amounts paid in consideration of lost compensation and other benefits from previous employers as a consequence of joining QuadraMed.(3)(4)
Benefits	o Participation in group life, medical, and dental insurance. o Accidental death and dismemberment plan. o Other employee benefits, including 401(k) plan, profit sharing, stock purchase and option plans.

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(1) Provided in Mr. English's agreement, dated and effective June 12, 2000, and amended September 20, 2001; in Mr. Thomas' agreement, dated May 12, 2000, and effective June 9, 2000, and amended September 20, 2001; and in Mr. Wilstead's agreement, dated and effective April 1, 1999, and amended September 20, 2001.

(1) Provided in Mr. Lanza's agreement, dated and effective September 18, 2000, and amended September 19, 2001; and in Mr. Souleles' agreement, dated and effective August 16, 2000, and amended September 12, 2001.

(2) Mr. Thomas, pursuant to his agreement, was paid $22,987 for unvested 401(k) funds from his previous employer.

(4) Mr. Lanza, pursuant to his agreement, received an unfunded and unsecured phantom stock account of 95,293 QuadraMed shares with an initial value of $1.50 for unvested options from his previous employer. Mr. Lanza is to be paid, based on the closing price of QuadraMed's two business days prior, the value of the following number of phantom shares on the following dates: 43,672 on February 25, 2001; 29,306 on February 26, 2002; and 22,315 on February 23, 2003. Appropriate adjustments are to be made to the phantom stock account if there is a stock split, reclassification, or similar occurrence.

(Continued)

Vacation	o Four weeks.
Options	o Issued pursuant to QuadraMed's 1996 Stock Incentive Plan.(5)
Expenses	o Customary, ordinary, and necessary business expenses. o Relocation. (6)(7) o Preparation of personal tax returns.(8) o Automobile lease.(9)

Termination for Cause	o Acts of fraud, embezzlement, or misappropriation of proprietary information, trade secrets, or confidential information. o Failure to adhere to QuadraMed policies. o Failure to devote full working time and effort to performance of duties.(10)
Change of Control	o Merger or acquisition in which QuadraMed is not the surviving entity. o Stockholder approved sale, transfer, or disposition of all or substantially all of QuadraMed's assets. o Transfer of substantially all of QuadraMed's assets pursuant to a partnership or joint venture in which QuadraMed's interest is less than 50%. o Reverse merger in which QuadraMed is the surviving entity but in which more than 50% of QuadraMed's shares are transferred. o Change in ownership such that one person or entity becomes beneficial owner of more than 50% of QuadraMed's shares. o Majority of the Board is replaced in a 12-month period by Directors not endorsed by the majority of the existing Board.
Involuntary Termination	o Termination not for cause. o Involuntary discharge or dismissal. o Failure to renew employment agreement. o Material reduction in responsibilities.
CEO English's Severance on Involuntary Termination Other Than in Connection with a Change of Control	o Two times then current annual base salary. o Acceleration of unvested options so that at least 250,000 shares will be vested and exercisable as of the date of termination. o Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code. o Severance conditioned on complete and unconditional release.

(5) Pursuant to their respective agreements, Mr. English was granted an option to purchase 1,000,000 shares; Mr. Thomas was granted an option to purchase 200,000 shares; Mr. Lanza was granted an option to purchase 200,000 shares; and Mr. Souleles was granted an option to purchase 80,000 shares.
(6) Mr. English, pursuant to his agreement, was entitled to reasonable relocation costs.
(7) Mr. Lanza, pursuant to his agreement, was entitled to reasonable relocation costs up to $65,000.
(8) Mr. English, pursuant to his agreement, is entitled to reimbursement for expenses associated with the preparation of his personal tax returns.
(9) Mr. English, pursuant to his agreement, is entitled to reimbursement of up to $750 per month for an automobile lease. Mr. English, however, did not seek reimbursement for this expense in 2001.
(10) Mr. English, pursuant to his agreement, is permitted to serve as a member of up to three outside boards of directors.

(Continued)

CEO English's	o Two times then current annual base salary and annual

target bonus.	
Severance on Change of Control Or Involuntary Termination Within 24 Months of a Change of Control	o Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code. o To extent not assumed by the acquiring company, acceleration of all unvested options, which terminate pursuant to the terms of the grant. o Acceleration of unvested options and restricted stock. o 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	o One times then current annual base salary.(11) o One year of life, health, and disability plan coverage. o Acceleration of unvested options, restricted stock, and phantom stock. o Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code. o 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	o One times then current annual base salary and annual target bonus. o Two years of life, health, and disability plan coverage. o To extent not assumed by the acquiring company, acceleration of all unvested options. o Gross up payment if any severance payment is subject to excise tax under Section 4999 of Internal Revenue Code.

(11) Mr. Thomas pursuant to his agreement is also entitled to a bonus payment equal to forty percent (40%) of his then current annual base salary.

Compensation Committee Interlocks And Insider Participation

Messrs. Ryan and Grass were directors and members of the Compensation Committee during the last fiscal year. None of the members of the Compensation Committee has ever been an officer or employee of QuadraMed Corporation or any of its subsidiaries.

Compensation Committee Report On Executive Compensation

QuadraMed's Compensation Committee establishes general executive compensation policies and reviews and determines the salaries, bonuses, and discretionary option grants awarded to QuadraMed's executives, including the Chief Executive Officer.

The Compensation Committee retained an independent compensation consulting

firm in 2002 to provide advice on executive compensation matters and provide it with the following:

- Comparative executive compensation information, including salary, bonus, and option data for companies similar to QuadraMed and that compete with QuadraMed for executive talent.

- Specific recommendations to maintain QuadraMed's executive compensation at levels competitive with the marketplace.

The following table summarizes the key policies, factors, and other compensation information that the Compensation Committee used in determining 2002 executive compensation, including that of the Chief Executive Officer:

Policies	o Provide competitive compensation to attract and retain highly-skilled executives. o Align and tie executive personal performance to QuadraMed's financial performance through the use of variable and long-term incentive awards.
Executive Compensation Elements	o Annual base salary, tied to the Compensation Committee's evaluation of personal executive performance and the competitive marketplace for comparable executives. o Variable incentive awards, tied to achievement of QuadraMed's financial goals set at the beginning of the fiscal year and evaluation of personal executive contribution. o Long-term equity-based incentive awards, tied to aligning the interests of executive officers with stockholders' interests.
2001 Factors	o Contribution margin targets set by the Board. o Improvement of management processes. o Development of long-term corporate business, research and development, and financial strategies. o Improved communication with customers, the investment community, and the Board.

With regard to the compensation of the Chief Executive Officer, the Compensation Committee evaluated QuadraMed's contribution margins and Mr. English's performance on a variety of matters, including improvement of management processes, reduction in expenses, strengthening of the management team, increase in revenues, development of long-term corporate business and financial strategies, and improved communication with customers, the investment community, and the Board.

Pursuant to Section 162(m) of the Internal Revenue Code, QuadraMed is not allowed a tax deduction for non-performance based compensation paid to an executive officer in excess of $1 million in any fiscal year. Non-performance based compensation paid to a QuadraMed executive officer in 2002 did not exceed this limitation and it is unlikely that this limitation will be exceeded in the foreseeable future. Consequently, the Compensation Committee has decided not to take any action to limit or restructure the elements of cash compensation payable to QuadraMed's executive officers. This decision will be reconsidered, however, should the non-performance based compensation of any executive officer ever approach the $1 million level.

The Board did not modify or reject any Compensation Committee action or recommendation regarding executive compensation for the 2002 fiscal year.

Compensation Committee:

Cornelius T. Ryan, Chairman
F. Scott Gross

Performance Graph

The following chart, produced by Research Data Group, depicts QuadraMed's performance for the period beginning on December 31, 1997, and ending December 31, 2002, as measured by total stockholder return on the common stock compared with the total return of the Nasdaq Stock Market (U.S.) Index and the Nasdaq Computer and Data Processing Index. Upon request, QuadraMed will furnish stockholders a list of the component companies of such indexes.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN (1)
AMONG QUADRAMED CORPORATION,
THE NASDAQ STOCK MARKET (U.S.) INDEX
AND THE NASDAQ COMPUTER & DATA PROCESSING INDEX

[GRAPHIC DEPICTING COMPARATIVE CUMULATIVE TOTAL RETURN SHOWN HERE]

(1) $100 invested on 12/31/97 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

Data points used to develop cumulative total return comparison:

	12/97	12/98	12/99	12/00	12/01	12/02
QuadraMed Corporation	100.00	74.55	31.71	2.96	30.73	9.53
Nasdaq Stock Market (U.S.)	100.00	140.99	261.49	157.77	125.23	86.58
Nasdaq Computer & Data Processing	100.00	178.39	392.44	180.62	145.45	100.30

Notwithstanding anything to the contrary set forth in any of QuadraMed's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings made by QuadraMed under those statutes, the preceding Report of the Compensation Committee of the Board of Directors on Executive Compensation and QuadraMed's Stock Performance Graph will not be incorporated by reference into any of those prior filings, nor will such report or graph be incorporated by reference into any future filings made by QuadraMed under those statutes.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table shows how much QuadraMed common stock is directly and beneficially owned by:

- Each nominee for director, QuadraMed's Chief Executive Officer, and the next four most highly compensated executive officers other than the Chief Executive Officer;
- The nominees for director, the Chief Executive Officer, and all QuadraMed executive officers as a group;
- The total number of shares and percent of ownership for each named officer includes shares of QuadraMed common stock that he has the right to acquire on or before September 18, 2003, which are deemed to be outstanding, but not deemed to be outstanding for the purposes of computing the number of shares beneficially owned and percent of outstanding common stock of any other named person; and
- The beneficial ownership percentages have been calculated based on 27,530,502 shares of common stock outstanding on July 20, 2003.

Name	Number of Shares Owned	Right to Acquire	Total	%
Lawrence P. English (1)(2)	100,000	809,792	909,792	3.3
Joseph L. Feshbach (1)	20,000	49,732	69,732	*
Albert L. Greene (1)	--	45,500	45,500	*
F. Scott Gross (1)	--	52,565	52,565	*
William K. Jurika (1)	3,806,040	--	3,806,040	13.8
Michael J. King (1)	--	198,817	198,817	*
Robert W. Miller (1)	--	--	--	*
E.A. Roskovensky (1)	2,900	44,070	46,970	*
Cornelius T. Ryan (1)	5,000	74,681	79,681	*
Dean A. Souleles (2)	--	59,375	59,375	*
Charles J. Stahl (2)	--	37,500	37,500	*
Michael S. Wilstead (2)	2,500	273,333	275,833	1.0
All directors and executive officers as a group (12)	3,933,540	1,601,295	5,534,835	20.1

Item 13. 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 received an option to purchase 20,000 shares of the Company's common stock at an exercise price of $2.42, which vested fully on July 31, 2001. Mr. Feshbach exercised this option on December 6, 2001 at a trade price of $8.30 and was attributed with $117,600 in income as a result of the exercise.

Michael J. King, a QuadraMed director, is a former officer of QuadraMed and was President of Compucare, acquired by QuadraMed in 1999. He is the Chief Executive Officer of Healthscribe, Inc. ("Healthscribe"), a provider of transcription services. Prior to Mr. King's appointment as Healthscribe's CEO,

QuadraMed entered into a subcontract with Healthscribe for transcription services at a healthcare facility managed by QuadraMed. At the end of March 2001, this subcontract was terminated and the healthcare facility managed by QuadraMed contracted directly with Healthscribe for services. In the years ended December 31, 2001 and 2000, QuadraMed paid Healthscribe a total of $300,000 and $1.3 million, respectively.

Item 14. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, with the participation of our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13(a)-14(c), and 15(d), which became effective August 29, 2002) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the controls and other procedures they designed to ensure that information required to be disclosed in the reports we file or submit under the Act are accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosures, were effective.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our Internal Controls as of the Evaluation Date and concluded that our current practices and procedures, albeit not as mature or as formal as management intends them to be in the future, are appropriate under the circumstances. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems no evaluation of controls can provide absolute assurance that all control issues within a company have been detected. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

In addition, our Chief Executive Officer and Chief Financial Officer and Audit Committee are aware of conditions that are considered to be reportable conditions in internal controls under standards established by the American Institute of Certified Public Accountants. These reportable conditions allowed

errors to go undetected in some of our 2002 internal financial statements and in our previously issued consolidated financial statements reported in our 2001 10-K and March 31, 2002 10-Q. The 2001 10-K/A was filed in June 2003 and the March 31, 2002 10Q/A was filed in August 2003 to correct these errors in our previously issued consolidated financial statement.

