QUADRAMED CORP
Form 10-Q
November 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

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 (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	52-1992861 (I.R.S. EMPLOYER IDENTIFICATION NO.)
22 PELICAN WAY SAN RAFAEL, CA 94901 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	94901 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (415) 482-2100

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

As of November 5, 2001, there were 25,946,542 shares of the Registrant's Common Stock outstanding, par value $0.01. This quarterly report on Form 10-Q consists of 62 pages of which this is page 1. The Exhibit Index is located at page 33.

QUADRAMED CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

QUADRAMED CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

Current Assets:

(

Cash and cash equivalents $
Restricted cash
Short-term investments
Accounts receivable, net of allowance for uncollectible accounts of $3,706 and $2,404, respectively
Unbilled receivables
Notes and other receivables
Prepaid expenses and other current assets

Total current assets

Long-term investments
Long-term notes receivable
Equipment, at cost:
Equipment
Less accumulated depreciation and amortization

Equipment, net

Capitalized software development, net of accumulated amortization of $7,228 and $5,212, respectively
Acquired software, net of accumulated amortization of $4,116 and $3,441, respectively
Intangibles, net of accumulated amortization of $21,385 and $17,174, respectively
Marketable investments
Other long term assets

Total Assets $

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:
Current maturities of capital lease obligations $
Accounts payable
Accrued payroll and related
Accrued interest
Other accrued liabilities
Deferred revenue

Total current liabilities

Capital lease obligations, less current portion
Convertible subordinated debentures
Net liabilities of discontinued operations

Total Liabilities

Stockholders' Equity:
Common stock, $0.01 par, 50,000 shares authorized, 25,731 and 25,755 shares issued and outstanding, respectively
Treasury stock
Additional paid-in capital
Accumulated other comprehensive loss
Accumulated deficit

Total stockholders' equity

Total Liabilities and Stockholders' Equity	$

(1) The year 2000 financial statements have been restated to present the EZ-Cap software business as a discontinued operation consistent with current presentation.

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

QUADRAMED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three-Month Period Ende September 30,	
	2001	2000
	(2)	Restat
Revenues:		
Licenses	$ 21,703	$ 14,4
Services	11,435	12,0
Total revenues	33,138	26,4
Operating Expenses:		
Cost of licenses	4,992	5,4
Cost of services	4,612	8,7
General and administration	12,316	11,6
Sales and marketing	3,802	5,0
Research and development	3,152	5,3
Amortization of intangibles	1,628	1,7
Impairment of intangible assets	-	
Non-recurring charges	-	13,6
Total operating expenses	30,502	51,7
Income (Loss) from Operations	2,636	(25,2
Other Income (Expense):		
Interest expense	(1,494)	(1,6
Interest income	343	7
Other income (expense), net	41	
Write off of convertible promissory note	(3,600)	
Total other expense, net	(4,710)	(9
Loss Before Income Taxes	(2,074)	(26,1
Provision for income taxes	-	
Loss from Continuing Operations	(2,074)	(26,1

Gain on redemption of bonds (net of applicable tax)	10,504	
Income from discontinued operations (net of applicable tax)	120	7
Gain on sale of division/software business (net of applicable tax)	6,861	
Net Income (Loss) Available to Common Stockholders	$ 15,411	$ (25,3
Earnings Per Common Share:		
Basic and Diluted		
Continuing operations	$ (0.08)	$ (1.
Gain on redemption of bonds (net of tax)	0.41	
Discontinued operations (net of tax)	-	0.
Gain on sale of division (net of tax)	0.27	
Total	$ 0.60	$ (0.
Weighted Average Shares Outstanding:		
Basic	25,853	25,7
Diluted	25,853	25,7

(1) The year 2000 financial statements have been restated to be consistent with current year reclassification of cost of licenses, cost of services, and operating expenses for general and administration, sales and marketing, and research and development.

(2) The year 2001 financial statements reflect the EZ-Cap software business as a discontinued operation.

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

QUADRAMED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Ni
	20
Cash Flows from Operating Activities:	(2
Net Income (loss)	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	
Salaries related to issuance of common stock, cancellation of restricted shares and forfeiture of restricted shares and forfeiture of common stock options	

Write-off of long term investments	
Write-off of acquired software	
Write-off of convertible promissory note	
Write-off of equipment	
Write-off of notes payable	
Write-off of capitalized software	
Impairment of intangible assets	
Realized gain on investments	
Gain on redemption of bonds	(
Gain on the sale of division/software business, net of applicable tax	
Changes in assets and liabilities, net of acquisitions:	
Accounts receivable and unbilled receivables, net	
Prepaid expenses and other	
Accounts payable and accrued liabilities	
Net liabilities of discontinued operations	
Deferred revenue	

Cash provided by (used in) operating activities	

Cash Flows from Investing Activities:	
Maturity (purchase) of available-for-sale securities, net	
Additions to equipment	
Purchase of treasury stock	
Proceeds from the sale of division	
Investment in ChartOne	
Proceeds from disposal of equipment	
Change in restricted cash	
Capitalization of computer software development costs	

Cash provided by investing activities	

Cash Flows from Financing Activities:	
Payments of principal on capital lease obligations	
Repayments of notes and loans payable	(
Issuance of common stock through Employee Stock Purchase Plan	
Proceeds from exercise of common stock options to purchase common stock	

Cash (used in) provided by financing activities	(

Net increase (decrease) in cash and cash equivalents	
Cash and Cash Equivalents, beginning of period	

Cash and Cash Equivalents, end of period	$
	======
Supplemental Disclosure of Cash Flow Information:	
Cash paid for interest	$
Cash paid for taxes	$
Supplemental Disclosure of Noncash Investing and Financing Transactions:	
Cancellation of restricted common stock	$
Issuance of common stock in payment of legal expenses	$
Release of restricted cash into short term investments	$

(1) Certain amounts in the year 2000 financial statements have been reclassified to be consistent with current year presentation.

(2) The year 2001 financial statements reflect the EZ-Cap software business as a discontinued operation.

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

QUADRAMED CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. QUADRAMED CORPORATION

QuadraMed Corporation (hereafter "QuadraMed" or the "Company") is dedicated to developing information technology and providing consulting services that help healthcare professionals deliver outstanding patient care with optimum efficiency. Offering real-world solutions for every aspect of acute care information management, QuadraMed has four main product lines: Affinity(R) Healthcare Information System, Quantim(R) Health Information Management Software and Services, Complysource(R) Compliance Solutions, and Chancellor TM Financial Products and Services. QuadraMed was reincorporated in Delaware in 1996 after having been originally incorporated in California in 1993. Its stock is publicly traded under the symbol "QMDC" on The Nasdaq SmallCap Market. From October 16, 1996, to August 30, 2000, QuadraMed's stock was traded on The Nasdaq National Market.

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(a) Basis of Presentation and Principles of Consolidation

These condensed consolidated financial statements include the accounts of QuadraMed and all its significant business divisions and subsidiaries and have been prepared in conformity with (i) generally accepted accounting principles in the United States of America; 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.

These financial statements reflect all adjustments, in management's opinion, necessary for a fair presentation of our results of operations and financial condition. All adjustments that have been included in these financial statements are of a normal recurring nature.

Results of QuadraMed's Release Of Information ("ROI") Division and EZ-CAP software business ("EZ-CAP") are reported as discontinued operations because the Company's control of these businesses was transferred in May 2000, and September 2001, respectively. Unless otherwise indicated, amounts in these statements exclude the effects of all discontinued operations.

