QUADRAMED CORP
Form S-1/A
December 15, 2004
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As filed with the Securities and Exchange Commission on December 15, 2004

Registration No. 333-112040

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 4

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

QUADRAMED CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

12110 Sunset Hills Road

Reston, Virginia 20190

(703) 709-2300

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

Lawrence P. English

Chief Executive Officer

12110 Sunset Hills Road

Reston, Virginia 20190

(703) 709-2300

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

Copy to:

Morris F. DeFeo, Jr.

Miles & Stockbridge, P.C.

1751 Pinnacle Drive, Suite 500

McLean, Virginia 22102

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.01 per share	11,586,438(1)	$ 3.175(2)	$ 36,786,940(2)	$ 2,977(3)

(1) This number comprises shares of Common Stock (Shares) underlying warrants and Shares previously issued upon the exercise of warrants.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 (c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices for a share of Common Stock reported on the Over-The-Counter Bulletin Board as of January 15, 2004.
(3) Amount of registration fee previously paid to SEC with January 21, 2004 filing.

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

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

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED DECEMBER 15, 2004

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

QuadraMed Corporation

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

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

We issued warrants to purchase 11,586,438 shares of our common stock in April 2003. As of December 14, 2004, a total of 8,301,956 of these warrants had been exercised. The warrants have a term of 5 years, have an exercise price of $0.01 per share and are subject to certain anti-dilution provisions. The shares of common stock being registered in this registration statement constitute shares underlying, or issued upon the exercise of, these warrants.

Our common stock is currently traded on the American Stock Exchange (symbol: QD). As of December 14, 2004, the high and low prices for our common stock were $2.00 and $1.95 per share, respectively, on the American Stock Exchange.

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

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

The date of this prospectus is _____, 2004.

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

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PROSPECTUS SUMMARY

Our Company

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

Our products are designed to eliminate paper, improve processes, and decrease error through the efficient management of patient clinical and financial records. They are suitable for acute care hospitals, specialty hospitals, Veterans Health Administration facilities and associated/affiliated businesses such as outpatient clinics, long-term care facilities, and rehabilitation hospitals and are used by healthcare organizations of varying size from small single entity hospitals to large multi-facility care delivery organizations. Our products are sold as standalone, bundled, or fully integrated software packages. We also provide services to support the hospital s collection of receivables and its administration of contractual reimbursements from managed care companies. Approximately 2,000 healthcare provider facilities are utilizing at least one QuadraMed product.

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

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The Offering

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

Common Stock

Common Stock offered by the selling holders	Up to 11,586,438 shares, of which 8,301,956 shares are issued and outstanding and 3,284,482 shares which may be issued upon the exercise of warrants, held by the selling holders, including their transferees, pledgees, donees, or other successors.
Dividend Policy	We do not expect to pay dividends on our common stock in the foreseeable future. We anticipate that future earnings generated from operations, if any, will be retained to develop and expand our business. Our ability to pay dividends is restricted by the terms of our Series A Cumulative Mandatory Convertible Preferred Stock, which require us to pay full cumulative dividends on the Series A Preferred Stock before making any dividend payment on our common stock.
Plan of Distribution	The shares of common stock offered for resale may be sold by the selling holders pursuant to this prospectus in the manner described under Plan of Distribution .
Trading and Symbol	Our common stock currently trades on the American Stock Exchange market under the symbol QD.
Common Stock Outstanding	As of December 10, 2004, we had 40,041,017 shares of common stock outstanding.

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Recent Events

On June 17, 2004, we issued 4.0 million shares of Series A Cumulative Mandatory Convertible Preferred Stock (Series A Preferred Stock) in a private, unregistered offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 for aggregate gross proceeds of $100 million. The Series A Preferred Stock was sold for $25 per share and is convertible into shares of our common stock at an initial conversion price of $3.40 per share.

In June 2004, we commenced a cash tender offer, using $96.1 million of the net proceeds of the Series A Preferred Stock offering to repurchase all of our 10% Senior Secured Notes due 2008 (the 2008 Notes) and a redemption offer for our 5.25% Convertible Subordinated Notes due 2005 (the 2005 Notes). In July 2004, we completed the tender offer and repurchased all of the 2008 Notes. In August 2004, we completed the redemption of all of the 2005 Notes.