The aforementioned weaknesses our internal controls pertain to the following areas:

- Revenue recognition, billings, collections and allowances;
- Formal policies and procedures for significant transactions;
- Timely analysis and reconciliation of general ledger accounts; and
- Depth of technical accounting knowledge and training.

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

- We engaged Deloitte & Touche LLP (D&T) to perform 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 CPAs 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 has engaged a financial expert to advise them and strengthen the Audit Committee's role in corporate governance.

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

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements.

   The consolidated financial statements incorporated herein begin on page F-1.

2. Financial Statement Schedule.
   Reference is made to Schedule II - Valuation and Qualifying Accounts on page S-1.
3. Exhibits. Reference is made to Item 15(c) of this Annual Report on Form 10-K.

(b) Reports filed on Form 8-K during the last quarter of the year covered by this Annual Report on Form 10-K:

1. Form 8-K dated October 16, 2002, providing an update of the Company's ongoing restatement activities.

2. Form 8-K dated October 22, 2002, describing an extension granted by Nasdaq until December 16, 2002 for the Company to complete its restatement activities.

3. Form 8-K dated December 10, 2002, providing an update of the Company's ongoing restatement activities.

4. Form 8-K dated December 10, 2002, describing an extension request made to Nasdaq for the company to complete its restatement activities.

5. Form 8-K dated December 13, 2002, describing the asset sales agreement signed with Precyse Solutions, LLC on December 9, 2002.

(c) Exhibits.

The exhibits listed on the accompanying Exhibit Index or incorporated by reference are filed as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUADRAMED CORPORATION

Date: August 15, 2003

By: /s/ Lawrence P. English

Lawrence P. English

Chairman of the Board
Chief Executive Officer

Date: August 15, 2003

By: /s/ Charles J. Stahl

Charles J. Stahl
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the date indicated:

Signatures	Title	Date
/s/ Lawrence P. English Lawrence P. English	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	August 15, 2003
/s/ Charles J. Stahl Charles J. Stahl	Chief Financial Officer (Principal Financial and Accounting Officer)	August 15, 2003
/s/ Joseph L. Feshbach Joseph L. Feshbach	Director	August 15, 2003
/s/ Albert L. Greene Albert L. Greene	Director	August 15, 2003
/s/ F. Scott Gross F. Scott Gross	Director	August 15, 2003
/s/ William Jurika William Jurika	Director	August 15, 2003
/s/ Michael J. King Michael J. King	Director	August 15, 2003
/s/ Robert W. Miller Robert W. Miller	Director	August 15, 2003
/s/ Cornelius T. Ryan Cornelius T. Ryan	Director	August 15, 2003

EXHIBIT INDEX

2.1	Securities Purchase Agreement dated September 28, 2000, by and between QuadraMed Corporation, QuadraMed Operating Corporation, and investors whose names and addresses are set forth on Schedule I thereto. (13)
2.1	Securities Purchase Agreement dated as of May 5, 2000, by and among QuadraMed Corporation, QuadraMed Operating Corporation, Certain Investors and ChartOne, Inc. (9)
2.2	Asset Contribution Agreement dated as of May 3, 2000, by and among QuadraMed Corporation, QuadraMed Operating Corporation and ChartOne, Inc.
2.3	Asset Purchase Agreement, by and among, QuadraMed Corporation, QuadraMed Operating Corporation, OAO Technology Solutions, Inc., and OAO Transaction, LLP, dated as of August 16, 2001. (15)
3.4	Amended and Restated Bylaws of QuadraMed. (1)
3.5	Third Amended and Restated Certificate of Incorporation of QuadraMed. (5)
3.6	Amended and Restated Certificate of Incorporation of QuadraMed, amended January 28, 2002.
4.1	Reference is made to Exhibits 3.4 and 3.5. (1) (5)
4.2	Form of Common Stock certificate. (1)
4.3	Securities Purchase Agreement, dated as of April 17, 2003, among QuadraMed Corporation and certain investors listed on the signature pages attached thereto.*
4.24	Form of Note.*
4.25	Warrant Agreement dated as of April 17, 2003, by and between QuadraMed Corporation and The Bank of New York, as warrant agent.*
4.26	Indenture, date as of April 17, 2003, between QuadraMed Corporation and the Bank of New York, as trustee.*
4.27	Registration Rights Agreement, dated as of April 17, 2003, among QuadraMed, the investors listed on the signature pages thereto, and Philadelphia Brokerage Corporation.*
4.28	Security Agreement, dated as of April 17, 2003, made by QuadraMed Corporation in favor of The Bank of New York, as collateral agent.*
4.11	Form of Warrant to Purchase Common Stock. (1)
4.12	Registration Rights Agreement dated December 5, 1996, by and between QuadraMed and the investors listed on Schedule A thereto. (2)
4.14	Registration Rights Agreement, dated as of June 5, 1998, by and among QuadraMed Corporation and the stockholders of Pyramid Health Group, Inc. named therein. (3)
4.15	Subordinated Indenture, dated as of May 1, 1998, between QuadraMed and The Bank of New York. (4)
4.16	Officers' Certificate delivered pursuant to Sections 2.3 and 11.5 of the Subordinated Indenture. (4)
4.17	Registration Rights Agreement dated April 27, 1998, by and among QuadraMed and the Initial Purchasers named therein. (4)
4.18	Form of Global Debenture. (4)
4.19	Form of Certificated Debenture. (4)
4.21	Registration Rights Agreement dated December 23, 1998, by and between QuadraMed and the shareholders listed therein. (7)
4.22	Registration Rights Agreement, dated as of March 3, 1999, by and among QuadraMed Corporation and the stockholders of The Compucare Company named therein. (6)
10.1	1996 Stock Incentive Plan of QuadraMed. (l)
10.2	1996 Employee Stock Purchase Plan of QuadraMed. (1)
10.3	Summary Plan Description, QuadraMed Corporation 401(k) Plan. (1)
10.4	Form of Indemnification Agreement between QuadraMed and its directors and executive officers. (1)
10.5	1999 Supplemental Stock Option Plan for QuadraMed. (14)

10.64 Separation Agreement dated June 12, 2000, between James D. Durham and QuadraMed. (11)
10.65 Separation Agreement dated June 12, 2000, between John V. Cracchiolo and QuadraMed. (11)
10.66 Employment Agreement dated June 12, 2000, between Lawrence P. English and QuadraMed. (11)
10.67 Employment Agreement dated May 12, 2000, between Mark Thomas and QuadraMed. (11)
10.67 Employment Agreement dated August 16, 2000, between Dean Souleles and QuadraMed.
10.68 Employment Agreement dated September 18, 2000, between Michael H. Lanza and QuadraMed. (12)
10.69 Employment Agreement dated January 7, 2001, between Peter van der Grinten and QuadraMed.
23.1 Consent of BDO Seidman, LLP, Independent Public Accountants.
23.2 Consent of Pisenti & Brinker, LLP, Independent Public Accountants.
24.1 Power of Attorney (set forth in the signature page hereto).
31.1 Chief Executive Officer Certification.
31.2 Chief Financial Officer Certification.
32.1 Chairman and Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of title 18, United States Code).
32.2 Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of title 18, United States Code).

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of QuadraMed Corporation:

The audit referred to in our report dated August 1, 2003, relating to the consolidated financial statements of QuadraMed Corporation, which is contained in Item 15 of this Form 10-K, included the audit of the financial statement schedule listed in the index at Item 15.(a)2. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audit.

In our opinion, the financial statement schedule as of and for the year ended December 31, 2002, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

San Jose, California
August 1, 2003

QUADRAMED CORPORATION
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
Year ended December 31, 2000:					
Allowance for doubtful accounts	$ 2,669	$ 7,234	--	$ (6,437)	$ 3,466
Year ended December 31, 2001:					
Allowance for doubtful accounts	$ 3,466	$ 2,090	--	$ (1,317)	$ 4,239
Year ended December 31, 2002:					
Allowance for doubtful accounts	$ 4,239	$ 1,403	--	$ (1,296)	$ 4,346

QUADRAMED CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of QuadraMed Corporation:

We have audited the accompanying consolidated balance sheet of QuadraMed Corporation (a Delaware corporation) and its subsidiaries as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and comprehensive income (loss), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QuadraMed Corporation and its subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the consolidated financial statements, in fiscal 2002 the Company changed its method for accounting for reimbursable out of pocket expenses to conform with Emerging Issues Task Force Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred.

As discussed in note 3 to the consolidated financial statements, in fiscal 2002 the Company changed its method for accounting for goodwill and other intangible assets to conform to Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

San Jose, California
August 1, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of QuadraMed Corporation:

We have audited the accompanying consolidated balance sheets of QuadraMed Corporation and its subsidiaries (the "Company") as of December 31, 2001, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the two-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the Company's financial position as of December 31, 2001, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 15(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Pisenti & Brinker LLP

PISENTI & BRINKER LLP

Petaluma, California
March 28, 2003 (May 15, 2003 as to the first paragraph of note 25)

QUADRAMED CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31,	
ASSETS	2002	2001

Current assets		
Cash and cash equivalents	$ 23,663	$ 29,799
Short-term investments	2,528	2,414
Accounts receivable, net of allowance for doubtful accounts of $4,346 and $4,239, respectively	31,612	33,165
Unbilled receivables	3,475	3,825
Notes and other receivables	4,416	282
Prepaid expenses and other current assets	8,972	7,285
Total current assets	74,666	76,770
Restricted cash	5,849	4,356
Property and equipment, net of accumulated depreciation and amortization of $16,170 and $12,634, respectively	6,019	7,323
Capitalized software development costs, net of accumulated amortization of $7,776 and $6,511 respectively	5,670	6,214
Goodwill	18,445	14,721
Other intangible assets, net of accumulated amortization of $13,316 and $10,784, respectively	9,275	8,634
Other long-term assets	7,003	7,115
Total assets	$ 126,927	$ 125,133
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	$ 3,586	$ 893
Accrued payroll and related	6,942	6,402
Other accrued liabilities	6,509	6,245
Deferred revenue	39,492	30,721
Total current liabilities	56,529	44,261
Convertible subordinated debentures	73,719	73,719
Other long-term liabilities	3,914	2,932
Total liabilities	134,162	120,912
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock, $0.01 par, 5,000 shares authorized, no shares issued and outstanding	--	--
Common stock, $0.01 par, 50,000 shares authorized, 26,965 and 26,493 shares issued and outstanding, respectively	205	201
Additional paid-in-capital	275,631	273,384
Deferred compensation	(588)	(1,085)
Accumulated other comprehensive loss	(310)	(468)
Accumulated deficit	(282,173)	(267,811)
Total stockholders' equity (deficit)	(7,235)	4,221
Total liabilities and stockholders' equity (deficit)	$ 126,927	$ 125,133

The accompanying notes are an integral part of these consolidated financial statements.