(b) Reclassifications

Certain reclassifications have been made to the 2000 consolidated financial statements to conform to the 2001 presentation. Specifically, September 30, 2000, financial statements have been restated to be consistent with the current classification of cost of licenses, cost of services, general and administration, sales and marketing, research and development, marketable investments, and discontinued operations.

(c) Use of Estimates in Preparation of Financial Statements

In preparing these financial statements in conformity with generally accepted accounting principles in the United States of America, QuadraMed's management has made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosed contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from these estimates. Significant estimates and assumptions have been made regarding intangible assets, primarily goodwill, resulting from QuadraMed's acquisitions.

(d) Cash and Cash Equivalents

QuadraMed treats all certificates of deposit, money market accounts, and commercial paper with maturities of three months or less, as cash equivalents.

(e) Restricted Cash

As collateral for stand-by letters of credit, QuadraMed had restricted cash balances of $4.5 million and $8.4 million at September 30, 2001, and 2000, respectively. These balances are secured with certificates of deposit.

In June 2001, $2.4 million of restricted cash was released and then invested in short-term investments.

(f) Investments

QuadraMed considers its short-term and long-term securities, consisting primarily of debt securities, to be available-for-sale securities. The difference between cost and 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) are 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 condensed consolidated statement of operations.

During the nine-month period ended September 30, 2001, $12.2 million in short-term investments matured and were redeemed for cash.

In January 1999, QuadraMed loaned $3.6 million to Purkinje, Inc. ("Purkinje"), pursuant to terms and conditions of a convertible secured promissory note. Purkinje suspended interest payments on the note in the third quarter of 2001, and requested that all debenture holders convert their holdings to preferred stock as part of a recapitalization plan. The Company believes that the current value of Purkinje preferred stock is zero, and therefore, recorded a $3.6 million charge during the third quarter of 2001 to write off the entire investment.

(g) Equipment

Equipment is stated at cost and depreciated using the straight-line method over its estimated useful life, which is generally from three to five years. Depreciation expense was $2.4 million and $3.0 million for the nine-month periods ended September 30, 2001, and 2000, respectively. Leasehold improvements are amortized over the term of the lease. Maintenance and repairs are expensed as incurred.

(h) Intangibles

Intangibles include goodwill and acquired software, which are being amortized on a straight-line basis over a period of five to ten years. Goodwill and acquired software are evaluated quarterly for impairment and written down to net realizable value if necessary. Goodwill is the amount of purchase price in excess of the fair value of the tangible net assets and other identifiable intangible assets acquired through QuadraMed's acquisitions.

(i) Revenue Recognition

QuadraMed's revenues are derived from two sources: (1) software products; and (2) consulting services. Software product revenues include amounts received for licenses and software-related services, such as installation and post-installation customer support fees, third-party hardware sales, and other software-related revenue. Consulting services revenues include amounts from QuadraMed's Health Information Management Services and Financial Services Divisions.

QuadraMed's software products (enterprise-wide systems and specific applications) can be licensed individually or as a suite of interrelated products. Licenses are granted for a specified term (generally ranging from one to five years, typically with fees paid monthly or annually) or in perpetuity. Revenues from enterprise-wide systems are recognized on the basis of percentage-of-completion. Term licenses for specific applications are recognized monthly or annually over the term of the license arrangement, beginning at the date of installation. Revenues from perpetual licenses for specific applications are recognized upon shipment of the software if there is persuasive evidence of an agreement, collection of the resulting receivable is probable, and the fee is fixed and determinable. If there is a contractual acceptance period, revenues are recognized on the earlier: of (i) acceptance; or (ii) the expiration of the acceptance period. Software-related service revenue is recognized upon completion of installation. Unbilled receivables consist of work performed or software delivered which has not been billed pursuant to the customer contract. Post-installation customer support is recognized ratably over the term of the support period. Deferred revenue is consideration received in advance from customers for future work. Costs of software products include hardware, royalties to third parties, and installation costs.

QuadraMed's consulting services are rendered under contracts with providers calling for fixed monthly payments and revenue is recognized at the end of each month as services are provided. Financial Services management contracts generally provide for incentive payments based on a percentage of dollars recovered for the provider. QuadraMed recognizes this additional incentive revenue upon receipt of payment from the provider. Cost of service revenues consists primarily of salaries, benefits and allocated costs related to providing such services.

(j) Income Taxes

QuadraMed accounts for income taxes pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ("SFAS No. 109"). SFAS No. 109 provides for an asset and liability approach to accounting for income taxes under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which taxes become payable.

(k) Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the sum of 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 (using the treasury stock method) and convertible subordinated debentures (using the if-converted method). Common equivalent shares are excluded from the diluted computation only if their effect is anti-dilutive. As QuadraMed recorded a net loss from continuing operations for the nine-month and three-month periods ended September 30, 2001, and 2000, no common equivalent shares are included in the diluted weighted average common shares for those periods.

(l) Comprehensive Income

In 1997, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which was adopted by QuadraMed in the first quarter of 1998. SFAS No. 130 requires companies to report a new, additional measure of income on the income statement or to create a new financial statement that has the new measure of income on it.

The components of comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2001, and 2000, are as follows (in thousands):

	Three-Month Period Ended September 30,		Ni
	2001	2000	
Net income (loss)	$15,411	$ (25,378)	$ 14
Unrealized gain (loss) on available-for-sale securities	15	88	
Comprehensive income (loss)	$15,426	$ (25,290)	$ 14

(m) Software Development Costs

Software development costs are capitalized upon the establishment of technological feasibility. QuadraMed establishes technological feasibility upon completion of a detail program design, in accordance with SFAS No.86. The detail program design substantiates that the computer software product can be produced in accordance with its design specifications. Capitalized software development costs require a continuing assessment of their recoverability. This assessment requires considerable judgment by us with respect to various factors, including, but not limited to, anticipated future gross product revenues, estimated economic lives and changes in software and hardware technology. For the nine-month periods ended September 30, 2001 and 2000, QuadraMed capitalized software development costs of $1.2 million, and $0.8 million, respectively. During the nine-month period ended September 30, 2000, QuadraMed recorded a $1.5 million charge to write-down certain capitalized software assets related to the acquisition of IMN. In addition, in connection with its acquisition of Med Data, QuadraMed reclassified $3.6 million of intangible assets to capitalized software. There was no write-down of capitalized software during the nine-month period ended September 30, 2001.

Amortization of capitalized software development costs was $2.0 million and $1.7 million for the nine-month periods ended September 30, 2001, and 2000, respectively. Amortization is based upon the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product, generally five years.

3. STOCK REPURCHASE PROGRAM

In June 2001, QuadraMed's Board of Directors authorized a twelve-month stock repurchase program whereby the Company may utilize its cash to acquire QuadraMed common stock in a manner that enhances stockholder value. In September 2001, the Company repurchased 200,000 shares of common stock at an average price of $4.105 per share. As of September 30, 2001, up to 5.8 million shares remained authorized for repurchase under the program. The repurchased shares are held as treasury stock and may be reissued in the future.

4. SUBORDINATED CONVERTIBLE DEBENTURES

In April 1998, QuadraMed completed an offering of $115 million principal amount of Convertible Subordinated Debentures (the "Debentures"), including the underwriters' over-allotment option. The Debentures are due 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). Net proceeds to QuadraMed from the offering were $110.8 million.

During the nine-month period ended September 30, 2001, QuadraMed redeemed $41.3 million face value of convertible subordinated debentures at prices that ranged from $53.00 to $69.75. The Company recognized an extraordinary gain of $12.9 million after applicable taxes as a result of the early extinguishment of debt.