On June 30, 2004, we acquired, by merger, all of the issued and outstanding capital stock of Tempus Software, Inc. (Tempus), a Florida corporation located in Jacksonville, Florida. Tempus is a leading enterprise scheduling and patient access software provider. The preliminary purchase price consisted of $5.3 million in cash and approximately 2.6 million shares of our common stock. On the closing date of the acquisition, $0.6 million in cash and approximately 260,000 shares were deposited into an escrow account.

On August 5, 2004, our common stock was accepted for listing on the American Stock Exchange (AMEX). As of August 19, 2004, our stock is traded on the AMEX under the ticker symbol QD.

On October 26, 2004, our Board of Directors voted to amend our Bylaws to increase the size of the Company s Board of Directors from eight to nine. In connection with the increase in the size of the Board, James E. Peebles was elected to the Board.

On November 1, 2004, we announced the consolidation of the Chief Executive Officer and Chief Operating Officer positions effective December 31, 2004. Lawrence P. English, current Chairman and Chief Executive Officer will assume both roles. Michael S. Wilstead, current President and Chief Operating Officer, will step down from his responsibilities at that time.

On November 15, 2004, the Company received a letter from MedCath Incorporated (MedCath), which provided notice of MedCath s decision to terminate the Master Software License and Services Agreement, dated November 20, 2002, by and between QuadraMed Affinity and MedCath, and all other incorporated agreements (collectively, the Contract). On or about November 15, 2004, MedCath filed a complaint in the North Carolina Superior Court, County of Mecklenburg. In its complaint, MedCath alleges that the Company is in breach of this Contract in respect of uncured deficiencies in the products and performance obligations under the Contract and seeks at least $5 million in damages, plus litigation costs. The Company believes that these allegations are without merit and that the termination of the Contract is unwarranted. On December 9, 2004, the Company filed a motion to dismiss the MedCath complaint on the grounds that the complaint fails to state a claim upon which relief can be granted. The Company also filed a counterclaim against MedCath seeking no less than $1.14 million in damages for MedCath s breach of the Contract by failing to pay licensing fees due to the Company. The Company will vigorously defend itself against any claim that it has breached the Contract and will seek redress through all applicable remedies of any injuries suffered by the Company in connection with this matter.

On December 6, 2004, in connection with the Company s litigation with the Company s former Chief Executive Officer, James Durham, involving Mr. Durham s Separation Agreement and payments by the Company to Supplemental Employee Retirement Plan (the SERP) Trust for Mr. Durham, the United States District Court, Northern District of California, entered an Order granting Mr. Durham s motions, ruling that Mr. Durham s alleged breach of the non-disparagement provision in the Separation Agreement was not a material breach of that contract sufficient to excuse QuadraMed from its obligations under the SERP. The determination of the amount of Mr. Durham s SERP benefit remains outstanding and, unless resolved through compromise settlement, will be the subject of the trial which remains scheduled for May 23, 2005. The Company intends to continue to vigorously defend this action unless an acceptable settlement can be reached. The ultimate outcome of these matters cannot presently be determined.

As disclosed in the Company s Current Report on Form 8-K filed on December 15, 2004, on December 14, 2004, the Company gave notice to its Financial Services Division employees and customers that, effective February 14, 2005, the Financial Services Division will be permanently discontinued. Over the past several years the Company has invested heavily in software and facilities in order to compete successfully in the financial services market. As this niche industry became more competitive and the quality of inventory eroded and margins were undercut by low-end service providers, it became more challenging for this business unit of the Company to be profitable. The Company explored a range of alternatives, including divestiture of the business, in an effort to continue to provide jobs for the Division s employees and service to the Division s customers. The Company was unsuccessful in those endeavors. Consequently, consistent with its plan to focus management attention and financial resources on its core software business units, the Company decided to cease trying to compete in the financial services market and to discontinue its Financial Services Division. As of the date of this prospectus, the Company has not determined (i) each major type of cost resulting from the discontinued operation, (ii) the total amount of costs that it will incur in connection with the action and (iii) the total amount of the accounting charge related to the discontinued operation.