QUADRAMED CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year ended December 31,		
	2002	2001	2000
Revenue			
Services	$ 76,804	$ 82,477	$ 92,399
Licenses	32,781	34,569	28,613
Total revenue	109,585	117,046	121,012
Cost of revenue			
Cost of services	36,098	34,104	54,846
Cost of licenses	9,130	8,673	7,118
Total cost of revenue	45,228	42,777	61,964
Gross margin	64,357	74,269	59,048
Operating expenses			
General and administration	41,149	35,707	57,036
Sales and marketing	21,551	20,710	23,767
Research and development	17,154	14,371	24,573
Amortization, impairment and other operating charges	3,108	9,069	11,137
Total operating expenses	82,962	79,857	116,513
Loss from operations	(18,605)	(5,588)	(57,465)
Other income (expense)			
Interest expense	(3,461)	(4,741)	(6,504)
Interest income	696	2,034	2,139
Gain on sale of assets	1,500	7,088	27,196
Other income (expense), net	(988)	402	(4,103)
Other income (expense)	(2,253)	4,783	18,728

Loss from continuing operations before income taxes and extraordinary item	(20,858)	(805)	(38,737)
Provision for income taxes	--	(150)	(617)
Loss from continuing operations before extraordinary item	(20,858)	(955)	(39,354)
Gain on redemption of debentures	--	12,907	--
Income (loss) from continuing operations	(20,858)	11,952	(39,354)
Income (loss) from discontinued operations (net of income taxes)	(2,280)	(2,539)	2,679
Gain on disposal of discontinued operations	8,776	--	--
Net income (loss)	$(14,362)	$ 9,413	$(36,675)
Income (loss) per share			
Basic			
Continuing before extraordinary item and discontinued operations	$ (0.77)	$ (0.03)	$ (1.53)
Extraordinary item	--	0.50	--
Continuing operations	(0.77)	0.47	(1.53)
Discontinued operations	0.24	(0.10)	0.10
Net	$ (0.53)	$ 0.37	$ (1.43)
Diluted			
Continuing before extraordinary item and discontinued operations	$ (0.77)	$ (0.03)	$ (1.53)
Extraordinary item	--	0.50	--
Continuing operations	(0.77)	0.47	(1.53)
Discontinued operations	0.24	(0.10)	0.10
Net	$ (0.53)	$ 0.37	$ (1.43)
Weighted average shares outstanding			
Basic	26,915	25,566	25,623
Diluted	26,915	25,566	25,623

The accompanying notes are an integral part of these consolidated financial statements.

QUADRAMED CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulate Deficit
	Shares	Amount				
December 31, 1999	25,319	$ 187	$ 270,691	$ (2,530)	$ (287)	$ (240,54
Issuance of common stock through Employee Stock Purchase Plan	58	--	488	--	--	-
Amortization of restricted shares of common stock	--	--	--	154	--	-
Accelerated vesting of restricted shares	--	--	--	1,878	--	-
Cancellation of restricted shares	--	--	(498)	498	--	-
Issuance of common stock for legal expenses	79	1	78	--	--	-
Exercise of common stock options	299	3	438	--	--	-
Unrecognized pension costs	--	--	--	--	(1,364)	-
Net unrealized gain on available-for-sale securities	--	--	--	--	321	-
Net loss	--	--	--	--	--	(36,67
December 31, 2000	25,755	191	271,197	--	(1,330)	(277,22
Issuance of restricted shares of common stock	475	5	1,262	(1,267)	--	-
Amortization of restricted shares of common stock	--	--	--	205	--	-
Issuance of common stock options to non-employees and consultants	--	--	64	(64)	--	-
Amortization of common stock options of non-employees and consultants	--	--	--	41	--	-
Exercise of common stock of non-employees and consultants	60	1	105	--	--	-
Compensation related to issuance of common stock	187	2	887	--	--	-
Exercise of common stock options	216	2	691	--	--	-
Purchase of treasury stock	(200)	--	(822)	--	--	-
Unrecognized pension costs	--	--	--	--	834	-
Net unrealized gain on available-for-sale securities	--	--	--	--	28	-
Net income	--	--	--	--	--	9,41
December 31, 2001	26,493	201	273,384	(1,085)	(468)	(267,81
Issuance of restricted shares of common stock	39	--	348	(348)	--	-
Amortization of restricted shares of common stock	--	--	--	812	--	-
Amortization of common stock options of non-employees and consultants	--	--	--	33	--	-
Exercise of common stock options	433	4	1,899	--	--	-
Unrecognized pension costs	--	--	--	--	137	-
Net unrealized gain on available-for-sale securities	--	--	--	--	21	-
Net loss	--	--	--	--	--	(14,36

December 31, 2002	26,965	$ 205	$275,631	$ (588)	$ (310)	$ (282,17

The accompanying notes are an integral part of these consolidated financial statements.

QUADRAMED CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2002	2001	2000
Cash flows from operating activities			
Net income (loss) from continuing operations	$(20,858)	$ 11,952	$(39,354)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,890	11,580	14,783
Provisions for bad debts	1,403	2,090	7,234
Write-off of assets	939	3,813	5,522
Impairments of intangible assets	--	--	1,308
Gain on redemption debentures	--	(12,907)	--
Gain on sale of assets	(1,500)	(7,088)	(27,196)
Non-cash settlement of litigation	--	--	79
Other	28	771	776
Changes in assets and liabilities:			
Accounts receivable	1,002	(3,753)	11,134
Prepaid expenses and other	(1,434)	1,105	7,624
Accounts payable and accrued liabilities	3,784	(820)	(12,858)
Deferred revenue	8,039	8,808	(2,715)
Cash provided by (used in) continuing operations	1,293	15,551	(33,663)
Cash (used in) provided by discontinued operations	(2,275)	(1,707)	3,388
Cash (used in) provided by operating activities	(982)	13,844	(30,275)
Cash flows from investing activities			
Increase (decrease) in restricted cash	(38)	1,259	(6,959)
Sales of available-for-sale securities, net	10	12,219	18,278
Sale of assets	9,800	8,124	38,449
Acquisitions of businesses, net of cash acquired	(11,930)	--	--

Purchases of equipment	(2,607)	(2,743)	(3,109)
Capitalized software development costs	(1,837)	(1,762)	(527)
Cash (used in) provided by investing activities	(6,602)	17,097	46,132
Cash flows from financing activities			
Repayments of debt	(455)	(28,489)	(945)
Purchase of treasury shares	--	(821)	--
Proceeds from issuance of common stock	1,903	800	927
Cash provided by (used in) financing activities	1,448	(28,510)	(18)
Net (decrease) increase in cash and cash equivalents	(6,136)	2,431	15,839
Cash and cash equivalents, beginning of period	29,799	27,368	11,529
Cash and cash equivalents, end of period	$ 23,663	$ 29,799	$ 27,368
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 3,874	$ 5,690	$ 6,072
Cash paid for taxes	207	394	418
Supplemental disclosure of non-cash investing and financing transactions			
Issuances (cancellations) of restricted common stock	$ 348	$ --	$ (498)
Issuances of common stock options to non-employees and consultants	--	1,267	--
Release of restricted cash into short-term investments	--	2,380	--

The accompanying notes are an integral part of these consolidated financial statements.

QUADRAMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002

1. NATURE OF OPERATIONS

QuadraMed Corporation along with all significant business divisions and subsidiaries, (the "Company" or "QuadraMed") is dedicated to improving healthcare delivery by providing innovative healthcare information technology and services. From clinical to patient information management and revenue cycle to health information management, QuadraMed delivers real-world solutions that help healthcare professionals deliver outstanding patient care with optimum efficiency. QuadraMed was reincorporated in Delaware in 1996, having been originally incorporated in California in 1993. QuadraMed is managed in three distinct business segments which are as follows: Enterprise Division, Health

Information Management Software Division and Financial Services Division.

2. QUADRAMED CORPORATION AND BASIS OF PRESENTATION

Principles of Consolidation

These consolidated financial statements, which include the accounts of QuadraMed and all significant business divisions and subsidiaries, have been prepared in conformity with (i) accounting principles generally accepted ("GAAP") in the United States; and (ii) the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). All significant intercompany accounts and transactions between QuadraMed and its subsidiaries are eliminated in consolidation.

Use of Estimates in Preparation of 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 account, investments, capitalized software, income taxes, restructuring, pensions and other benefits, and contingencies and 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.

Reclassifications

Adoption of EITF No. 01-14

Certain reclassifications have been made to the 2001 and 2000 consolidated financial statements to conform to the 2002 presentation. Specifically, the 2001 and 2000 financial statements have been reclassified to comply with Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") No. 01-14, Income Statement Characterization of Reimbursements for 'Out-of-Pocket' Expenses Incurred. As such, QuadraMed has reclassified prior year amounts to include billable out-of-pocket reimbursable expenses in both license and service revenues and cost of licenses and services, respectively. The adoption of EITF No. 01-14 does not impact either income (loss) from operations or net income (loss) but does increase revenue and cost of revenues and reduces gross margin percentages as shown in the following tables:

QUADRAMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2002

	Year ended December 31, 2001			Year ended December 31, 2000		
	Services	Licenses	Total	Services	Licenses	Total
Revenue						
Reported revenue	$82,477	$34,569	$117,046	$92,399	$28,613	$121,012
Less impact of EITF No. 01-14	3,454	933	4,387	3,144	993	4,137
Pro-forma revenue	$79,023	$33,636	$112,659	$89,255	$27,620	$116,875
Cost of revenue						
Reported cost of revenue	$34,104	$ 8,673	$ 42,777	$54,846	$ 7,118	$ 61,964
Less impact of EITF No. 01-14	3,454	933	4,387	3,144	993	4,137
Pro-forma cost of revenue	$30,650	$ 7,740	$ 38,390	$51,702	$ 6,125	$ 57,827
Gross margin percentage						
Reported gross margin percentage	58.7%	74.9%	63.5%	40.6%	75.1%	48.8%
Impact of EITF No. 01-14	2.5	2.1	2.4	1.5	2.7	1.7
Pro-forma gross margin percentage	61.2%	77.0%	65.9%	42.1%	77.8%	50.5%

Change in Classification of Certain Service and License Revenue and Related Costs

In previously reported periods, the Company's license revenue and associated cost of license revenue included in the Statement of Operations consisted of fees for the licensing of the Company's software products, hardware, maintenance, hosted services, customer training and consulting services. In the accompanying Consolidated Statements of Operations, license revenue and cost of license revenue for both 2001 and 2000 have been reclassified to include only fees and costs, respectively associated with the licensing of the Company's software products. The table below presents the impact of the reclassification of licenses and services for the years ended December 31, 2001 and 2000 (in thousands):

	Year ended December 31,		Year ended December 31,	
	2001	2001 (Reclassified)	2000	2000 (Reclassified)
Revenue				
Services	$ 26,772	$ 82,477	$ 49,665	$ 92,399
Licenses	90,274	34,569	71,347	28,613
	$117,046	$117,046	$121,012	$121,012
Cost of revenue				
Services	$ 19,295	$ 34,104	$ 34,943	$ 54,846
Licenses	23,482	8,673	27,021	7,118
	$ 42,777	$ 42,777	$ 61,964	$ 61,964

Restatement

In 2002, management of QuadraMed discovered accounting and reporting errors within its Quarterly Report on Form 10-Q as filed for the three months ended March 31, 2002 and its Annual Report on Form 10-K as filed for the years ended December 31, 2001, 2000 and 1999. These errors resulted in management determining that the reports for these years needed to be restated. In June 2003, QuadraMed amended and restated its 2001 Annual Report on Form 10-K/A. This report is also being filed simultaneously with the restatement of our Quarterly Report on Form 10-Q/A for the three months ended March 31, 2002.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition - QuadraMed's revenue in the ordinary course of business is principally generated from two sources: (i) licensing arrangements and (ii) services.

The Company's license revenue consists of fees for licenses of the Company's software and hosted services. Cost of license revenue primarily includes product, delivery and royalty costs and facilities costs. The Company's services revenue 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 and seminars. 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 and training personnel.

QuadraMed licenses its products through its direct sales force. The Company's license agreements for such products do not provide for a right of return, and historically product returns have not been significant.

QuadraMed recognizes revenue on its software products in accordance with 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 Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements.

QuadraMed recognizes 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 the Company 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. The Company considers 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 the Company. QuadraMed's determination of fair value of each element in multi-element arrangements is based on vendor-specific objective evidence ("VSOE"). The Company limits its 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.

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. Revenue from hosted applications is recognized ratably over the term of the arrangement. The proportion of revenue recognized upon delivery may vary from quarter to quarter depending upon the relative mix of licensing arrangements and the availability of VSOE of fair value for undelivered elements.

Certain of the Company's perpetual and time-based licenses include unspecified additional products. QuadraMed recognizes revenue from perpetual and time-based licenses that include unspecified additional software products ratably over the term of the arrangement.