5. DISCONTINUED OPERATIONS

On August 31, 2001, QuadraMed consummated the sale of its EZ-CAP software business, and recorded net proceeds from the sale of $8.5 million after transaction costs, and a gain after applicable taxes of $6.9 million. Income associated with the results of discontinued operations for the EZ-CAP business for the nine-month periods ended September 30, 2001 and 2000, was $1.6 million and $3.3 million, respectively.

On March 31, 2001, QuadraMed consummated the sale of its Electronic Remittance Advice business. QuadraMed recorded proceeds from the sale of $24.0 thousand, and a loss after applicable taxes of $327.0 thousand. There was no material income associated with the results of discontinued operations for this line during the nine-month period ended September 30, 2001.

In connection with the acquisition of Compucare in March 1999, QuadraMed assumed the net liabilities of discontinued operations from previous Compucare acquisitions. Included in this net liability are balances related to Compucare's sale of two wholly-owned subsidiaries, Antrim Corporation, in November 1996, and Health Systems Integration, Inc. ("HSII").

Condensed and summarized balance sheet data for the discontinued operations of Antrim, HSII, and the Company's EZ-CAP software business is as follows (in thousands):

	September 30, 2001	December 31, 2000
Assets:		
Current assets:		
Cash and cash equivalents	$ -	$ -
Accounts receivable	-	-
Other current assets	-	311
Total current assets	-	311
Property and equipment, net	-	273
Other and intangible assets, net	-	1,617
Total assets	$ -	$ 2,201
Liabilities:		
Current liabilities	$ 14	$ 5,416
Non-current liabilities	-	-
Total liabilities	14	5,416
Net liabilities of discontinued operations	$ 14	$ 3,215

On August 16, 2001, QuadraMed and its wholly-owned subsidiary, QuadraMed Operating Corporation, entered into an asset purchase agreement with OAO Transition, LLC, a Delaware limited liability company ("OAO Transition"), and OAO Technology Solutions, Inc., a Delaware corporation (individually and collectively "OAO"), for the sale of certain assets and related products, used to conduct the EZ-CAP managed care software business. The assets and related products sold were the major components, but not the entire suite of assets and products, that comprised the QuadraMed's EZ-CAP managed care software business. The asset purchase transaction was finalized on August 31, 2001 for an aggregate purchase price of approximately $9.0 million, and the opportunity for QuadraMed to receive up to $5.0 million in additional payments based on EZ-Cap's revenue growth and customer retention as part of OAO. This transaction has been accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired, including developed technology, intangible assets and liabilities assumed, based on their fair value.

In April 2000, QuadraMed formed ChartOne, Inc., as a wholly-owned subsidiary ("ChartOne"), and subsequently transferred and assigned to ChartOne the assets and liabilities of its ROI Division, pursuant to the terms of an Asset Contribution Agreement, dated May 3, 2000. On June 7, 2000, ChartOne completed the sale of 2,520,000 shares of its Series A Preferred Stock to Warburg, Pincus Equity Partners, L.P., and certain of its affiliates, and Prudential Securities Group, Inc. for an aggregate purchase price of $25.2 million, representing a 43% equity interest in ChartOne, pursuant to the terms of a Securities Purchase Agreement, dated May 5, 2000. On October 19, 2000, QuadraMed completed the sale of its remaining 57% equity interest in ChartOne, represented by 2,130,000 shares of series B Preferred Stock, 1,200,000 shares of Series C Preferred Stock and 1 share of Common Stock, to Warburg, Pincus Equity Partners, L.P. and certain of its affiliates, and Prudential Securities Group Inc. for an aggregate cash purchase price of $26.6 million, pursuant to a Securities Purchase Agreement dated September 28, 2000. On the basis of this series of transactions and associated expenses, QuadraMed recorded a gain of $23.3 million (net of income tax expense of $1.0 million) for the year ended December 31, 2000.

Results of the Company's ROI division and EZ-CAP software business have been included in discontinued operations for all periods, as required by APB No. 30. For the nine-month periods ended September 30, 2001 and 2000, results from discontinued operations, net of income taxes, were $1.6 million, and $4.8 million, respectively, as set forth below (in thousands):

	September 30, 2001	September 30, 2000
Revenues	$ 6,353	$ 29,999
Costs and expenses	4,732	25,003
Gain from discontinued operations before income taxes	$ 1,621	$ 4,996
Provision for income taxes	0	$ (240)
Income from discontinued operations	$ 1,621	$ 4,756

Discontinued operations have been segregated in the Condensed Consolidated Statements of Cash Flows and, therefore, noncash items of income and expense from discontinued operations are included in the change in net liabilities of discontinued operations.

6. NON-RECURRING CHARGES

During the nine-month period ended September 30, 2001, QuadraMed recorded no non-recurring charges.

During the nine-month period ended September 30, 2000, QuadraMed recorded approximately $42.0 million of non-recurring charges. The charges were primarily related to the discontinuation of the EnOvation product, the write-down of certain other receivables, payments to employees for severance agreements, costs associated with office closures and costs related to further product integration efforts and product consolidation. These charges also included a write-down of $10.6 million of HealthCast assets, as well as additional expenses of $5.3 million associated with officers' separation agreements.

The following table sets forth QuadraMed's restructuring and non-specific litigation reserves, and the activity against these reserves, during the current nine month-period ended September 30, 2001 (in thousands):

Description	Balance at December 31, 2000	Change (*)	Balances September 30,

Restructure/Other.....................	$ 3,206	$ (1,374)	$ 1,832
Non-Specific Legal....................	1,616	(1,599)	17
Total reserves........................	$ 4,822	$ (2,973)	$ 1,849

* Termination benefits included in restructuring/other payments during 2001 amounted to $0.9 m

7. INTANGIBLES

(a) Goodwill

During the nine-month periods ended September 30, 2001 and 2000, amortization of goodwill was $4.2 million and $4.3 million, respectively.

(b) Acquired Software

During the nine-month periods ended September 30, 2001 and 2000, amortization of acquired software was $0.7 million and $1.0 million, respectively.

8. CONTINGENCIES OR OTHER UNCERTAINTIES

From time to time in the normal course of its business, QuadraMed may be involved in litigation relating to its operations. As of September 30, 2001, QuadraMed was not a party to any legal proceedings that, if decided adversely, would, individually or in the aggregate, have a material adverse effect on QuadraMed's business, financial condition or results of operations.

9. INFORMATION ON BUSINESS SEGMENTS

In 2000, QuadraMed realigned its operations into five business segments, consisting of the Company's Enterprise Products and Services Division, HIM Software Division, HIM Services Division, Financial Services Division, and its former EZ-CAP(R) managed care software business, which was sold during the third quarter of 2001. Although not reported as a business segment, QuadraMed also generated approximately five percent of its revenue from specialty product lines that have been discontinued or are not aligned with an operating division, which is referenced as Other.

This reorganization was undertaken to more closely align products targeted to shared markets, to more accurately measure financial performance by product/division, and to 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 EZ-CAP Division. The segment results reflected in the exhibits below have been restated to reflect this realignment for both current and prior year data. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. QuadraMed evaluates financial performance by segment as summarized in the subsequent table. The financial results for these operating segments for prior years have been restated on an estimated basis to conform to the current presentation.

QuadraMed's reportable segments are strategic business units that offer different products and services. Each segment, with its own unique position in the healthcare technology and services marketplace, provides customized expertise for the purchasers of healthcare information technology and financial solutions.