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Summary Consolidated Financial Data

The following selected financial data for the fiscal years ended December 31, 2003, 2002, 2001, 2000, and 1999 included herein is derived from our audited consolidated Financial Statements and related notes thereto. The financial data for the nine months ended September 30, 2004 and 2003 are derived from the unaudited interim condensed consolidated Financial Statements included elsewhere in this prospectus, are prepared on the same basis as our audited consolidated Financial Statements, and include all adjustments, consisting of only normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and results of operations at and for such periods. This selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations , and the audited consolidated Financial Statements and related notes thereto and the unaudited interim condensed consolidated Financial Statements and related notes thereto included elsewhere in this prospectus. Historical results are not necessarily indicative of future results.

	Nine months ended September 30,		Year ended December 31,				
(in thousands, except per share amounts)	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)					
Consolidated Statement of Operations Data:							
Revenue	$ 100,439	$ 88,373	$ 125,105	$ 109,585	$ 117,046	$ 121,012	$ 173,707
Gross margin	$ 57,191	$ 48,891	$ 77,984	$ 64,480	$ 74,269	$ 59,048	$ 113,121
Restatement costs			$ 7,461	$ 7,463	$	$	$
Sales & marketing, general & administrative	$ 43,478	$ 43,628	$ 66,416	$ 59,826	$ 55,975	$ 80,802	$ 89,181
Software development	$ 21,082	$ 17,371	$ 22,203	$ 17,061	$ 14,813	$ 24,573	$ 30,675
Amortization of intangible assets and depreciation[(1)]	$ 3,713	$ 4,503	$ 5,523	$ 6,198	$ 9,069	$ 11,126	$ 10,459
Loss from operations	$ (11,082)	$ (16,611)	$ (16,158)	$ (18,605)	$ (5,588)	$ (57,465)	$ (48,706)
Interest expense	$ (5,195)	$ (6,766)	$ 9,439	$ 3,461	$ 4,741	$ 6,504	$ 7,668
Gain (loss) on redemption or retirement of debt	$ (14,871)	$	$	$	$ 12,907	$	$
Income (loss) from continuing operations	$ (30,502)	$ (22,193)	$ (23,943)	$ (20,858)	$ 11,952	$ (39,354)	$ (52,527)
Gain on disposal of discontinued operations	$	$	$	$ 8,776	$	$	$
Net income (loss)	$ (30,502)	$ (22,193)	$ (23,943)	$ (14,362)	$ 9,413	$ (36,675)	$ (47,388)
Net income (loss) attributable to common shareholders	$ (31,850)	$ (22,193)	$ (23,943)	$ (14,362)	$ 9,413	$ (36,675)	$ (47,388)
Basic income (loss) per share from continuing operations	$ (0.92)	$ (0.82)	$ (0.87)	$ (0.77)	$ 0.47	$ (1.53)	$ (2.20)
Basic net income (loss) per share	$ (0.92)	$ (0.82)	$ (0.87)	$ (0.53)	$ 0.37	$ (1.43)	$ (1.99)
Diluted income (loss) per share from continuing operations	$ (0.92)	$ (0.82)	$ (0.87)	$ (0.77)	$ 0.45	$ (1.53)	$ (2.20)
Diluted net income (loss) per share	$ (0.92)	$ (0.82)	$ (0.87)	$ (0.53)	$ 0.35	$ (1.43)	$ (1.99)

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(in thousands)	As of September 30, 2004	As of December 31, 2003	2002	2001	2000	1999
	(unaudited)					
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short term investments	$ 26,032	$ 36,944	$ 26,191	$ 32,213	$ 39,664	$ 29,732
Total assets	$ 129,754	$ 133,155	$ 126,927	$ 125,133	$ 149,286	$ 201,759
Deferred revenue	$ 45,472	$ 48,502	$ 39,492	$ 30,721	$ 22,489	$ 7,258
Working capital	$ (13,271)	$ 13,008	$ 18,137	$ 32,509	$ 46,107	$ 61,030
Long-term debt [2]	$	$ 84,225	$ 73,719	$ 73,719	$ 115,000	$ 115,000
Stockholders equity (deficit)	$ 43,400	$ (16,883)	$ (7,235)	$ 4,221	$ (7,166)	$ 27,512

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

(2) Does not include $0 at September 30, 2004 and $11.1 million at December 31, 2003 of unamortized discount associated with warrants issued in connection with the 2008 Notes. This unamortized discount was written off in connection with the retirement of the underlying debt.