Contract accounting is utilized for services revenues from fixed-price contracts and those requiring significant software modification, development or customization. In such instances, the arrangement fee is accounted for in

accordance with SOP 81-1, whereby the arrangement fee is recognized, generally using the percentage-of-completion method measured on labor input costs. 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 rates, 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 101. When all criteria for revenue recognition, as noted above, have been met, revenue is recognized upon invoicing. If collectibility is not considered probable, revenue is recognized when the fee is collected.

Cash and Cash Equivalents - Cash and cash equivalents consist of highly
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liquid investments that are comprised principally of taxable, short-term certificates of deposit, money market instruments and commercial paper with original maturities of three months or less at the time of purchase and demand deposits with financial institutions. These instruments carry insignificant interest rate risk because of their short-term maturities. Cash equivalents are stated at amounts that approximate fair value based on quoted market prices.

Investments - QuadraMed considers its holdings of short-term and long-term
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securities, consisting primarily of fixed income securities, to be available-for-sale securities. The difference between cost or amortized cost (cost adjusted for amortization of premiums and accretion of discounts that are recognized as adjustments to interest income) and fair value, representing unrealized holdings gains or losses, net of the related tax effect, if any, is recorded, until realized, as a separate component of stockholders' equity. Gains and losses on the sale of debt securities are determined on a specific identification basis. Realized gains and losses are included in other income (expense) in the accompanying consolidated statements of operations.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts
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receivable consist primarily of amounts due to the Company from its normal business activities. The Company 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 allowances might be required.

Concentration of Credit Risk - Accounts receivable subject QuadraMed to its highest potential concentration of credit risk. QuadraMed reserves for credit losses and does not require collateral on its trade accounts receivable. In addition, QuadraMed maintains cash, cash equivalent and investment balances in accounts at various domestic banks and one brokerage firm. QuadraMed is insured by the Federal Deposit Insurance Corporation for up to $100,000 at each bank. Balances maintained at the brokerage firm are not insured.

Goodwill - In June 2001, the 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, QuadraMed 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, QuadraMed 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, QuadraMed first assigned its assets and liabilities, including existing goodwill and other intangible assets, to its identified reporting units to determine their carrying value. For this purpose, QuadraMed's reporting units equated to its five business segments then in place. QuadraMed's reporting units equate to its 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. See note 18 for more information regarding QuadraMed's business segments. Based on an analysis by an independent third party appraiser, QuadraMed then 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 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, QuadraMed did not perform step two as described by SFAS 142.

As of January 1, 2003, QuadraMed re-engaged the same independent appraiser to review the goodwill as of this date 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.

The following schedule shows the Company's reported net income (loss) for periods prior to the adoption of SFAS No. 142 as adjusted to add back goodwill amortization as if SFAS No. 142 had been adopted during the periods (in thousands, except per share data):

	Year ended December 31,	
	2001	2000
Loss before extraordinary item	$ (955)	$ (39,354)
Add back: goodwill amortization	3,415	3,851
Adjusted income (loss) before extraordinary item	$ 2,460	$ (35,503)
Reported net income (loss)	$ 9,413	$ (36,675)
Add back: goodwill amortization	3,415	3,851
Adjusted net income (loss)	$ 12,828	$ (32,824)
Basic and diluted income (loss) per share before extraordinary item:		
Reported income (loss) before extraordinary item	$ (0.03)	$ (1.53)
Goodwill	0.13	0.15
Adjusted basic and diluted income (loss) per share before extraordinary item	$ 0.10	$ (1.38)
Basic and diluted net income (loss) per share:		
Reported net income (loss)	$ 0.37	$ (1.43)
Goodwill	0.13	0.15
Adjusted basic and diluted net income (loss) per share	$ 0.50	$ (1.28)

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, QuadraMed establishes technological feasibility upon completion of a detailed program design as specified by SFAS 86 and determined on a project-by-project basis, which substantiates that the computer software product can be produced in accordance with its design specifications. 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.

Upon the general release of the product to customers, development costs for that product are amortized over the greater of the ratio that current revenues bear to total and anticipated future revenues for the applicable product or the straight-line method, generally five years. These amounts are charged to cost of licenses.

Other Intangible Assets - Other intangible assets primarily relate to acquired software, trademarks and customer lists acquired in QuadraMed's purchase business combinations. On January 1, 2002, QuadraMed 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 QuadraMed's financial condition or operating results.

On an annual basis, QuadraMed reviews its 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 $2.5 million, $2.7 million and $2.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Other intangible assets consist of the following (in thousands):

	December 31, 2002		
	Gross	Accumulated Amortization	Net
Customer lists	$ 13,602	$ (7,223)	$ 6,379
Acquired software	6,621	(5,059)	1,562
Other (1)	2,368	(1,034)	1,334
Total	$ 22,591	$ (13,316)	$ 9,275

Segments - In 2000, QuadraMed's operations were realigned into five

distinct business segments. With the sale of the EZ-CAP managed care software business in August 2001, and the sale of the Health Information Management Services Division in December 2002, QuadraMed is now managed in three distinct business segments. The segment results reflected in the consolidated financial statements have been restated to reflect the 2002 reorganization for both current and prior year data.

The 2000 realignment was undertaken to more closely arrange products targeted at shared markets, more accurately measure financial performance by product/division, and establish greater management accountability. To this end, QuadraMed further refined its operating segments during the first half of 2001 and again in the third quarter of 2001 to reflect the sale of the material components previously included in the Physician Services segment.

Property and Equipment, net - Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives, which are generally three years for computer equipment and purchased software and five years for office furnishings and equipment. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life (generally 10 years). Maintenance and repair costs are expensed as incurred. QuadraMed reviews property and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Stock Based Compensation - SFAS 123, Accounting for Stock Based Compensation, encourages, but does not require, companies to record compensation cost for stock based employee compensation plans at fair value. QuadraMed has 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 QuadraMed's stock at the date of the grant over the amount an employee must pay to acquire the stock.

QuadraMed has determined pro-forma information regarding net income and earnings per share as if we had accounted for employee stock options under the fair value method as required by SFAS No. 123. The fair value of these stock-based awards to employees was estimated using the Black-Scholes option pricing model. Please see below for assumptions used in the Black-Scholes option pricing model. Had compensation cost for the Company's stock option plan and employee stock purchase plan been determined consistent with SFAS No. 123, the Company's reported net income (loss) and net earnings (loss) per share would have been changed to the amounts indicated below (in thousands except per share data):

	Year ended December 31,		
	2002	2001	2000
Net loss as reported	$(14,362)	$ 9,413	$(36,675)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	812	205	2,032
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5,936)	(2,986)	(2,661)
Pro forma net loss	$(19,486)	$ 6,632	$(37,304)
Earnings per share:			
Basic - as reported	$ (0.53)	$ 0.37	$ (1.43)
Basic - pro forma	$ (0.72)	$ 0.26	$ (1.46)
Diluted - as reported	$ (0.53)	$ 0.37	$ (1.43)
Diluted - pro forma	$ (0.72)	$ 0.26	$ (1.46)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	Year ended December 31,		
	2002	2001	2000
Expected dividend yield	--	--	--
Expected stock price volatility	112.04%	109.60%	107.10%
Risk-free interest rate	2.74%	4.12%	6.51%
Expected life of options	5 years	5 years	5 years

Net Loss Per Share - Basic loss per share is determined using the weighted average number of common shares outstanding during the period. Diluted loss per share is determined using the weighted average number of common shares and common equivalent shares outstanding during the period. Common equivalent shares consist of shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and conversion of the subordinated debentures (using the as-converted method). Common equivalent shares are excluded from the diluted computation only if their effect is anti-dilutive.

As QuadraMed recorded a net loss for each of the years ended December 31, 2002, 2001 and 2000, before extraordinary items, no common equivalent shares are included in the diluted weighted average common shares for those periods.

If the Company had reported net income, the calculation of diluted earnings per share would have included an additional 1,255,000, 957,000 and 23,000 common stock equivalent shares not included for basic earnings per share for the years ended December 31, 2002, 2001 and 2000, respectively.

Comprehensive Income (Loss) - Comprehensive income (loss) includes net earnings (loss) and other changes to stockholders' equity not reflected in net income (loss). The components of comprehensive income (loss) are as follows (in thousands):

	Year ended December 31,		
	2002	2001	2000
Net Income (Loss)	$(14,362)	$ 9,413	$(36,675)
Other Comprehensive Income (Loss)			
Unrealized gain (loss) on available-for-sale securities, net of tax effect	21	28	321
Change in unrecognized pension costs, net of tax effect	137	834	(1,364)
Other comprehensive income (loss)	158	862	(1,043)
Comprehensive income (loss)	$(14,204)	$ 10,275	$(37,718)

Accumulated other comprehensive loss at December 31, 2002, 2001 and 2000, consists primarily of $137,000, $834,000 and $1.4 million of unrecognized pension costs, respectively.

Income Taxes - QuadraMed accounts for income taxes using the liability method pursuant to SFAS No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes.

Recent Accounting Standards - In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. The statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of SFAS No. 143 are required to be applied starting with fiscal years beginning after June 15, 2002. QuadraMed expects that implementation of the new standard will not have a significant impact on its financial condition, results of operations, and cash flows.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements

Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement updates and clarifies existing pronouncements relating to the 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. The provisions of SFAS No. 145 are required to be applied starting with fiscal years beginning after May 15, 2002. QuadraMed anticipates that implementation of this new standard will not have a significant impact on its financial condition, results of operations and cash flows however in connection with adopting this standard the Company will reclassify in the 2001 financial statements the extraordinary gain on the redemption of the debentures to other income.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, effective for exit or disposal activities initiated after December 31, 2002. Under SFAS 146 a liability for the cost associated with an exit or disposal activity is recognized when the liability is incurred. Under prior guidance, a liability for such costs could be recognized at the date of commitment to an exit plan. SFAS 146 also requires that the liability be measured and recorded at fair value. Accordingly, the adoption of this standard may affect the timing of recognizing future restructuring costs as well as the amounts recognized. QuadraMed will adopt the provisions of SFAS 146 prospectively for all restructuring activities initiated after December 31, 2002.

In November 2002, the FASB reached a consensus on EITF No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. The guidance in EITF 00-21 is effective for revenue arrangements entered into in fiscal years beginning after June 15, 2003. This issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one earnings process and, if it does, how to divide the arrangement into separate units of accounting consistent with the identified earning processes for revenue recognition purposes. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. The Company is evaluating the effect of this issue on its financial statements.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including indirect Guarantees of Indebtedness of Others. FIN 45 requires that QuadraMed recognizes the fair value for guarantee and indemnification arrangements issued or modified by QuadraMed after December 31, 2002, if these arrangements are within the scope of the interpretation. In addition, QuadraMed must continue to monitor the conditions that are subject to the guarantees and indemnifications,

as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If QuadraMed determines it is probable that a loss has occurred then any such estimable loss would be recognized under those guarantees and indemnifications. Some of the software licenses granted by QuadraMed contain provisions that indemnify licensees of QuadraMed's software from damages and costs resulting from claims alleging that QuadraMed's software infringes the intellectual property rights of a third party. QuadraMed has historically received only a limited number of requests for indemnification under these provisions and has not been required to make material payments pursuant to these provisions. Accordingly, QuadraMed has not recorded a liability related to these indemnification provisions. QuadraMed will be required to implement the provisions of FIN 45 as of January 1, 2003 and does not believe that FIN 45 will have a material impact on its financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. SFAS 148 amends SFAS 123, to provide alternative methods of transition to the voluntary fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require that disclosure of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed in tabular format within a Company's summary of significant accounting policies. The disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and have been incorporated into these financial statements and accompanying footnotes.

4. ACQUISITIONS AND DIVESTITURES

Acquisitions

Acquisition of Outstanding Shares of Pharmacy Data Systems, Inc.