The Enterprise Division offers QuadraMed's Affinity(R) enterprise-wide information system products. With its full suite of applications, Affinity addresses the entire range of financial, patient, and clinical management needs of single- or multi-facility hospitals. Principally targeting acute care hospitals across the United States, the Affinity solution incorporates a patient-centered database designed to enable users to track each patient throughout the continuum of care in real time. The system integrates financial information such as patient accounting and DRG/case mix with clinical data, such as medical charting and plan of care, to automate federal and state reporting, scheduling, registration, and medical records information. The Electronic Document Management solution allows users to create secure electronic patient folders that combine both computerized and scanned documents. The Master Patient Index and Performance Measurement products, previously part of the HIM Software Division, were transferred to the Enterprise Division in the first half 2001.

The HIM Software Division provides the Company's Quantim(R) health information management software products, encompassing a suite of compliance, encoding and grouping, medical record management, and patient database applications that enable a hospital to accurately track medical records for internal and external purposes. The coding and grouping solutions protect the integrity of a healthcare organization's clinical data and improve accuracy and coding compliance for ICD-9, CPT, and HCPCS codes. The medical record management product locates and reserves charts, and authenticates and distributes transcribed medical records. In the first half of 2001, the nCoder+MD product, previously included in the Company's former EZ-CAP business, was transferred to this division, and the Master Patient Index and Performance Measurement product lines, previously included in this division, were transferred to the Enterprise Division.

The HIM Services Division offers QuadraMed's Quantim(R) and Complysource(R) Services, which provide healthcare information management departments with experienced, qualified, and if necessary, credentialed professionals to perform IT, coding, auditing, accounting, compliance, and medical record services. The Division also provides experienced executives for interim assignments in financial and management positions. These services are offered to acute care facilities, as well as to large physician, clinic, and ambulatory practices. Effective in the third quarter, 2001, the Division's services include education services, seminars and training for healthcare organizations.

The Financial Services Division provides Chancellor(TM) Financial Services to healthcare providers to reduce accounts receivable backlogs and accelerate cash flow. The Division conducts analyses of patient accounts to identify outstanding or underpaid third party payments, to re-bill, and to follow-up on third party claims.

For the Nine-Month Period Ended Septemb (in thousands)		
HIM	HIM	Financial

Description	Enterprise	Products	Services	Services
Total revenues	$ 43,359	$ 20,240	$ 14,533	$12,048
Direct margin (2)	$ 9,490	$ 8,006	$ 3,587	$ 5,836
Interest income	$ 873	$ 336	$ 385	$ 253
	(1,876)	(817)	(972)	(630)
Interest income (expense), net	$(1,003)	$ (481)	$ (587)	$ (377)
Depreciation & amortization expense	$ 1,360	$ 4,592	$ 831	$ 379
Benefit (provision) for income taxes	$ 10	$ 12	$ 60	$ (95)
Segment earnings (loss)	$ (279)	$ (373)	$(1,791)	$ 2,793
Segment assets	$26,931	$46,238	$23,671	$ 7,970

For the Three-Month Period Ended Septem
(in thousands)

Description	Enterprise	HIM Products	HIM Services	Financial Services
Total revenues	$14,602	$ 7,225	$ 4,329	$ 5,342
Direct margin (2)	$ 4,066	$ 3,133	$ 745	$ 3,164
Interest income	$ 184	$ 50	$ 45	$ 33
Interest expense	$ (601)	$ (257)	$ (290)	$ (192)
Interest income (expense), net	$ (417)	$ (207)	$ (245)	$ (159)
Depreciation & amortization expense	$ 446	$ 1,534	$ 274	$ 129
Benefit (provision) for income taxes	$ (32)	$ (13)	$ 28	$ (74)

Segment earnings (loss)	$ 938	$ 370	$ (835)	$ 2,186
Segment assets	$26,931	$46,238	$23,671	$ 7,970

(1) Other includes Specialty Products Division, Discontinued Operations, non-allocated expenses for bad debt reserve, non-specific legal and non-recurring charges.
(2) Direct margin represents segment results before interest, depreciation, amortization, taxes and corporate overhead allocations.

For the Nine-Month Period Ended Septemb
(in thousands)
(restated) (3)

Description	Enterprise	HIM Products	HIM Services	Financial Services	
Total revenues	$ 34,333	$ 17,140	$ 24,724	$ 8,942	$
Direct margin (2)	$ 5,689	$ 2,634	$ 1,545	$ 890	$
Interest income	$ 868	$ 380	$ 128	$ 108	$
Interest expense	$ (1,694)	$ (846)	$ (1,219)	$ (441)	$
Interest income (expense), net	$ (826)	$ (466)	$ (1,091)	$ (333)	$
Depreciation & amortization expense	$ 1,003	$ 4,283	$ 981	$ 343	$
Benefit (provision) for income taxes	$ (2)	$ 139	$ 64	$ 44	$
Segment earnings (loss)	$ 65	$ (4,625)	$ (2,130)	$(1,478)	$
Segment assets	$ 27,474	$ 40,092	$ 27,303	$ 9,529	$

For the Three-Month Period Ended Septem
(in thousands)
(restated) (3)

Description	Enterprise	HIM Products	HIM Services	Financial Services
Total revenues	$ 10,964	$ 6,700	$ 6,619	$ 3,074
Direct margin (2)	$ 3,576	$ 1,895	$ 462	$ 109
Interest income	$ 367	$ 206	$ 42	$ 46
Interest expense	$ (579)	$ (348)	$ (356)	$ (161)
Interest income (expense), net	$ (212)	$ (142)	$ (314)	$ (115)
Depreciation & amortization expense	$ 443	$ 1,450	$ 341	$ 148
Benefit (provision) for income taxes	$ (42)	$ 21	$ 27	$ 25
Segment earnings (loss)	$ 1,385	$ (713)	$ (902)	$ (839)
Segment assets	$ 27,474	$ 40,092	$ 27,303	$ 9,529

(1) Other includes Specialty Products Division, Discontinued Operations, non-allocated expenses for bad debt reserve, non-specific legal and non-recurring charges.

(2) Direct margin represents segment results before interest, depreciation, amortization, taxes and corporate overhead allocations.

(3) September 30, 2000 results have been restated to be consistent with the current period reclassifications among business segments.

10. SUBSEQUENT EVENTS.

None.

11. RECENT ACCOUNTING PRONOUNCEMENTS.

QuadraMed adopted The Financial Accounting Standards Board (FASB) Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of FASB Statement No. 133," effective January 1, 2001. Because of QuadraMed's limited use of derivative instruments, QuadraMed has elected not to account for its derivative instruments as hedges. Accordingly, upon adoption, the fair values of derivative instruments will be recorded as assets or liabilities on the balance sheet, and changes in fair values of these instruments beyond normal sales and purchases will be reflected in current income. QuadraMed may elect to apply hedge accounting, which has different financial statement effects, to possible future transactions involving derivative instruments, if significant. Such an election would reduce earnings volatility that might otherwise result if changes in fair values were recognized in current income. The adoption of SFAS No. 133 and SFAS No. 138 did not have a significant impact on QuadraMed's results of operations or financial position.

In September 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB Statement No. 125" ("SFAS No. 140"). SFAS No. 140 is effective for transfers occurring after March 31, 2001, and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. SFAS No. 140 has no significant effect on QuadraMed's accounting or disclosures for the types of transactions within the scope of the new standard.