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RISK FACTORS

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

We Have Incurred Losses from Continuing Operations for the Past Five Years, Except 2001. Our Losses Have Adversely Affected Our Ability to Compete.

We incurred losses from continuing operations of $23.9 million and $20.9 million for the years ended December 31, 2003 and 2002, respectively. We also incurred a loss from continuing operations of $30.5 million for the nine months ended September 30, 2004. Although we had income from continuing operations of $12.0 million in 2001, we incurred losses from continuing operations of $39.4 million in 2000.

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

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

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

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

the accounting and reporting of capitalized software development costs,

the accounting for income taxes,

the documentation supporting the accounting for certain business combinations, and

timely analysis and reconciliation of general ledger accounts.

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

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

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

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

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

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

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

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

The Company has now implemented procedures to report movements in deferred revenue on an overall roll forward basis. We are also in the process of upgrading our computer software which is expected to be completed in the fourth quarter of 2004. The Company believes the costs associated with implementing these processes and computer software to be immaterial.

In its report, BDO also identified reportable conditions related to:

internal controls over analysis and review of customer contracts;

the revenue transactions cycle;

unbilled and deferred revenue balances; and

percentage of completion revenue recognition.

The Company is addressing these items by implementing the following procedures:

documenting the formal review of contracts in the determination of proper revenue accounting;

redesigning the contracting process and review procedures;

upgrading computer software relating to contracts and billing; and

strengthening documentation standards and maintaining detailed historical records for each customer for revenue recognition.

These material weaknesses and reportable conditions in internal control over financial reporting have been discussed in detail among management, our Audit Committee and BDO. Management has adopted a plan to resolve these issues, as detailed above, and believes that the overriding issue is the lack of documented accounting policies and procedures along with inadequate accounting information technology and certain other accounting information processes.

Failure to Achieve and Maintain Effective Internal Controls Could Have a Material Adverse Effect on Our Business, Operating Results and Stock Price.

We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our Independent Auditors addressing these assessments. As indicated in the previous risk factor, our auditors have identified a material weakness and certain reportable conditions in internal control over financial reporting. During the course of our testing we may identify other deficiencies. We may not be able to remediate such material weakness or reportable conditions and deficiencies in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

Additional Costs for Complying With Recent and Proposed Future Changes in Securities and Exchange Commission, American Stock Exchange and Accounting Rules Could Adversely Affect Our Profits.

Recent and proposed future changes in the Securities and Exchange Commission and American Stock Exchange rules, as well as changes in accounting rules, will cause us to incur additional costs including professional fees, as well as additional personnel costs, in order to keep informed of the changes and operate in a compliant manner. In addition, we expect to incur additional general and administrative expense as we implement Section 404 of the Sarbanes-Oxley Act of 2002, which requires management to report on, and our independent auditors to attest to, our internal controls. These additional costs may be significant enough to cause our financial position and results of operation to be negatively impacted. In addition, compliance with these new rules could also result in continued diversion of management s time and attention, which could prove to be disruptive to our normal business operations. Failure to comply with any of the new laws and regulations could adversely impact market perception of our company, which could make it difficult to access the capital markets or otherwise finance our operations in the future.

Our Ability to Borrow or Issue Additional Shares of Preferred Stock Is Restricted by the Terms of Our Series A Preferred Stock.