On June 11, 2002, QuadraMed acquired all of the outstanding shares of Pharmacy Data Systems, Inc. ("PDS"), a leader in advanced pharmacy, nursing, and physician information systems, for $10.7 million, assumed liabilities of $1,237,000 and acquisition costs of $262,000. The consolidated financial statements include the results of operations of PDS since June 11, 2002. In connection with this acquisition, QuadraMed recorded an in-process research and development charge of $400,000.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Assets:	
Current assets	$ 856
Property and equipment	100
Goodwill	7,893
Other intangible assets (including in-process research and development)	3,350
	12,199
Liabilities:	

Current liabilities (including acquisition costs)	1,499
Net purchase price	$ 10,700

Other intangible assets of $3.4 million include in-process research and development, acquired technology, maintenance and other agreements and trademarks. Capitalized intangible assets are subject to amortization periods of one to five years. PDS is included within the Enterprise Segment of QuadraMed.

Acquisition of the Assets of Cascade Health Information Software, Inc.

On May 31, 2002, QuadraMed acquired the assets of Cascade Health Information Software, Inc., ("Cascade") a leading provider of software for the coding and abstracting of patient medical records, which was a subsidiary of Transcend Services, Inc., for $935,000, assumed liabilities of $346,000 and acquisition costs of $33,000. The purchase price was allocated $882,000 to goodwill, $222,000 to intangible assets (including maintenance agreements and existing technology), and $210,000 to tangible net assets. Cascade is included within the HIMS Software Segment of QuadraMed.

Pro forma results of operations for these business acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or aggregate basis.

Divestitures

Sale of the Assets of HIMS Services Division

On December 9, 2002, QuadraMed entered into an asset purchase agreement for the sale of certain assets used to conduct the HIMS Services division. On December 31, 2002, QuadraMed announced the closing of the sale of its HIM Services Division to Precyse Solutions, LLC. QuadraMed received $14 million in cash ($2.8 million of which was outstanding as of December 31, 2002 and paid in January 2003) and a $300,000 promissory note with a two-year term. ($1.5 million of the total sale price is to be held in escrow for 18 months.) QuadraMed recorded a gain of $8.8 million in connection with the sale. Total assets sold as part of the sale included net fixed assets of approximately $163,000 and net goodwill of approximately $5.1 million.

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

	Year ended December 31,		
	2002	2001	2000
Revenue	$ 17,313	$ 19,735	$ 32,857
Income (loss) from operations of discontinued operation	$ (2,280)	$ (2,539)	$ 2,679
Gain (loss) on disposal	8,776	--	--
Total income (loss) on discontinued operations	$ 6,496	$ (2,539)	$ 2,679

Sale of EZ-CAP Assets

On August 16, 2001, QuadraMed and its wholly-owned subsidiary, QuadraMed Operating Corporation, entered into an asset purchase agreement for the sale of certain assets and related products used to conduct the EZ-CAP managed care software business to OAO Transition, LLC, a Delaware limited liability company ("OAO Transition"), and OAO Technology Solutions, Inc., a Delaware corporation (individually and collectively "OAO"). The transaction closed on August 31, 2001. QuadraMed received net proceeds from the sale of $8.1 million and recorded a gain of $7.1 million during 2001. In addition, as part of the agreement, QuadraMed received $1.5 million in payments based on EZ-CAP's revenue growth and customer retention following the close of the transaction which was recorded as an additional gain on sale in October 2002. Income associated with the EZ-CAP operations for 2001 was $1.6 million.

Sale of Electronic Remittance Advice Product Line

On March 31, 2001, QuadraMed sold its Electronic Remittance Advice product line. The Company recorded proceeds from the sale of $24,000, and a loss after applicable taxes of $57,000.

Sale of the Assets and Liabilities of ROI Division

Pursuant to an Asset Contribution Agreement, dated May 3, 2000, QuadraMed transferred and assigned the assets and liabilities of its ROI Division to ChartOne. Under this agreement, QuadraMed transferred $13.9 million of assets (including $2.7 million of cash) and the guarantee of Health+Cast's $12.5 million line of credit to ChartOne and received $3.0 million in cash from sales of software licenses, which has been classified as a gain on the sale of ChartOne. Subsequently, pursuant to the terms of a Securities Purchase Agreement dated May 5, 2000, on June 7, 2000, ChartOne sold 2.52 million shares

of its Series A Preferred Stock, representing a 43% equity interest to the Warburg Group for $25.2 million in cash ($12.7 million in cash and $12.5 million of other consideration). On October 19, 2000, QuadraMed sold its remaining 57% interest in ChartOne, represented by 2.13 million shares of series B Preferred Stock, 1.2 million shares of Series C Preferred Stock and 1 share of Common Stock, to the Warburg Group for $26.6 million in cash, pursuant to a Securities Purchase Agreement dated September 28, 2000. QuadraMed recorded a gain of $27.2 million for the year ended December 31, 2000 related to the ROI sale.

5. CASH AND INVESTMENTS

Cash - QuadraMed maintains cash balances in accounts at various domestic banks and one brokerage firm. QuadraMed is insured by the Federal Deposit Insurance Corporation for up to $100,000 at each bank. Balances maintained at the brokerage firm are not insured. Cash and cash equivalents in excess of insured limits were approximately $22.9 million as of December 31, 2002.

Marketable Investments in Other Companies - From 1997 to 1999, QuadraMed made a series of investments, totaling $4.7 million, in VantageMed Corporation ("VantageMed"), a company that develops and sells software to physician groups. As of December 31, 2000, the fair market value of this investment (based upon its publicly-traded stock) was $637,000 and, accordingly, QuadraMed recorded an other-than-temporary impairment of $4.1 million (in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities) in the year 2000. As of December 31, 2002 and 2001, the fair value of the VantageMed investment was zero and $575,000, respectively. QuadraMed recorded impairment charges of $551,000 and $86,000 during 2002 and 2001, respectively to adjust the investment to its fair value.

Restricted Cash - Restricted cash reflects amounts to be restricted greater than 12 months and accordingly is included in non-current assets. Restricted cash consists primarily of funds deposited in connection with lease agreements, contract guarantees and funds escrowed in connection with the sale of HIM Services. These balances were $518,000, $3.9 million and $1.5 million, respectively, at December 31, 2002, and $737,000, $3.6 million and zero at December 31, 2001.

Non-Marketable Investments in Other Companies - In January 1999, QuadraMed loaned $3.6 million to Purkinje, Inc. ("Purkinje"), a company that develops and sells software to physician groups, pursuant to the terms and conditions of a convertible secured promissory note ("Purkinje Note"), which was amended on June 7, 2001. In Third Quarter 2001, Purkinje was unable to meet its obligations under the Purkinje Note and suspended interest payments. At that time and at Purkinje's request as full and final payment of all principal, interest, and related sums payable under the Purkinje Note, QuadraMed converted the amounts evidenced by the Purkinje Note to 5,677,560 shares of Purkinje Class A preferred shares. QuadraMed determined that the estimated fair value of the Purkinje Class A preferred stock was zero and recorded an impairment charge of $3.6 million in Third Quarter 2001. There have been no material changes in QuadraMed's opinion of the valuation of Purkinje Class A preferred stock and it remains at a recorded value of zero as of December 31, 2002.

QUADRAMED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2002

Unrealized Gains (Losses) on Available-for-Sale Securities - Cost or amortized cost, aggregate fair value, and unrealized gains (losses) by major security type are as shown in the following tables:

	Cost or Amortized Cost	Aggregate Fair Value	Unrealized Gain (Loss) on Available-for-Sale Securities
As of December 31, 2002 (in thousands):			
Short-term investments:			
Other short-term investments	$ 2,528	$ 2,528	$ --
Long-term investments:			
Debt securities issued by the United States Government	$ 706	$ 768	$ 62
Corporate debt securities	508	529	21
	$ 1,214	$ 1,297	$ 83
VantageMed Corporation, marketable equity security	$ --	$ --	$ --
Total unrealized gain			$ 83
As of December 31, 2001 (in thousands):			
Short-term investments:			
Debt securities issued by the United States Government	$ 34	$ 34	--
Other short-term investments	2,380	2,380	$ --
	$ 2,414	$ 2,414	$ --
Long-term investments:			
Debt securities issued by the United States Government	$ 531	$ 562	$ 31
Corporate debt securities	568	575	7
	$ 1,099	$ 1,137	$ 38
VantageMed Corporation, marketable equity security	$ 551	$ 575	$ 24

Total unrealized gain	$ 62

Proceeds from the sale of available-for-sale securities were $376,000, $12.2 million and $18.3 million during the years ended December 31, 2002, 2001 and 2000, respectively. Net realized gains (losses) were $14,000, $(14,000), and $(61,000) during the years ended December 31, 2002, 2001 and 2000, respectively.

Variable Life Insurance Policies - QuadraMed has an investment interest in 3 variable life insurance policies. Each of the variable life insurance policies provides for the investment of the cash value portion into various sub-accounts that are similar in nature to mutual funds. 2 policies are issued pursuant to split-dollar agreements with the former executives, and trusts established for their benefit make the investment decisions on these policies. The third policy is a corporate-owned policy that QuadraMed contributed to a grantor or "rabbi" trust established to make contributions to satisfy its obligations under the Supplemental Executive Retirement Plan (SERP) and 2 other subsequently terminated benefit plans (see note 16, Employee Benefit Plans, for further explanation of these plans). QuadraMed makes the investment decisions on this policy only. The performance of the variable life insurance policies for cash value and premium amounts will vary depending on the performance of the selected underlying sub-accounts. Pursuant to FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance, QuadraMed reports the amounts that could be realized under these variable life insurance contracts as an asset valued as of the statement of financial position date and treats the change in cash surrender value during the reported period as an adjustment of premiums paid in determining the expense or income to be recognized.

A reduction in the cash surrender value of the variable life insurance policies, future adverse changes in the condition of equity markets or poor operating results of the underlying policy sub-accounts could have an effect on QuadraMed's results of operations. The cash surrender values of the Split-dollar Life policies and the SERP Policy as of December 31, 2002 were each $1.8 million and $1.6 million, respectively, and at December 31, 2001, were each $1.7 million.

6. PROPERTY AND EQUIPMENT, NET

Property and Equipment, net consisted of the following (in thousands):

	December 31,	
	2002	2001

Computer equipment	$ 10,507	$ 9,273
Office furnishings and equipment	3,806	4,957
Purchased software	4,922	4,654
Leasehold improvements	2,954	1,073
Total cost	22,189	19,957
Less: Accumulated depreciation and amortization	(16,170)	(12,634)
Net book value	$ 6,019	$ 7,323

Depreciation expense was $3.9 million, $3.5 million, and $4.6 million for the years ended December 31, 2002, 2001 and 2000, respectively.

7. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Capitalized Software Development Costs - For the years ended December 31, 2002, 2001 and 2000, QuadraMed capitalized software development costs of $1.8 million, $1.8 million and $527,000, respectively. Operating costs for research activities prior to the establishment of technological feasibility and for product upgrades to improve product performance or to respond to updated regulations and business requirements are charged to research and development expense as incurred. Such expenditures, excluding capitalized amounts were $17.1 million, $14.4 million and $24.6 million in the years ended December 31, 2002, 2001 and 2000, respectively.

During 2000, QuadraMed recorded a $1.2 million charge to write-down certain capitalized software assets primarily related to its 1998 acquisition of Integrated Medical Networks, Inc. Amortization of capitalized software development costs charged to cost of licenses was $2.4 million, $2.0 million and $1.7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

8. LEASE OBLIGATIONS

QuadraMed leases its headquarters and all other facilities and certain equipment under operating leases, some of which contain renewal and purchase options, and a nominal portion of its equipment under capital lease arrangements. Future minimum payments under operating leases with an initial term of more than one year at December 31, 2002 are as follows (in thousands):

Operating

	Leases
2003	$ 4,981
2004	4,392
2005	3,942
2006	3,616
2007	3,629
Thereafter	9,880
Total minimum lease payments	$ 30,440

Rental expense was $6.6 million, $6.0 million, and $7.6 million for the years ended December 31, 2002, 2001 and 2000, respectively.

9. CONVERTIBLE SUBORDINATED DEBENTURES

On May 1, 1998, QuadraMed issued convertible subordinated debentures through a public offering in the principal amount of $115 million, including the underwriters' over-allotment option (the "Debentures"). QuadraMed's net proceeds from the offering were $110.8 million. The Debentures mature on May 1, 2005 and bear interest at 5.25% per annum. The Debentures are convertible into common stock at any time prior to the redemption or final maturity, initially at the conversion price of $33.25 per share (resulting in an initial conversion ratio of 30.075 shares per $1,000 principal amount).