In June 2001, the FASB issued statement 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. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In June 2001, the FASB issued statement No. 144 "Accounting for the Impairment and Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement 121, and accounting and reporting provisions of APB Opinion No. 30. The provisions of SFAS No. 144 are required to be applied starting with fiscal years beginning after December 15, 2001. The adoption of this new statement is not expected to have a material effect on the Company's Financial position, results of operations, or cash flows.

12. ACCOUNTING PRONOUNCEMENTS TO BE ADOPTED.

In June 2001, the FASB issued statement No. 141 "Business Combinations". The statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations within the scope of this Statement are to be accounted for using one method, the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The adoption of the new Statement is not expected to have a material effect on the Company's financial position, results of operations, or cash flows.

In June 2001, the FASB issued statement No. 142 "Goodwill and Other Intangible Assets". The statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in business combination) should be accounted for in financial statements upon acquisition. In addition, this statement addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Because goodwill and some intangible assets will no longer be amortized under this statement, the reported amounts of goodwill and intangible assets (as well as total assets) will not decrease at the same time and in the same manner as under previous standards. As such, there may be more volatility in reported income than under previous standards because impairment losses, if any, are likely to occur irregularly and in varying amounts. The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001.

The Company is currently evaluating the effect of impairment tests required under the new accounting standard and the impact, if any, it will have on its reported financial position, results of operations and statement of cash flows. The reduction in goodwill amortization under the new standard would have increased net income before taxes for the nine-month periods ended September 30, 2001 and 2000 by approximately $4.2 million and $4.3 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this Quarterly Report on Form 10-Q, QuadraMed and its management discuss and make statements regarding their intentions, beliefs, and current expectations regarding QuadraMed's future operations and performance. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by words such as "anticipates," "believes," "expects," "will," "should," and "intends" and their negatives. QuadraMed and its management caution prospective investors that such forward-looking statements are not guarantees of future performance. Risks and uncertainties are inherent in QuadraMed's future performance. QuadraMed and its management make forward-looking statements based on currently available information and assume no obligation to update these statements due to changes in underlying factors, new information, future developments, or otherwise.

Risks and uncertainties that could cause QuadraMed's actual results to differ from these forward-looking statements are discussed in Item 3 entitled, "Quantitative and Qualitative Disclosures About Market Risk."

Overview

QuadraMed is dedicated to developing information technology and providing consulting services that help healthcare professionals deliver outstanding patient care with optimum efficiency. Offering real-world solutions for every aspect of acute care information management, QuadraMed has four main product lines: Affinity (R) Healthcare Information System, Quantim (R) Health Information Management Software and Services, Complysource (R) Compliance Solutions, and Chancellor TM Financial Products and Services. QuadraMed was reincorporated in Delaware in 1996 after having been originally incorporated in California in 1993.

From 1993 to 1999, acquisition-based growth was an integral part of QuadraMed's business strategy. During this time, QuadraMed completed 28 acquisitions, 23 of which occurred between 1997 and 1999. This rapid growth had several consequences. First, QuadraMed significantly increased the range of health information management products and services that it offers to healthcare providers. Second, QuadraMed increased its market share in the health information management industry. Third, QuadraMed acquired access to public markets and has lowered its capital costs. At the same time, however, integration issues have delayed anticipated synergies and efficiencies, and, since 1997, QuadraMed incurred annual after-tax losses. Further, the acquisitions have produced substantial goodwill that reduces earnings through December 31, 2001.

During 2000 and 2001 through the quarter ended September 30, 2001, QuadraMed focused on integrating its businesses and making financial and operational improvements. As part of this strategy, QuadraMed has reduced expenses, sold non-strategic assets for cash, settled outstanding litigation, made several management changes, and re-aligned the organization into four operating divisions:

- Enterprise Products and Services Division, which provides acute care hospitals with integrated enterprise information systems to manage patient registration, clinical, and financial information.

- Health Information Management Products Division, which provides software products that automate and support hospital and provider health information management departments in maintaining accurate and timely patient treatment information and in accurately coding for appropriate reimbursement.

- Health Information Management Services Division, which provides (1) health information interim management, management consulting and outsourcing services; (2) coding, compliance and education services; (3) compliance, legal and regulatory services; and (4) charge description master reviews.

- Financial Services Division, which identifies and collects receivables for hospitals and medical groups.

Revenues

Licenses. License revenues include license, installation, consulting and post-contract support fees, third-party hardware sales and other revenues related to licensing of QuadraMed's software products. License revenues for the quarter ended September 30, 2001 were $21.7 million, compared to $14.5 million in the same period last year. For the nine-month period ended September 30, 2001, license revenues increased 21.5% to $62.1 million compared to $51.1 million in the same period last year. The increase in license revenues was principally attributable to Affinity sales.

Services. Service revenues for the quarter ended September 30, 2001 were $11.4 million, compared to $12.0 million in the same period last year. For the nine-month period ended September 30, 2001, service revenues decreased 19.8% to $32.4 million, compared to $40.4 million in the same period last year. The decrease in service revenues was principally due to termination of service contracts with a number of hospitals dating back to fourth quarter 2000.

Cost of Revenues

Cost of Licenses. Cost of licenses consists primarily of salaries, benefits and allocated costs related to software installations, hardware costs, customer support and royalties to third parties. Cost of licenses for the quarter ended September 30, 2001 were $5.0 million, 8.9% less than $5.5 million in the same period last year. As a percentage of license revenues, cost of licenses were 23.0% for the quarter ended September 30, 2001, compared with 37.9% in the same period last year. For the nine-month period ended September 30, 2001, cost of license revenues decreased 5.1% to $16.1 million, compared to $17.0 million in the same period last year. As a percentage of license revenues, cost of licenses were 25.9% in the nine-month period ended September 30, 2001, compared with 33.2% in the same period last year. The decrease in the year to date cost of licenses is driven by the 21.5% revenue growth and lower expenses.

Cost of Services. Cost of services includes expenses associated with services performed in connection with health information management and business office outsourcing, compliance and consulting services. Cost of services for the quarter ended September 30, 2001 were $4.6 million, 47.5% less than $8.8 million in the same period last year. As a percentage of service revenues, cost of services were 40.3% for the quarter ended September 30, 2001, compared with 73.2% in the same period last year. For the nine-month period ended September 30, 2001, cost of service revenues decreased 51.8% to $14.2 million, compared to $29.5 million in the same period last year. As a percentage of service revenues, cost of services were 43.9% in the nine-month period ended September 30, 2001, compared with 73.0% in the same period last year. The decrease in the year to date cost of services ratio is driven by the termination of lower margin hospital service contracts last year, as well as an increase in revenues from our Financial Services Division, which generates relatively higher margins.

Operating Expenses

General and Administration. General and administration expenses for the quarter ended September 30, 2001 were $12.3 million, 5.6% more than $11.7 million in the same period last year. As a percentage of total revenues, general and administration expenses were 37.2% for the quarter ended September 30, 2001, compared to 44.0% in the same period last year. For the nine-month period ended September 30, 2001, general and administration expenses increased 5.4% to $37.9 million, compared to $35.9 million in the same period last year. As a percentage of total revenues, general and administration expenses increased to 40.1% for the nine-month period ended September 30, 2001 from 39.3% in the same period last year. General and administration expenses increased primarily as a result of higher incentive compensation accruals, bad debt reserve strengthening, and other expense accruals.