The certificate of designation governing our Series A Preferred Stock provides that so long as at least 600,000 shares of Series A Preferred Stock are outstanding, at least 66 2/3% of the votes entitled to be cast by the holders of the Series A Preferred Stock shall be required to approve the incurrence by QuadraMed of any long term, senior indebtedness of QuadraMed in an aggregate principal amount exceeding $8,000,000, excluding certain prior existing indebtedness. Furthermore, the certificate of designation requires the affirmative vote of a majority of any outstanding shares of the Series A Preferred Stock prior to the authorization or creation of, or increase in the authorized amount of, any shares of any class or series (or any security convertible into shares of any class or series) ranking senior to or on par with the Series A Preferred Stock in the distribution of assets upon any liquidation, dissolution or winding up of QuadraMed or in the payment of dividends. This may hinder or delay our ability to borrow funds or issue Preferred Stock.

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

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

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

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

The American Stock Exchange and stock markets in general, have historically experienced extreme price and volume fluctuations that have affected companies unrelated to their individual operating performance. The trading price of our common stock has been and is likely to continue to be volatile due to such factors as:

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

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

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

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

Variability in demand for products and services;

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

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

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

Loss of customers due to consolidation in the healthcare industry;

Delays in product delivery requested by our customers;

Customer budget cycle fluctuation;

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

Costs incurred for marketing and sales promotional activities;

Software defects and other product quality factors;

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- General economic conditions and their impact on the healthcare industry;
- Cooperation from competitors on interfaces and implementation when a customer chooses a QuadraMed software application to use with various vendors;
- Delays in implementation due to product readiness, customer induced delays in training or installation, and third party interface development delays;
- Final negotiated sales prices of systems;
- Federal regulations (*i.e.*, OIG, HIPAA, ICD-10) that can increase demand for new, updated systems;
- Federal regulations that directly affect reimbursements received, and therefore the amount of money available for purchasing information systems; and
- The fines and penalties a healthcare provider or system may incur due to fraudulent billing practices.

In addition to the foregoing, a significant percentage of our total cost of revenue is attributable to the cost of third party software royalties and licenses relating to third party software embedded within our software applications. The cost of third-party software royalties and licenses, as a percentage of total cost of revenue, was approximately 19.0% and 21.0% for the quarters ended September 30, 2004 and 2003, and 9.1%, 9.6% and 6.5% for the years ended December 31, 2003, 2002 and 2001, respectively. Generally, royalty fees for third party licenses will fluctuate based on revenue or the number of our customers and therefore will fluctuate on a quarter to quarter basis.

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

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

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

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

Our Board of Directors has the authority to issue up to five million shares of Preferred Stock and to determine the price, rights, preferences, privileges, and restrictions, including voting rights, of those shares without any further vote or action by holders of our common stock. If Preferred Stock is issued, the voting and other rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of our Preferred Stock. The issuance of Preferred Stock may have the effect of delaying or preventing a change of control of QuadraMed that could have been at a premium price to our stockholders. Our Board of Directors has issued four million shares of such Preferred Stock as Series A Preferred Stock and the holders of the Series A Preferred Stock have certain voting and board appointment rights.

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

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

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

We have not declared or paid cash or other dividends on our common stock and do not expect to pay cash dividends for the foreseeable future. Our ability to pay dividends is also restricted by the terms of our Series A Preferred Shares which require us to pay full cumulative dividends on the Series A Preferred Stock before making any dividend payment on our common stock. We currently intend to retain all future earnings for use in the operation of our business and to fund future growth. Any future cash dividends will depend upon our results of operations, financial conditions, cash requirements, the availability of a surplus and other factors.

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

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

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

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

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

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

At present, there is no equivalent technology for the InterSystems Corporation technology which is an integral component of our Affinity product line. The Company has entered into several agreements with InterSystems Corporation regarding the licensed technology relating to our Affinity product line. However, if InterSystems Corporation ceased to offer this technology and no other vendor provided the technology, we would be required to migrate our Affinity products to a new database platform or redesign our products to work with new software tools. This could be very costly and difficult to achieve and could have a material adverse effect

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on our business, financial condition and results of operations. There can be no assurance that we would successfully migrate our Affinity products to a new platform. Most of our third-party licenses are non-exclusive and competitors may obtain the same or similar technology. In addition, if vendors choose to discontinue support of the licensed technology, we may not be able to modify or adapt our products.

We Face Product Development Risks Associated with Rapid Technological Changes.