Under the terms of the indenture and related documents, QuadraMed is obligated to redeem the Debentures earlier than the May 1, 2005 maturity date upon defined Events of Default, including failure to timely repay principal or interest under the Debentures, default under any other borrowing, and bankruptcy. Further, QuadraMed is obligated to provide holders of the Debentures with notice and the holders have the individual option to redeem the Debentures should QuadraMed (i) cease to be traded on a U.S. national securities exchange or cease to be approved for trading on a U.S. automated over-the-counter securities market or (ii) experience defined Changes of Control, including a merger in which QuadraMed is not the surviving entity or its shareholders do not control at least 50% of the new entity, the sale of substantially all of QuadraMed's assets, a liquidation, or a substantial change in the board of directors over a two-year period.

In the year ended December 31, 2001, QuadraMed redeemed and cancelled $41.3 million in principal amount of the Debentures at prices ranging between $530.00 and $697.50 per $1,000 of principal amount resulting in an extraordinary gain of $12.9 million after applicable taxes. As of December 31, 2002 and 2001, the outstanding principal amount of the Debentures was $73.7 million with a fair value of $63.3 million and $59.2 million at December 31, 2002 and 2001, respectively. Additionally, as of December 31, 2002, the unamortized debt issuance costs were approximately $900,000.

On April 16, 2003, QuadraMed announced that it had executed an agreement with certain of its bondholders to refinance $61.8 million of its 2005 Debt. See Footnote 22, Subsequent Events for further details.

10. STAND-BY LETTERS OF CREDIT

During the year ended December 31, 2001 QuadraMed opened $500,000 of

stand-by letters of credit under bank financing agreements. No stand-by letters of credit were opened in 2002. QuadraMed paid a 1% annual fee to renew its existing stand-by letters of credit and secured all of the stand-by letters of credit with certificates of deposit totaling $4.4 million recorded in the balance sheet as restricted cash at December 31, 2002 and 2001.

11. STOCK REPURCHASE PROGRAM

In June 2001, QuadraMed's board of directors approved a stock repurchase program under which QuadraMed was authorized to repurchase up to 6,000,000 shares of its common stock. QuadraMed intends to buy back its common stock at times when its market value presents opportunities to do so. The repurchase program is intended as a means to partially mitigate the dilutive impact of stock options and to provide an alternative investment for QuadraMed's excess

cash. The extent to which QuadraMed repurchases shares and the timing of such purchases will depend upon market conditions and other corporate considerations. As of December 31, 2001, 200,000 shares of QuadraMed common stock had been repurchased under the program. The shares were repurchased at an average price of $4.05 and a total purchase price, including acquisition costs, of $822,000 and were recorded as treasury stock. There were no stock repurchases in 2002.

12. WARRANTS

In connection with the acquisition of Linksoft Technologies, Inc. ("Linksoft") in June 1999, QuadraMed assumed warrants for the purchase of 6,424 shares of the Company's common stock at an exercise price of $0.03 per share. In 1999, the warrants were partially exercised and 5,396 shares of common stock were issued. At December 31, 2002, warrants that expire in March 2008 remain outstanding for 1,028 shares of common stock.

In connection with the acquisition of Compucare in March 1999, QuadraMed assumed warrants for the purchase of 24,563 shares of the Company's common stock. Warrants for 3,941 shares at an exercise price of $61.73 expired in December 2000. At December 31, 2002, warrants for a total of 20,622 shares of common stock remain outstanding with at an exercise price of $111.54 expiring January 2003; 2,690 at an exercise price of $223.09 expiring October 2005; and 6,724 at an exercise price of $0.15 expiring February 2006.

In December 1995, QuadraMed issued a warrant expiring in December 2005 to Trigon Resources Corporation ("Trigon") for the purchase of up to 134,574 shares of the Company's common stock at $3.75 per share pursuant to an Employment Agreement dated March 1, 1994 with James D. Durham, then QuadraMed's Chairman and Chief Executive Officer. Trigon is a Nevada corporation controlled by Mr. Durham. In October 2001, QuadraMed repurchased the warrant for $193,000 at which time the warrant was cancelled. The repurchase price was based on the sum of the difference between $3.75 and the 5-day trading average close price for QuadraMed's common stock for the week beginning October 29, 2001.

13. RESTRICTED STOCK GRANTS

During the years ended December 31, 2002 and 2001, QuadraMed issued an aggregate of 39,000 and 475,000 shares, respectively of its common stock as restricted stock under QuadraMed's 1996 Stock Plan. The grants were made to certain senior executives for no consideration. All of the restricted shares fully vest after a three-year period. QuadraMed has recorded the difference between fair market value of the restricted shares on the date the restricted stock purchase rights were granted, and the exercise price of such shares of the shares on that date as deferred compensation within the Stockholders' Equity (Deficit) section of the Consolidated Balance Sheet. In accordance with the provisions of SFAS 123, QuadraMed amortizes this amount, pro rata over the related vesting term as it expects the shares to vest. Any changes in the expected or actual outcome of the grants are considered to be changes in estimate and are accordingly, recognized in the period the change becomes known. In 2000, 30,000 restricted shares were cancelled upon the termination of a senior executive and a $498,000 adjustment to deferred compensation was recorded. In December 2002, a senior executive of QuadraMed was terminated with an effective date of January 1, 2003. In accordance with the provisions of his employment agreement, 57,000 unvested shares immediately vested upon his termination. Accordingly, QuadraMed recognized the remaining $277,000 associated with the accelerated vesting in 2002 as the vesting was a known event. Compensation expense associated with the grants of restricted stock totaling $812,000, $205,000, and $154,000 was recognized during the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, 514,000 restricted shares remained subject to vesting.

14. STOCK INCENTIVE AND PURCHASE PLANS

Stock Incentive Plans

QuadraMed has two main stock option plans: the 1996 Stock Incentive Plan and the 1999 Supplemental Stock Option Plan. In addition, QuadraMed adopted and amended the Compucare 1997 Stock Compensation Plan (the "Compucare Plan") and the Pyramid Heath Group, Inc. 1997 Employee and Consultant Stock Option Plan (the "Pyramid Plan") in connection with its acquisition of these entities. QuadraMed has made limited grants under the adopted plans. The terms and conditions of the options granted under the amended Compucare and Pyramid Plans are substantially similar to the terms and conditions of options granted under the 1996 Stock Incentive Plan.

1996 Stock Incentive Plan

Under QuadraMed's 1996 Stock Incentive Plan, (the "Incentive Plan"), the board of directors may grant incentive and nonqualified stock options to employees, directors, and consultants. The Incentive Plan is divided into the following 5 separate equity programs: (i) the discretionary option grant

program under which eligible persons may, at the discretion of the plan administrator, be granted options to purchase share of common stock; (ii) the salary investment option grant program under which eligible employees may elect to have a portion of their base salary invested each year in special option grants; (iii) the stock issuance program under which eligible persons may, at the discretion of the plan administrator, be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to QuadraMed; (iv) the automatic option grant program under which eligible non-employee board members shall automatically receive option grants at periodic intervals to purchase shares of common stock; and, (v) the director fee option program under which non-employee board members may elect to have all or any portion of their annual retainer fee otherwise payable in cash applied to a special option grant.

The exercise price per share for an incentive stock option cannot be less than the fair market value on the date of grant. The exercise price per share for a nonqualified stock option cannot be less than 85% of the fair market value on the date of grant. Option grants under the Incentive Plan generally expire 10 years from the date of grant and generally vest over a four-year period. Options granted under the Incentive Plan are exercisable subject to the vesting schedule. As of December 31, 2002, QuadraMed's stockholders had authorized a total of 7,022,687 shares of common stock for grant under the Incentive Plan. The Incentive Plan provides that the share reserve automatically increases each year by an amount equal to 1.5% of the outstanding shares on the last trading day of the immediately preceding calendar year.

1999 Supplemental Stock Option Plan

In 1999, QuadraMed's board of directors approved QuadraMed's 1999 Supplemental Stock Option Plan (the "1999 Supplemental Plan"). The 1999 Supplemental Plan permits non-statutory option grants to be made to employees, independent consultants, and advisors who are not QuadraMed officers, directors, or Section 16 insiders. The 1999 Supplemental Plan is administered by the board of directors or its Compensation Committee and terminates in March 2009. The exercise price of all options granted under the 1999 Supplemental Plan may not be less than 100% of fair market value on the date of the grant. Options vest on a schedule determined by the board of directors or the Compensation Committee with a maximum option term of 10 years. As of December 31, 2001, QuadraMed's stockholders had authorized a total of 4,000,000 shares of common stock, respectively, for grant under the 1999 Supplemental Plan.

For non-employee stock-based awards, QuadraMed uses SFAS No. 123, Accounting for Stock-Based Compensation, and recognized compensation expense of $33,000, $41,000 and zero in the years ended December 31, 2002, 2001 and 2000, respectively.

In accordance with SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models. These models require subjective assumptions, including future stock price volatility and expected time to exercise. QuadraMed's calculations are based on a multiple option valuation approach and forfeitures are recognized as they occur.

The weighted average fair value of options and restricted shares granted during 2002, 2001 and 2000 were $6.97, $1.17 and $1.44 per share, respectively. Option activity under the option plans is as follows (in thousands, except per share amounts):

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 1999	5,389	$ 12.23
Granted	3,447	2.11
Exercised	(299)	4.41
Cancelled	(2,823)	13.11
Balance, December 31, 2000	5,714	$ 5.62
Granted	986	3.50
Exercised	(276)	3.56
Cancelled	(677)	8.69
Balance, December 31, 2001	5,747	$ 5.28
Granted	1,462	7.91
Exercised	(433)	4.39
Cancelled	(753)	5.74
Balance, December 31, 2002	6,023	$ 5.36

The following table summarizes information about stock options and restricted shares outstanding as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/02	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable as of 12/31/02	Weighted Average Exercise Price
$ 0.81 - $ 2.50	2,666,492	7.16	$ 2.04	1,713,763	$ 2.04
$ 2.59 - $ 6.99	670,412	6.59	4.72	401,552	4.65
$ 7.00 - $ 9.13	2,079,577	7.58	8.46	981,007	8.29
$ 9.63 - $11.50	320,275	4.10	11.39	315,275	11.41
$12.00 - $16.63	187,244	2.40	15.90	187,244	15.90
$17.97 - $21.04	25,341	3.19	19.58	25,341	19.58
$22.38 - $24.38	53,291	5.26	23.23	53,291	23.23
$27.00 - $30.13	20,000	5.56	28.56	20,000	28.58
$ 0.81 - $30.13	6,022,632	6.89	$ 5.36	3,697,473	$ 6.05

Employee Stock Purchase Plan

QuadraMed's 2002 Employee Stock Purchase Plan (the "2002 Purchase Plan") was adopted by the Board of Directors in January 2002. A total of 333,450 shares of common stock are reserved for issuance under the 2002 Purchase Plan, pursuant to which eligible employees are able to contribute up to 10% of their compensation for the purchase of QuadraMed common stock at a purchase price of 85% of the lower of the fair market value of the shares on the first or last day of the six-month purchase period.

15. RELATED PARTY 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 received an option to purchase 20,000 shares of the Company's common stock at an exercise price of $2.42, which vested fully on July 31, 2001. Mr. Feshbach exercised this option on December 6, 2001 at a trade price of $8.30 and was attributed with $117,600 in income as a result of the exercise.

Michael J. King, a QuadraMed director, is a former officer of QuadraMed and was President of Compucare, acquired by QuadraMed in 1999. He is the Chief Executive Officer of Healthscribe, Inc. ("Healthscribe"), a provider of transcription services. Prior to Mr. King's appointment as Healthscribe's CEO, QuadraMed entered into a subcontract with Healthscribe for transcription services at a healthcare facility managed by QuadraMed. At the end of March 2001, this subcontract was terminated and the healthcare facility managed by QuadraMed contracted directly with Healthscribe for services. In the years ended December 31, 2001, 2000 and 1999, QuadraMed paid Healthscribe a total of $300,000,$1.3 million and $400,000, respectively.