Sales and Marketing. Sales and marketing expenses for the quarter ended September 30, 2001 were $3.8 million, 24.5% less than $5.0 million in the same period last year. As a percentage of total revenues, sales and marketing expenses were 11.5% for the quarter ended September 30, 2001, compared to 19.0% in the same period last year. For the nine-month period ended September 30, 2001, sales and marketing expenses decreased 36.1% to $11.2 million, compared to $17.6 million in the same period last year. As a percentage of total revenues, sales and marketing decreased to 11.9% for the nine-month period ended September 30, 2001 from 19.2% in the same period last year. Sales and marketing expenses decreased primarily as a result of the expense actions taken in 2000.

Research and Development. Research and development expenses for the quarter ended September 30, 2001 were $3.2 million, 41.5% less than $5.4 million in the same period last year. As a percentage of total revenues, research and development costs were 9.5% for the quarter ended September 30, 2001, compared to 20.3% in the same period last year. For the nine-month period ended September 30, 2001, research and development expenses decreased 40.6% to $10.0 million, compared to $16.8 million in the same period last year. As a percentage of total revenues, research and development expenses decreased to 10.6% for the nine-month period ended September 30, 2001 from 18.4% in the same period last year. Research and development expenses decreased primarily as a result of the elimination of corporate research and development projects and a reduction in the number of products and product versions supported. QuadraMed believes that research and development expenditures are essential to maintaining its competitive position. As a result, QuadraMed intends to continue to make investments in the development of new products and in the further integration of acquired technologies. Subject to feasibility tests, some of these development costs are currently capitalized.

Amortization of Intangibles. Amortization of intangibles for the quarter ended September 30, 2001 decreased 6.3% to $1.6 million, compared to $1.7 million in the same period last year. For the nine-month period ended September 30, 2001 amortization of intangibles decreased 7.1% to $4.9 million compared to $5.3 million in the same period last year. The quarter to date and year to date decreases resulted from an analysis of the underlying asset and related amortization rates.

Non-Recurring Charges. There were no non-recurring charges for the three-month and nine-month periods ended September 30, 2001.

During the nine-month period ended September 30, 2000, QuadraMed recorded approximately $42.0 million of non-recurring charges. Those charges were primarily related to the sunsetting of the EnOvation product, the write-down of certain other receivables, and payments to employees for severance agreements and costs associated with office closures. In addition, there were costs related to further product integration efforts and product consolidation.

Interest Expense. Interest expense was $1.5 and $4.8 million for the three-month and nine-month periods ended September 30, 2001, compared to $1.7 and $5.0 million for the same periods last year. Interest expense in 2001 and 2000 was principally related to QuadraMed's $115.0 million convertible subordinated debentures, which were issued in May 1998.

Liquidity and Capital Resources

At September 30, 2001, QuadraMed had $28.3 million in cash and cash equivalents, compared to $27.4 million at December 31, 2000.

In October 1996, QuadraMed completed its initial public offering of common stock, which resulted in net proceeds of approximately $26.4 million. In October 1997, QuadraMed completed a follow-on offering of common stock, which resulted in net proceeds of approximately $57.3 million. In April 1998, QuadraMed completed an offering of $115.0 million principal amount of convertible subordinated debentures, including the initial purchasers' over-allotment option. The debentures are due May 1, 2005 and bear interest, which is payable semi-annually at 5.25 percent per annum. Proceeds from the offering were $110.8 million.

During the quarter ended September 30, 2001, QuadraMed redeemed and cancelled $35.9 million in face value of convertible subordinated debentures at prices ranging from $66.88 to $69.75. The Company recognized an extraordinary gain of $10.5 million after applicable taxes as a result of the early extinguishment of debt.

During the quarter ended June 30, 2001, QuadraMed redeemed and cancelled $5.4 million in face value of convertible subordinated debentures at prices ranging from $53.00 to $53.75. The Company recognized an extraordinary gain of $2.4 million after applicable taxes as a result of the early extinguishment of debt.

Net cash provided by (used in) operating activities was $10.1 million and ($15.8) million for the nine-month periods ended September 30, 2001 and 2000, respectively. Net cash provided by operating activities for the nine-month period ended September 30, 2001 principally reflected the improvement in collections on receivable balances, write-off of convertible promissory note, and the lower operating expenses. Net cash used in operating activities for the nine-month period ended September 30, 2000 related to the write-down on certain intangible assets and accounts receivable, and the sale of the ROI division.

Net cash provided by investing activities was $18.3 million and $11.8 million for the nine-month periods ended September 30, 2001 and 2000, respectively. Investing activities for the nine-month period ended September 30, 2001 primarily related to the maturity of available-for-sale short-term investments, release of restricted cash, purchase of treasury stock, and the proceeds from the sale of the EZ-Cap software business. Net cash provided by investing activities for the nine-month period ended September 30, 2000 primarily related to proceeds from the sale of the ROI division and the maturity of available-for-sale short-term investments.

Net cash (used in) provided by financing activities was ($27.5) million and $0.7 million for the nine-month periods ended September 30, 2001 and 2000, respectively. Net cash used in financing activities for the nine-month period ended September 30, 2001 primarily related to the redemption of convertible subordinated debentures, capital lease obligations, and proceeds from the exercising of common stock options. Net cash provided by financing activities for the nine-month period ended September 30, 2000 primarily related to the issuance of common stock through the Employee Stock Purchase Plan and the proceeds from the exercising of common stock options.

QuadraMed believes that its cash and investments and borrowing capacity on September 30, 2001 is sufficient to fund operations at least through December 31, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Interest Rate Risk

QuadraMed's exposure to market risk for changes in interest rates primarily relates to its investment portfolio and its convertible subordinated debentures. QuadraMed intends to ensure the safety and preservation of its invested principal funds by limiting default risk, market risk, and reinvestment risk. QuadraMed invests in high-quality issuers, including money market funds, corporate debt securities, and debt securities issued by the United States government. QuadraMed has a policy of investing in securities with maturities of two years or less. QuadraMed does not invest in derivative financial or foreign investments. The table below presents fair values of principal amounts and weighted average interest rates for QuadraMed's investment portfolio as of September 30, 2001, (in thousands, except average interest rates):

	Aggregate Fair Value	Weigh Inte

Cash and cash equivalents:	
Cash	$ 3,804
Money market funds	$ 24,478
Total cash and cash equivalents	$ 28,282
Short-term investments:	
Corporate debt securities	$ 34
Other short-term investment	$ 2,380
Total short-term investments	$ 2,414
Long-term investments:	
Corporate debt securities	$ 582
Debt securities issued by the U.S. government	$ 553
Total long-term investments	$ 1,135

Outstanding Debt. As of September 30, 2001, QuadraMed had outstanding long-term debt of $73.7 million, as set forth below (in thousands, except average interest rates):

	Nine-Month Period Ended September 30, 2001			
	Carrying Amount	Fair Value	Maturity Date	Wei In
Convertible Subordinated Debentures (*)	$ 73,719	$ 50,774	2005	

(*) During 2001, QuadraMed redeemed $41.3 million in face value of convertible subordinated debentures at prices ranging from $53.00 to $69.75. The Company recognized an extraordinary gain of $12.9 million after applicable taxes as a result of the early extinguishment of debt.

Long-term debt is carried at the original offering price, less any payments of principal. Rates currently available to the Company for long-term borrowings with similar terms and remaining maturities are used to estimate the fair value of existing borrowings as the present value of expected cash flows. The debentures are unsecured, subordinated to all senior indebtedness and convertible at any time into shares of the Company's common stock. The debentures will mature on May 1, 2005 and are redeemable, in whole or in part, at the option of the Company. In order to estimate the fair value of these debentures, the Company used currently quoted market prices.