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

- Offer a broad range of software products;
- Enhance existing products and expand product offerings;
- Respond promptly to new customer requirements and industry standards;
- Remain compatible with popular operating systems and develop products that are compatible with the new or otherwise emerging operating systems; and
- Develop new interfaces with competing HIS vendors to fully integrate our Quantim product suite in order to maximize features and functionality of the new products.

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

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

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

Pursuant to SFAS No. 142, we must test goodwill and other intangible assets for impairment at least annually and adjust them when impaired to the appropriate net realizable value. We performed an impairment test on the carrying value of our goodwill and intangibles as of January 1, 2004 and 2003. We determined that there was no impairment as of these dates. In addition, our internally developed software has been

capitalized assuming our earnings from these product developments exceeds the costs incurred to develop them. If it is determined that these assets have been impaired and our future operating results will not support the existing carrying value of our intangible assets, we will be required to adjust the carrying value of such assets to net realizable value.

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

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

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

Loss of customers and revenue;

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Delay in market acceptance;

Diversion of resources;

Damage to our reputation; or

Increased service and warranty costs.

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

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

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

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

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

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

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

The health care industry in the United States is subject to changing political, economic, and regulatory influences that may affect the procurement practices and operations of health care 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 health care financing and reimbursement systems were to change. During the past several years, the health care industry has been subject to increasing levels of governmental regulation. Proposals to reform the health care system have been and are being considered by the United States Congress. These proposals, if enacted, could adversely affect the commercial value and appeal of our products or change the operating environment of our customers in ways that cannot be predicted. Health care 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 health care organizations to curtail or defer investments in non-HIPAA related features in the next several years.

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

We cannot accurately forecast the timing of customer purchases due to the complex procurement decision processes of most healthcare providers and payers. How and when to implement, replace, expand or substantially modify an information system are major decisions for hospitals, and such decisions require significant capital expenditures by them. As a result, we typically experience

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sales cycles that extend over several quarters. In particular, our Affinity enterprise software has a higher average selling price and longer sales cycle than many of our other products. As a result, we have only a limited ability to forecast the timing and size of specific sales, making the prediction of quarterly financial performance more difficult.

We Operate in a Highly Competitive Market.

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

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

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

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

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

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

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

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

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

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

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

Interruption, disruption or delay of our ongoing business;

Distraction of management s attention from other matters;

Additional operational and administrative expenses;

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- Difficulty managing geographically dispersed operations;
- Failure of acquired businesses to achieve expected results, resulting in our failure to realize anticipated benefits;
- Write-down or reclassification of acquired assets;
- Failure to retain key acquired personnel and difficulty and expense of training those retained;
- Increases in stock compensation expense and increased compensation expense resulting from newly hired employees;
- Assumption of liabilities and potential for disputes with the sellers of acquired businesses;
- Customer dissatisfaction or performance problems related to acquired businesses;
- Failure to maintain good relations with customers or suppliers;
- Exposure to the risks of entering markets in which we have no direct prior experience and to risks associated with market acceptance of acquired products and technologies; and
- Platform and technical issues related to integrating systems from various acquired companies.

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

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

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

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

Computer products used or intended for use in the diagnosis, cure, mitigation, treatment, or prevention of diseases or other conditions or that affect the structure or function of the body are subject to regulation by the FDA under the Federal Food, Drug and Cosmetic Act. At present,

none of our software products are so regulated. In the future, the FDA could determine that some of our products, because of their predictive aspects, are clinical decision tools and subject them to regulation. Compliance with FDA regulations could be burdensome, time consuming, and expensive. Other new laws and regulations affecting healthcare software development and marketing also could be enacted in the future. If so, it is possible that our costs and the length of time for product development and marketing could increase and that other unforeseeable consequences could arise.

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

There is substantial state and federal regulation of the confidentiality of patient health information and the circumstances under which such information may be used by, disclosed to or processed by us as a consequence of our contacts with various heath plants and health care providers. Although compliance with these laws and regulations is presently the principal responsibility of the health plan, hospital, physician, or other healthcare provider, regulations governing patient confidentiality rights are dynamic and rapidly evolving. As such, laws and regulations could be modified so that they could directly apply to us, Also, 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. Also, additional federal and state legislation governing the dissemination of patient health information may be proposed and may be adopted, which may also significantly affect our business. Finally, certain existing laws and regulations require health care entities to pass-on their obligations to other entities with which they do business, through a contract; as such, QuadraMed is indirectly impacted by various additional laws and regulations.