16. EMPLOYEE BENEFIT PLANS

401(k) Savings Plan

QuadraMed maintains a 401(k) Savings Plan (the "Plan"). All eligible QuadraMed employees may participate in the Plan and elect to contribute up to 15% of pre-tax compensation to the Plan. Employee contributions are 100% vested at all times. At its discretion, QuadraMed may match employee contributions to the Plan. Presently, QuadraMed matches up to 50% of the first 4% of employee contributions. The vesting of such contributions is based on

the employee's years of service, becoming 100% vested after 4 years. For the years ended December 31, 2002, 2001 and 2000, QuadraMed made discretionary contributions of approximately $800,000, $900,000 and $1.0 million, respectively.

Deferred Compensation Plan

In January 2000, QuadraMed adopted a deferred compensation plan (the "DCP") to provide specified benefits to, and help retain, a select group of management and highly compensated employees and directors who contribute materially to QuadraMed's continued growth, development and future business success. The DCP was unfunded for tax purposes and for purposes of Title I of ERISA. The Compensation Committee was responsible, at its sole discretion, for the selection of employees and directors to participate in the DCP, and several employees were so selected. In February 2001, QuadraMed terminated the DCP pursuant to its terms effective January 1, 2001, returned any deferrals made for 2001, and made payments pursuant to the DCP for any deferrals made in 2000 from cash. For the years ended December 31, 2002, 2001 and 2000, QuadraMed made no discretionary contributions to the DCP.

Stock Exchange Deferred Compensation Plan

In January 2000, QuadraMed adopted a Stock Exchange Deferred Compensation Plan (the "SEDCP") to provide specified benefits to, and help retain, a select group of management and highly compensated employees who contribute materially to QuadraMed's continued growth, development and future business. The SEDCP was unfunded for tax purposes and for purposes of Title I of ERISA. The Compensation Committee was responsible, at its sole discretion, to select the employees to participate in the SEDCP. QuadraMed terminated the SEDCP pursuant to its terms in July 2001. For the year ended December 31, 2000, QuadraMed recorded compensation expense related to the SEDCP in the amount of $2.4 million. There were no expenses related to the SEDCP in 2001.

Supplemental Executive Retirement Plan (the "SERP")

QuadraMed adopted a Supplemental Executive Retirement Plan (the "SERP") effective January 1, 2000. The SERP is unfunded for purposes of the Internal Revenue Code and Title I of ERISA. In January 2000, the Compensation Committee selected James D. Durham, then QuadraMed's Chairman and Chief Executive Officer, and John A. Cracchiolo, then QuadraMed's Chief Operating Officer, for participation in the SERP.

The SERP provides a 20-year retirement benefit that commences at age 60 and is paid in monthly installments equal to the product of 0.05 multiplied by the participant's highest annual compensation in their last 10 years of employment with QuadraMed multiplied by the number of full years of service that a participant has had with QuadraMed (not to exceed 13) divided by 12. The SERP benefit is cliff-vested at 7 years required of plan participation with

QuadraMed. In the event of a change in control, a participant's death, disability, retirement or involuntary termination of employment, other than a termination of employment for cause, a participant becomes immediately vested in their SERP benefit. If the participant is involuntarily terminated, the SERP benefit is a lump sum equal to the actuarial equivalent of the SERP benefit using 13 years of service.

On June 12, 2000, QuadraMed executed separation agreements with Mr. Durham and Mr. Cracchiolo, thereby terminating their full-time employment. As part of his agreement, Durham remained a Director and a part-time employee, which ensured that he would continue to vest in the SERP. Pursuant to his separation agreement, Mr. Cracchiolo agreed to forfeit all of his rights under the SERP. As a result, Mr. Durham is the only participant in the SERP.

On July 31, 2001, QuadraMed and Mr. Durham amended his separation agreement ("Durham Separation Amendment"). Pursuant to the Durham Separation Amendment, QuadraMed and Durham agreed to (i) Durham's resignation as a Director, (ii) Durham's continued part-time employment through December 31, 2003, (iii) Durham's full vesting in the SERP benefit. Under SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, this amendment is a curtailment of the SERP requiring recognition of half of the remaining unamortized prior service costs, a charge of $616,000.

In accordance with SFAS No. 87, Employers' Accounting for Pensions, SFAS No. 88 and SFAS No. 130, QuadraMed recognized the following expenses for the SERP using an assumed discount rate of 6.75% and 7.0% for 2002 and 2001, respectively (in thousands):

	Year ended December 31,	
	2002	2001
Net Periodic Benefit Cost		
Service cost	$ 325	$ 310
Interest cost	170	146
Amortization of prior service cost	205	218
	700	674
Curtailment of SERP	--	616
Other Comprehensive Income	69	--
	$ 769	$ 1,290

As of the measurement date, December 31, the status of the SERP using an assumed discount rate of 6.75% and 7.0% for 2002 and 2001, respectively, was as follows (in thousands):

	December 31,	
	2002	2001
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,443	$ 1,987
Service cost	325	310
Interest cost	170	146
Actuarial losses	69	--
Benefit obligation at end of year	3,007	2,443
Change in plan assets (1)	--	--
Funded status	(3,007)	(2,443)
Unrecognized prior service cost	325	530
Unrecognized net actuarial loss	69	--
Accrued benefit obligation	(2,613)	(1,913)
Unfunded accumulated benefit obligation	(3,007)	(2,443)
Additional liability (2)	(394)	(530)
Intangible asset (3)	325	530
Impact on accumulated deficit	69	--
Benefit liability (4)	$ (3,007)	$ (2,443)

As of December 31, 2001, Mr. Durham had 8 years of service for purposes of calculating the SERP benefit. At the termination of Mr. Durham's part-time employment pursuant to the Separation Agreement and the Separation Amendment on December 31, 2003, Mr. Durham will have 10 years of service. Mr. Durham's highest annual compensation was and is expected to remain $777,492. Accordingly, the estimated annual SERP benefit for Mr. Durham totals $388,746 (.05 x $777,492 x 10). Mr. Durham will turn 60 in 2008 and will receive benefits under the SERP until 2027. The total payout of Mr. Durham's SERP benefit over the 20-year period is estimated to be $7.8 million.

QuadraMed Grantor or "Rabbi" Trust

In January 2000, contemporaneously with the establishment of the DCP, SEDCP, and the SERP (collectively, "Plans"), QuadraMed entered into a Grantor Trust Agreement with Wachovia Bank, NA ("Wachovia"), as trustee, establishing a grantor or "rabbi" trust ("Rabbi Trust") into which QuadraMed could make contributions to satisfy its obligations under the Plans ("Rabbi Trust Agreement").

Pursuant to the Rabbi Trust Agreement, QuadraMed is required to make

contributions to the Rabbi Trust in an amount equal to not less than 100%, but not more than 120%, of the amount necessary to pay all benefits due under the Plans on the date that a threatened change in control occurs. In the event a change in control does not occur within six months of the threatened change in control, QuadraMed has the right to recover such funds. Upon a change in control, QuadraMed is obligated to make an irrevocable contribution to the trust in an amount equal to not less than 100%, but not more than 120%, of the amount necessary to pay all benefits due under the Plans on the date the change in control occurs. QuadraMed is also obligated to fund a $125,000 expense reserve for the trustee upon a threatened change in control or a change in control. A "threatened change in control" is defined to include any pending offer for QuadraMed's outstanding shares of common stock, any pending offer to acquire QuadraMed by merger, or any pending action or plan to effect a change in control.

In conjunction with the establishment of the Plans in January 2000, QuadraMed purchased a corporate variable life insurance policy from the Travelers Insurance Company ("Travelers Policy") insuring the lives of 73

employees. Although the Company intended to use the Travelers Policy to fund the obligations under the Plans, it was not immediately assigned to the Rabbi Trust. The face amount of the Travelers Policy is $44.6 million and its maximum annual premiums are $2.0 million. At the time the Travelers Policy was issued, a calculation was performed that indicated the cash surrender value of Travelers Policy would be sufficient to satisfy the DCP and SEDCP benefits assuming QuadraMed mirrored its investment allocations with those of the participants. QuadraMed accounted for the DCP and SEDCP as defined benefit pension plans pursuant to SFAS No. 87, Employers' Accounting for Pensions. When QuadraMed terminated the DCP and SEDCP pursuant to their terms in February and July 2000, respectively, QuadraMed did not surrender the Travelers Policy. At the time, QuadraMed considered it more capital efficient to pay the benefits under the terminated DCP and SEDCP from cash rather than to surrender the tax-advantaged Travelers Policy. In July 2001, as part of the Durham Separation Amendment, QuadraMed agreed to contribute 5 annual payments of approximately $483,000 during the period from 2001 to 2005 ("Payments") to the Rabbi Trust. In addition, QuadraMed assigned the Travelers Policy to the Rabbi Trust as a funding mechanism for Mr. Durham's SERP benefit. At the time the Travelers Policy was contributed to the Rabbi Trust, a calculation was performed that indicated that the cash surrender value of the Travelers Policy plus the Payments would be sufficient to satisfy Mr. Durham's SERP benefits, assuming a 7% investment return.

Split-Dollar Life Insurance Policies

In November of 1998, QuadraMed entered into split-dollar insurance agreements with:

Mr. Durham and E.A. Roskovensky1, Trustee, for the James Dean Durham Irrevocable Trust ("Durham Trust") dated October 24, 1996 ("Durham Split-Dollar Agreement"); and,

Mr. Cracchiolo, Mr. Cracchiolo's spouse, and Vincent Cracchiolo, Trustee

for the Cracchiolo Irrevocable Family Trust ("Cracchiolo Trust") dated September 14, 1998 ("Cracchiolo Split-Dollar Agreement").

The Durham Split-Dollar Agreement and the Cracchiolo Split-Dollar Agreement are referred to collectively as the "Split-Dollar Agreements".

The purpose of the Split-Dollar Agreements was to assist Mr. Durham and Mr. Cracchiolo with their personal life insurance programs and ensure that their estates would have sufficient liquidity upon their deaths to avoid an estate tax induced liquidation of their QuadraMed holdings that could potentially destabilize the market for QuadraMed common shares. For the three months prior to the execution of the Split-Dollar Agreements, the average closing price of QuadraMed's common shares was $23.04.

Pursuant to the Durham Split-Dollar Agreement, (i) the Durham Trust purchased a variable life insurance policy from the John Hancock Variable Life Insurance Company ("John Hancock") in the amount of $10.0 million that covered Mr. Durham's life ("Durham Policy"); (ii) QuadraMed agreed to make to 5 annual premium payments of $519,066 from 1998 to 2002 to John Hancock, subject to repayment from the Durham Policy upon Mr. Durham's death or pursuant to the expected return of the policy in policy years 11 to 15; (iii) the Durham Trust collaterally assigned the Durham Policy to QuadraMed as security for the premiums to be paid by QuadraMed; (iv) Mr. Durham agreed to reimburse QuadraMed for the economic benefit attributable to the life insurance provided to the Durham Trust under the Durham Split-Dollar Agreement, which defined it to be the product of (a) the lower of (i) the P.S. 58 term life rates published by the government of the United States or (ii) John Hancock's one-year term insurance rate available for all standard risks; and (b) the excess of (i) the total death benefit then payable under the Durham Policy over (ii) the aggregate premiums paid by QuadraMed.

The terms and arrangements under the Cracchiolo Split-Dollar Agreement are the same as under the Durham Split-Dollar Agreement except that the amount of the death benefit under the John Hancock variable life insurance policy covering Mr. Cracchiolo and Mr. Cracchiolo's spouse is $2.5 million ("Cracchiolo Policy") and the amount of each of the 5 annual premium payments agreed to be advanced by QuadraMed from 1998 to 2002 is $33,244.

In 2002, QuadraMed made the final premium payment for both policies and is not obligated to fund any additional amounts.

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1 Mr. Roskovensky was subsequently elected to the QuadraMed Board of Directors on April 26, 1999.