QuadraMed is not exposed to material changes in interest rate because the interest rate on its convertible subordinated debentures, the bulk of QuadraMed's debt, is fixed at 5.25%.

Foreign Currency Risk

Although QuadraMed from time-to-time sells its products internationally, all such transactions are denominated in U.S. currency, and there is no foreign currency fluctuation risk.

QuadraMed has encountered significant challenges integrating acquired businesses, and its business, operations, and financial condition have been adversely affected.

Since its inception, QuadraMed has completed twenty-eight (28) acquisitions. QuadraMed has encountered significant challenges related to integrating acquired businesses into its operations and expects these challenges to continue until integration is complete. Some of the challenges QuadraMed has encountered or may encounter in integrating acquired businesses include:

- Interruption, disruption or delay of QuadraMed's ongoing business;

- Distraction of management's attention from other matters;

- Additional operational and administrative expense;

- Difficulty managing geographically dispersed operations;

- Failure of acquired businesses to achieve expected results resulting in failure of QuadraMed to realize anticipated benefits;

- 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 of acquired businesses and potential for disputes with the sellers;

- Customer dissatisfaction or performance problems related to acquired businesses;

- Exposure to the risks of entering markets in which QuadraMed has 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, and QuadraMed expects will continue to have, an adverse effect on its business, financial condition, and results of operations at least until the integration of the acquired businesses is complete. In addition, these problems have led QuadraMed to refocus its business strategy away from acquisitions, which could lead to slower future growth and negatively impact its financial condition.

QuadraMed has incurred losses in each of the past three years and could continue to incur losses in future periods.

QuadraMed incurred net losses of $54.8 million, $12.3 million, and $21.4 million for the years ended December 31, 2000, 1999, and 1998, respectively. For the three-month and nine-month periods ended September 30, 2001, QuadraMed reported a net gain of $15.4 million and $14.1 million, respectively. As of September 30, 2001, QuadraMed's accumulated deficit was $246.2 million. Furthermore, in connection with its acquisitions, QuadraMed may incur significant expenses related to goodwill and other intangible assets in future periods. Accordingly, if QuadraMed's operating results do not improve to offset these and other expenses, QuadraMed may continue to experience losses in future periods and may never be profitable.

QuadraMed's quarterly operating results are subject to fluctuations, which could adversely affect its net income and financial results.

QuadraMed's quarterly operating results have varied significantly in the past and may fluctuate significantly in the future as a result of a variety of factors, many of which are outside its control. Accordingly, quarter-to-quarter comparisons of QuadraMed's operating results may not be a good indication of QuadraMed's 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 QuadraMed and its competitors;
- Timing and significance of announcements concerning present or prospective strategic alliances;
- Divestiture of, discontinuation of, or reduction in, the products and services QuadraMed offers;
- Loss of customers due to consolidation in the healthcare industry;
- Delays in product delivery requested by its 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 systems from various vendors;

- Delays in implementation due to product readiness or to customer induced delays in training or installation;

- 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.

QuadraMed's operating expense levels, which increase with the addition of acquired businesses, are relatively fixed. Accordingly, if future revenues are below expectations, QuadraMed would experience a disproportionate adverse affect on its net income and financial results. In the event of a revenue shortfall, QuadraMed 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 QuadraMed's future revenues or operating results may fall below the expectations of securities analysts and investors. In such a case, the price of QuadraMed's publicly traded securities may be adversely affected.

The variability and length of QuadraMed's sales cycle for its products may exacerbate the unpredictability and volatility of QuadraMed's operating results.

QuadraMed cannot accurately forecast the timing of its customer purchases due to the complex procurement decision processes of most healthcare providers and payors. 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, QuadraMed typically experiences sales cycles that extend over several quarters and QuadraMed has only a limited ability to forecast the timing and size of specific sales, making the prediction of quarterly financial performance more difficult.

QuadraMed may not be able to hire and retain necessary qualified personnel and the uncertainty caused by QuadraMed's management changes could adversely affect the price of its Common Stock.

In large part, QuadraMed's future success will depend upon its ability to attract and retain executive officers, product managers, and other key sales, marketing and development personnel. Competition for personnel in the software and healthcare information management industry is intense. At times, QuadraMed has had difficulty attracting and retaining highly qualified candidates within specific geographic areas or with specific industry experience. If QuadraMed's competitors increase their use of valid non-compete agreements, the pool of candidates may narrow in some geographic areas. The failure to attract, retain, train, and effectively manage personnel could increase QuadraMed's costs and impair its development, sales, and customer service efforts.

Changes in procurement practices of hospitals have and may continue to have a negative impact on QuadraMed's revenues.

A substantial portion of QuadraMed's 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 QuadraMed's business. In addition, the decision to purchase QuadraMed's products often involves a committee approval. Consequently, it is difficult for QuadraMed to predict the timing or outcome of the buying decisions of its customers or potential customers. In the quarter ended September 30, 2001, QuadraMed's service revenues decreased due to the loss of hospital service contracts. In addition, many healthcare providers are consolidating to create integrated healthcare delivery systems with greater regional market power. These emerging systems could have greater bargaining power, which may lead to decreases in prices for QuadraMed's products, which could adversely affect QuadraMed's 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 QuadraMed's customers purchase its 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. QuadraMed 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 QuadraMed's business.

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 commercial value and appeal of QuadraMed's 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 QuadraMed's 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 QuadraMed's 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 QuadraMed's customers in ways that cannot be predicted. Healthcare organizations may react to these proposals by curtailing or deferring investments, including those for QuadraMed's 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.

If QuadraMed is unable to compete effectively, it could experience price reduction, reduced gross margins and loss of market share.

Competition for QuadraMed's products and services is intense. Increased competition could result in reductions in QuadraMed's prices, gross margins, and market share and have a material adverse affect on QuadraMed's business, financial condition and results of operations. QuadraMed competes 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

QuadraMed's ability to work with some potential customers. In addition, if some of QuadraMed's competitors merge, a stronger competitor may emerge. Some principal competitors include:

- McKesson HBOC, Inc., SoftMed Corporation Inc., FileNet, Lanvision, MedPlus, and Eclipsys Corporation in the market for electronic document management products in the Enterprise Products and Services Division;

- Eclipsys Corporation, Healthcare Microsystems, Inc., a division of Health Management Systems Inc., McKesson HBOC, Shared Medical Systems, Inc., a division of Siemens, and MediQual Systems, Inc., a division of Cardinal Health, Inc., in the market for decision support products in the Enterprise Products and Services Division;

- McKesson HBOC, Inc., Shared Medical Systems, Inc., a division of Siemens, MediTech Corporation, Eclipsys Corporation, Cerner, and IDX/Phamis in the market for enterprise healthcare information systems in the Enterprise Products and Services Division;

- Madison, McKesson HBOC, Shared Medical Systems, Inc., a division of Siemens, and Medibase in the market for MPI products and services in the Enterprise Products and Services Division;

- 3M, SoftMed Corporation, Inc., MetaHealth, Eclypsis Corporation, Cascade, and HSS in the market for medical records products in the Health Information Management Product Division; and

- PriceWaterhouseCoopers, KPMG and Ernst and Young for compliance products and services and health information management consulting services in the Health Information Management Services Division.