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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, referred to as protected health information or PHI . As directed by HIPAA, the United States Department of Health and Human Services (HHS) must promulgate standards or rules and implementation guidelines for certain electronic health transactions, code sets, data security, unique identification numbers, and privacy of protected health information. HHS has issued some of these regulations in final form while others remain in development. In general, under these rules, we function as a business associate to our customers (who are considered to be covered entities under HIPPA). In some instances, we also may function as a health care clearinghouse. The three rules relevant to QuadraMed the Transaction Rule, the Privacy Rule, and the Security Rule are discussed below. It is important to note that, HHS could, at any time in the future, modify any existing final rule in a manner that could require us to change our systems or operations.

First, HHS has published a final rule governing transaction and code set standards (Transactions Rule). This rule, had a compliance date of October 16, 2003. To the extent necessary to help our covered entity customers conduct transactions, our current products and services meet the requirements of HIPPA. Nevertheless, as noted above, HHS may make further revisions to the Transactions Rule which could require us to change our products and systems to enable our covered entity customers to meet such obligations.

Second, HHS has published a final HIPAA privacy rule (Privacy Rule) which had a compliance date of April 14, 2003. The Privacy Rule is complex and far reaching. Similar to the HIPAA Transactions Rule, and as noted above, the Privacy Rule directly applies to covered entities. Also, covered entities are, in most instances, required to execute a contract with any business associate that performs certain services on the covered entity s behalf involving protected health information. QuadraMed s hospital and health plan customers are covered entities, and to the extent that QuadraMed performs services on their behalf involving protected health information. QuadraMed is required by its customer contracts to ensure that it complies with various aspects of the Privacy Rule.. The Privacy Rule and other similar state health care privacy regulations could materially restrict the ability of health care providers to disclose protected health information from patient records using our products and services or could require us to make additional capital expenditures to be in compliance. Accordingly, the 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. Further, in QuadraMed s capacity as a health care clearinghouse, it is directly subject to the Privacy Rule s requirements.

Third, HHS has published the final HIPAA security rule (Security Rule) with a compliance date of April 20, 2005. The Security Rule applies to the use, disclosure, transmission, storage and destruction of electronic protected health information by covered entities. Per this Rule, Covered entities must implement stringent administrative technical and physical security measures to safeguard electronic protected health information. Implementing such measures (for our own compliance and as part of the services we provide to our customers) may require us to expend substantial capital due to required product, service, and procedure changes.

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

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

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

capital and decrease future business prospects for our current product line.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including the statements made in the section of the prospectus under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations regarding our strategy, future operations, future expectations or future estimates, financial position and objectives of management. In some cases, you can identify forward-looking statements by terminology such as believes, anticipates, plans, should, expects, predicts, intends, estimates, may, will , could , would , pro forma , seek , continue or comparable terminology. Not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions relating to our operations, results of operations, competitive factors, shifts in market demand and other risks and uncertainties. These statements are only predictions and we can give no assurance that such expectations will prove to be correct.

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

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and actual results may differ from those indicated by the forward-looking statements included in this prospectus. You should not place undue reliance on these forward-looking statements. In light of the significant uncertainties inherent in the forward-looking statements included in this prospectus, you should not consider the inclusion of such information as a representation by us or anyone else that we will achieve such results. We undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise. You are advised, however to consult any further disclosures we make in our subsequent current reports on Form 8-K, quarterly reports on Form 10-Q, annual reports on Form 10-K and other reports filed with the SEC.

WHERE YOU CAN FIND MORE INFORMATION

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

We file quarterly and annual reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the public reference facilities of the SEC in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC s web site at http://www.sec.gov and on our website, http://www.quadramed.com, where all of our current SEC filings can be accessed free of charge as soon as reasonably practicable after they are filed with the SEC. Our SEC filings are also available at the office of the American Stock Exchange. For further information on obtaining copies of our public filings at the American Stock Exchange, please call 212-306-1331.