As the owners of the John Hancock policies, the Durham Trust and the Cracchiolo Trust each direct the investment of the cash value portion of their respective John Hancock policies into various sub-accounts that are similar in nature to mutual funds. QuadraMed has no ability to direct the selection of sub-accounts. Thus, the performance of the Durham Policy and the Cracchiolo Policy for cash value and premium amounts will each vary depending on the performance of the underlying sub-accounts respectively selected by the Durham

Trust and the Cracchiolo Trust.

17. MAJOR CUSTOMERS

In the years ended December 31, 2002, 2001 and 2000, no single customer accounted for more than 10% of total revenues however, in 2002 sales to the U. S. government accounted for 21% of HIM Software Division revenues.

18. SEGMENT REPORTING

QuadraMed aligns its operations into three business segments for management reporting purposes. These segments are based on product functionality and shared target markets. This alignment allows management to more accurately measure financial performance by product/division and to establish greater management accountability. QuadraMed's business segments are (i) the Enterprise Division, (ii) the Health Information Management Software Division, and (iii) the Financial Services Division. The operations and assets of these segments are primarily located in the United States. QuadraMed reports the Enterprise Division, the Health Information Management Software Division, and the Financial Services Division as reportable segments in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies described in footnotes 2 and 3. The financial results for these operating segments for prior periods have been reclassified to conform to the current period presentation.

Results of operations for these business segments are provided to QuadraMed's Chief Operating Decision Maker (CODM), which is the Chairman of the Board and Chief Executive Officer.

Summary financial data by business segment as reported to the CODM is presented below for the years ended December 31, 2002, 2001 and 2000 (in thousands):

	Year ended December 31, 2002				
Description	Enterprise	HIM Software	Financial Services	Other (1)	Consolidated Total
Total revenue	$ 63,313	$ 30,988	$ 10,857	$ 4,427	$ 109,585
Gross margin (2)	$ 40,798	$ 18,474	$ 4,662	$ 423	$ 64,357
Interest expense, net	$ 1,528	$ 725	$ 504	$ 8	$ 2,765
Segment assets	$ 41,834	$ 38,099	$ 5,332	$ 41,662	$ 126,927

Total depreciation and amortization expense (3)	$ 2,105	$ 3,715	$ 600	$ 3,408	$ 9,828

	Year ended December 31, 2001				
Description	Enterprise	HIM Software	Financial Services	Other (1)	Consolidated Total
Total revenue	$ 61,780	$ 27,677	$ 15,459	$ 12,130	$ 117,046
Gross margin (2)	$ 36,953	$ 19,209	$ 10,618	$ 7,489	$ 74,269
Interest expense, net	$ 1,395	$ 710	$ 508	$ 94	$ 2,707
Segment assets	$ 30,758	$ 36,919	$ 6,103	$ 51,353	$ 125,133
Total depreciation and amortization expense (3)	$ 1,904	$ 5,839	$ 523	$ 3,520	$ 11,786

	Year ended December 31, 2000				
Description	Enterprise	HIM Software	Financial Services	Other (1)	Consolidated Total
Total revenue	$ 46,565	$ 20,779	$ 11,813	$ 41,855	$ 121,012
Gross margin (2)	$ 31,462	$ 14,709	$ 4,026	$ 8,851	$ 59,048
Interest expense, net	$ 2,270	$ 1,165	$ 844	$ 86	$ 4,365
Segment assets	$ 29,336	$ 36,000	$ 7,393	$ 76,557	$ 149,286
Total depreciation and amortization expense (3)	$ 1,235	$ 5,340	$ 1,065	$ 6,103	$ 13,743

19. OTHER OPERATING CHARGES

Restructuring charges of $7.1 million were incurred during the year ended

December 31, 2000. The charges consisted of $5.8 million associated with separation agreements for officers and $1.3 million for employee severance and closure of facilities. As of December 31, 2002, there is no remaining liability for restructuring costs.

20. INCOME TAXES

QuadraMed accounts for income taxes pursuant to SFAS No. 109, Accounting for Income Taxes, which provides for an asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax bases of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carryforwards. Deferred liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted.

The provision for income taxes consists of the following (in thousands):

	Year ended December 31,		
	2002	2001	2000
Current:			
Federal	$ --	$ --	$ 617
State	--	150	--
Total current	--	150	617
Deferred:			
Federal	2,518	(2,004)	9,881
State	2,315	187	1,183
Total deferred	4,833	(1,817)	11,064
Change in valuation allowance, net of the effect of acquisitions	(4,833)	1,817	(11,064)
Provision for income taxes	$ --	$ 150	$ 617

The tax effects of the temporary differences that give rise to significant

portions of deferred tax assets and liabilities are as follows (in thousands):

	December 31,		
	2002	2001	2000
Deferred tax assets:			
Research and development credits	$ 5,988	$ 5,109	$ 4,104
Net operating loss carryforwards	26,073	25,294	30,622
Deferred revenue	9,934	6,611	4,235
Intangible assets	9,707	9,683	10,070
Other	6,574	7,101	5,782
	58,276	53,798	54,813
Deferred tax liabilities:			
Other intangible assets	(2,468)	(2,785)	(2,785)
Depreciation	(880)	(1,218)	(116)
	(3,348)	(3,703)	(2,901)
Net deferred tax asset before allowance	54,928	50,095	51,912
Valuation allowance	(54,928)	(50,095)	(51,912)
Net deferred tax assets	$ --	$ --	$ --

Realization of deferred tax assets is primarily dependent on future taxable income, the amount and timing of which is uncertain given QuadraMed's history of losses. Therefore a valuation allowance has been recorded for the entire deferred tax asset. The valuation allowance is adjusted on a periodic basis to reflect management's estimate of the realizable value of the net deferred assets.

The reconciliation of the tax provision (benefit) computed at the statutory rate to the effective tax rate is as follows:

	Year ended December 31,		
	2002	2001	2000
Federal income tax rate	(34.0)%	34.0%	(34.0)%

Change in valuation allowance	25.7	(23.6)	28.0
Permanent tax differences	8.3	(10.5)	6.0
Other	--	1.7	1.7
Effective tax rate	0.0%	1.6%	1.7%

As of December 31, 2002, the Company had federal net operating loss carryforwards of approximately $76.1 million and state net operating loss carryforwards of approximately $2.0 million. In addition, the Company has gross federal and California research and development credit carryforwards of approximately $4.2 million and $1.8 million respectively. The federal net operating loss carryforwards and research and development credits will expire from 2011 through 2020.

The Tax Reform Act of 1986 contains provisions that may limit the amount of NOL and research and development credit carryforwards that may be used in any given year if certain events, including a significant change in ownership, occur. If there should be a subsequent "ownership change" of the Company, as defined, the ability to utilize its carryforwards could be restricted.

21. LITIGATION

In October 2002, a series of securities law class action complaints were filed in the United States District Court, California Northern District, against QuadraMed and certain of its 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 its business and financial condition between May 11, 2000 and August 11, 2002. The complaints seek unspecified monetary damages and other relief. These matters are at an early stage. No responses to the complaints have yet been filed, and no discovery has taken place. QuadraMed intends to defend itself vigorously against these allegations. However, the ultimate outcome of these matters cannot presently be determined.

22. SUBSEQUENT EVENTS

On February 28, 2003, QuadraMed reported that the SEC has issued a formal non-public order of investigation concerning QuadraMed's accounting and financial reporting practices for the period beginning January 1, 1998. QuadraMed intends to continue to cooperate with the SEC and has complied with the SEC's requests for information. QuadraMed cannot predict when the SEC will conclude its inquiry, or the outcome and impact thereof.

On March 4, 2003, QuadraMed's common stock was delisted from the Nasdaq National Market. The delisting constitutes a "Repurchase Event" under the provisions of the QuadraMed's Convertible Subordinated Debentures. Upon such an event, the Subordinated Indenture grants to each debenture holder the right, at the holder's option, to require QuadraMed to repurchase all or any of the holder's debentures. On April 16, 2003, QuadraMed announced that it had executed an agreement with certain of its bondholders to refinance its outstanding 5.25% Convertible Subordinated Debentures due 2005 (the "2005 Debt"). On April 17, 2003, under the terms of the refinance agreement, QuadraMed issued $71.0 million of its Senior Secured Notes due 2008 (the "2008 Debt"). The proceeds from the issuance of the 2008 Debt were used to repurchase $61.8 million (plus $1.5 million in accrued interest) of the 2005 Debt which became subject to repurchase by the Company as a result of its delisting from the NASDAQ National Market on March 4, 2003. Accordingly, the

net proceeds to QuadraMed as a result of the issuance of the 2008 Debt less the costs (including fees) associated with the repurchase of the 2005 Debt was $7.6 million, with $11.9 million of the 2005 Debt remaining outstanding. Additionally, the repurchase right on the 2005 Debt remaining outstanding expired on April 17, 2003. The 2008 Debt bears interest at an initial rate of 10% which will be reduced to 9% upon the relisting of QuadraMed's common stock on the Nasdaq, including Nasdaq SmallCap or U.S. National Market and is secured by certain intellectual property of QuadraMed. As part of the transaction,

QuadraMed also issued 11,303,842 detachable warrants with the 2008 Debt. The warrants have a term of five years, have an exercise price of $.01 per share and are subject to certain anti-dilution provisions including dilution from the issuance of shares in settlement of existing litigation. The 2008 Debt contains certain events of default. These events include: failure to timely repay principal or interest owed on the debentures, default under any other borrowing, and bankruptcy.

UNAUDITED QUARTERLY/SUPPLEMENTARY FINANCIAL INFORMATION

QuadraMed Corporation
Unaudited Quarterly Consolidated
Financial Data

(thousands of dollars, except per share amounts)	Quarter				
	First	Second	Third	Fourth	Total
2002					
Revenue	$ 27,180	$ 26,301	$ 25,591	$ 30,513	$ 109,585
Gross margin	$ 17,320	$ 15,831	$ 13,220	$ 17,986	$ 64,357
Loss from continuing operations	$ (624)	$ (2,415)	$(11,216)	$ (6,603)	$ (20,858)
Net income (loss)	$ (1,328)	$ (2,999)	$(11,456)	$ 1,421	$ (14,362)

Earnings (loss) per share					
Basic					
Continuing operations	$ (0.02)	$ (0.09)	$ (0.42)	$ (0.25)	$ (0.77)
Total	$ (0.05)	$ (0.11)	$ (0.43)	$ 0.05	$ (0.53)
Diluted					
Continuing operations	$ (0.02)	$ (0.09)	$ (0.42)	$ (0.24)	$ (0.77)
Total	$ (0.05)	$ (0.11)	$ (0.43)	$ 0.05	$ (0.53)
Weighted average shares outstanding					
Basic	26,809	26,941	26,950	26,960	26,915
Diluted	26,809	26,941	26,950	27,259	26,915

QuadraMed Corporation
Unaudited Quarterly Consolidated
Financial Data

(thousands of dollars, except per share amounts)	Quarter				
	First	Second	Third	Fourth	Total
2001					
Revenue	$ 25,921	$ 29,207	$ 29,755	$ 32,163	$ 117,046
Gross margin	$ 15,872	$ 17,421	$ 19,928	$ 21,048	$ 74,269
Loss from continuing operations	$ (4,434)	$ (991)	$ 2,748	$ 1,722	$ (955)
Extraordinary gain on redemption of debentures	$ --	$ 2,402	$ 10,505	$ --	$ 12,907
Net income (loss)	$ (4,829)	$ 1,214	$ 12,311	$ 717	$ 9,413
Earnings (loss) per share					
Basic					
Continuing operations	$ (0.17)	$ (0.03)	$ 0.11	$ 0.07	$ (0.04)
Total	$ (0.19)	$ 0.05	$ 0.48	$ 0.03	$ 0.37
Diluted					
Continuing operations	$ (0.17)	$ (0.03)	$ 0.10	$ 0.06	$ (0.04)
Total	$ (0.19)	$ 0.05	$ 0.46	$ 0.03	$ 0.37
Weighted average shares outstanding					

Basic	25,734	25,543	25,403	25,584	25,566
Diluted	25,734	25,543	27,057	27,408	25,566