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission to register the resale of the common stock issued or issuable to the selling holders as explained in this prospectus. As permitted by the SEC s rules, this prospectus does not contain all of the information you can find in the registration statement or the exhibits to the registration statement. This prospectus summarizes some of the documents that are exhibits to the registration statement, and you should refer to the exhibits for more complete information as to the matters covered by these documents.

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

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

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

USE OF PROCEEDS

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

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PRICE RANGE OF OUR COMMON STOCK

Our common stock currently trades on the American Stock Exchange market under the symbol QD .

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

Start Date	End Date	Market	Symbol
October 9, 1996	August 29, 2000	Nasdaq National Market	QMDC
August 30, 2000	May 22, 2002	Nasdaq SmallCap Market	QMDC
May 23, 2002	August 22, 2002	Nasdaq National Market	QMDC
August 23, 2002	March 3, 2003	Nasdaq National Market	QMDCE
March 4, 2003*	Present	Pink Sheets	QMDC.PK
December 10, 2003	August 18, 2004	Over the Counter Bulletin Board	QMDC.OB
August 19, 2004	Present	American Stock Exchange	QD

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

On December 14, 2004, the high and low prices for our common stock on the American Stock Exchange were $2.00 and $1.95 per share respectively. On August 2, 2004, there were 367 holders of record and approximately 5,200 beneficial holders of our common stock. This approximation is based on the number of the holders of record in addition to the number of proxy reports distributed to our beneficial holders as of the record date for our 2004 Annual Meeting held in May 2004.

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

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

Fiscal Year Ending December 31, 2004	High	Low
Quarter ended March 31	$ 3.750	$ 2.550
Quarter ended June 30	$ 3.550	$ 2.700
Quarter ended September 30 (through August 18)	$ 3.010	$ 2.300

The following table sets forth the high and low prices for our common stock traded on American Stock Exchange for the periods indicated.

Fiscal Year Ending December 31, 2004	High	Low

Quarter ended September 30 (August 19 September 30)	$ 2.900	$ 2.450
Quarter ending December 31 (through December 14)	$ 2.900	$ 1.800

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

Fiscal Year Ended December 31, 2003	**High**	**Low**
Quarter ended March 31 (March 4 March 31)	$ 1.160	$ 0.349
Quarter ended June 30	$ 1.950	$ 0.950
Quarter ended September 30	$ 2.700	$ 1.740
Quarter ended December 31 (through December 16)	$ 2.870	$ 2.250

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

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

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

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

We have authorized 150,000,000 shares of common stock, par value $0.01 per share. We have authorized 5,000,000 shares of preferred stock, par value $0.01 per share. Our Board of Directors has authority to provide for the issuance of our shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, without any further vote or action by the stockholders. As of December 1, 2004, we had 40,041,017 shares of common stock outstanding and 4,000,000 shares of preferred stock designated as Series A Cumulative Mandatory Convertible Preferred Stock.

DIVIDEND POLICY

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

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SELECTED FINANCIAL DATA

The following selected financial data for the fiscal years ended December 31, 2003, 2002, 2001, 2000, and 1999 included herein is derived from our audited consolidated Financial Statements and related notes thereto. The financial data for the nine months ended September 30, 2004 and 2003 are derived from the unaudited interim condensed consolidated Financial Statements included elsewhere in this prospectus, are prepared on the same basis as our audited consolidated Financial Statements, and include all adjustments, consisting of only normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and results of operations at and for such periods. This selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations , and the audited consolidated Financial Statements and related notes thereto and the unaudited interim condensed consolidated Financial Statements and related notes thereto included elsewhere in this prospectus. Historical results are not necessarily indicative of future results.

	Nine months ended September 30,		Year ended December 31,				
(in thousands, except per share amounts)	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)					
Consolidated Statement of Operations Data:							
Revenue	$ 100,439	$ 88,373	$ 125,105	$ 109,585	$ 117,046	$ 121,012	$ 173,707
Gross margin	$ 57,191	$ 48,891	$ 77,984	$ 64,480	$ 74,269		