Current and prospective customers evaluate QuadraMed's capabilities against the merits of their existing information systems and expertise. Furthermore, major software information systems companies, including those specializing in the healthcare industry, that do not presently offer competing products may enter QuadraMed's markets. Many of QuadraMed's competitors and potential competitors have significantly greater financial, technical, product development, marketing and other resources and market recognition than QuadraMed. 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, QuadraMed's 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 QuadraMed. QuadraMed may not be able to compete successfully against current and future competitors, and such competitive pressures could materially adversely affect QuadraMed's business, financial condition and operating results.

QuadraMed may not be able to introduce or market new products or product enhancements successfully or in a timely manner, which could adversely affect its competitive position.

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

QuadraMed's inability to protect its intellectual property could lead to unauthorized use of its products, which could have an adverse effect on its business.

QuadraMed relies on a combination of trade secret, copyright and trademark laws, nondisclosure, noncompete, and other contractual provisions to protect its proprietary rights. QuadraMed has not filed any patent applications covering its technology. Measures taken by QuadraMed to protect its intellectual property may not be adequate, and QuadraMed's competitors could independently develop products and services that are substantially equivalent or superior to QuadraMed's products and services. Any infringement or misappropriation of its proprietary software and databases could put QuadraMed at a competitive disadvantage in a highly competitive market and could cause QuadraMed to lose revenues, incur substantial litigation expense and divert management's attention from other operations.

QuadraMed depends on licenses for certain technology used to develop its products from a number of third-party vendors. Most of these licenses expire within three to five years. Such licenses can be renewed only by mutual consent and may be terminated if QuadraMed breaches the license terms and fails to cure the breach within a specified time period. If such licenses are terminated, QuadraMed may not be able to continue using the technology on commercially reasonable terms or at all. As a result, QuadraMed may have to discontinue, delay or reduce product shipments until equivalent technology is obtained, which could have a material adverse effect on QuadraMed's business, financial condition and results of operations. Most of QuadraMed's 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, QuadraMed may not be able to modify or adapt its products.

Intellectual property litigation is increasingly common in the software industry. The risk of an infringement claim against QuadraMed may increase over time as the number of competitors in its industry segment grows and the functionality of products overlaps. Third parties could assert infringement claims against QuadraMed in the future. Regardless of the merits, QuadraMed 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 QuadraMed on reasonable terms, if at all. Infringement may also result in significant monetary liabilities that could have a material adverse effect on QuadraMed's business, financial condition and results of operations. QuadraMed may not be successful in the defense of these or similar claims.

The nature of QuadraMed's products makes them particularly vulnerable to undetected errors, or bugs, that could reduce revenues, market share or demand for the company's products and services.

Products such as QuadraMed's may contain errors or failures, especially when initially introduced or when new versions are released. Although QuadraMed conducts extensive testing on its products, software errors have been discovered in certain enhancements and products after their introduction. Despite such testing by QuadraMed and by its 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 revenues;
- delay in market acceptance;
- diversion of resources;
- damage to QuadraMed's reputation; or
- increased service and warranty costs.

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

Because no mirror processing site for its data processing facilities exists, QuadraMed's 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.

QuadraMed currently processes substantially all of its data at its facilities in Neptune, New Jersey, Irving, Texas, Kansas City, Missouri, and San Rafael, California. Although QuadraMed backs up its data nightly and has safeguards for emergencies, such as power interruption or breakdown in temperature controls, QuadraMed has no mirror processing site to which processing could be transferred in the case of a catastrophic event at these facilities. If a major catastrophic event, or any other interruption or closure, occurs at one of these facilities, leading to an interruption of data processing, or any other interruption or closure, QuadraMed's business, financial condition, and results of operations could be adversely affected.

If QuadraMed products become subject to FDA regulation, QuadraMed may be required to make substantial product changes that 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 QuadraMed's software products are so regulated. In the future, the FDA could determine that some of QuadraMed's 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 QuadraMed's costs and lengths of time for product development and marketing could increase and that other unforeseeable consequences could arise.

Governmental regulation of the confidentiality of patient records could result in QuadraMed's customers being unable to use its products without significant modification, which could require substantial expenditures by QuadraMed.

There is substantial state regulation of the confidentiality of patient medical records and the circumstances under which such records may be disclosed to or processed by QuadraMed as a consequence of its contacts with various health 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 rapidly evolving. Additional legislation governing the dissemination of medical record information also has been proposed and may be adopted at the state level.

HIPAA and, in particular, its administrative simplification provisions, require the promulgation of regulations that will set standards for electronic transactions, code sets, data security, unique identification numbers, and privacy of individually identifiable health information. The regulations are in various stages of development. A final regulation governing transaction and code set standards has been published and is expected to become effective on October 16, 2002. The privacy regulation has been published as a final regulation and became effective on April 14, 2001. The HIPAA privacy regulation is complex and far reaching. Compliance will be required of certain covered entities, including healthcare providers, health plans, and healthcare clearinghouses. QuadraMed may be implicated by these regulations either as a covered entity or as a business associate of a covered entity. The HIPAA and state healthcare privacy regulations could materially restrict the ability of healthcare providers to submit information from patient records using QuadraMed products and services or could require QuadraMed to make substantial capital expenditures to be in compliance.

HIPAA's data security regulation has been published as a proposal. At this time, no information is available on when the regulation will be published as final or whether the regulation will be revised prior to final publication. At this time, it is not possible to assess the specific implications of the security regulation on QuadraMed. The regulation may require holders of individual personal healthcare information, including QuadraMed, to implement stringent security measures. Implementing such measures may require substantial capital expenditures by QuadraMed due to required product, service, and procedure changes.

In addition, 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 QuadraMed's clients in ways that could have a negative impact on QuadraMed's business, financial condition and results of operations. QuadraMed is unable to predict what, if any, changes will occur.

If QuadraMed's products fail to accurately assess, process, or collect healthcare claims or administer managed care contracts, QuadraMed could be subject to costly litigation and be forced to make costly changes to its products.

Some of QuadraMed's products and services are used in the payment, collection, coding and billing of healthcare claims and the administration of managed care contracts. If QuadraMed's employees or QuadraMed's products fail to accurately assess, process or collect these claims, customers could file claims against QuadraMed. QuadraMed's insurance coverage may not adequately cover such claims. A successful claim that is in excess of, or is not covered by, insurance coverage could adversely affect QuadraMed's 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 QuadraMed's premium such that appropriate insurance could not be found at commercially reasonable rates. Furthermore, if QuadraMed were found liable, QuadraMed may have to significantly alter one or more of its products, possibly resulting in additional unanticipated research and development expenses.

Provisions in QuadraMed's certificate of incorporation and bylaws and Delaware law could delay or discourage third parties from acquiring QuadraMed at a premium, which could adversely affect the price of its Common Stock.

QuadraMed's board of directors has the authority to issue up to 5,000,000 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 QuadraMed's Common Stock. If preferred stock is issued, the voting and other rights of the holders of QuadraMed's Common Stock may be subject to, and may be adversely affected by, the rights of the holders of QuadraMed's preferred stock. The issuance of preferred stock may have the effect of delaying or preventing a change of control of QuadraMed that would have been at a premium price to QuadraMed's stockholders.

Certain provisions of QuadraMed's certificate of incorporation and bylaws could discourage potential takeover attempts and make attempts by stockholders to change management difficult. For example, QuadraMed's 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 QuadraMed's stockholders to effect certain corporate actions. In addition, QuadraMed's certificate of incorporation provides that directors may be removed only by the affirmative vote of the holders of two-thirds of the shares of QuadraMed's capital stock entitled to vote. Any vacancy on QuadraMed's board of directors may be filled only by vote of the majority of directors then in office. Further, QuadraMed's 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 QuadraMed's certificate of incorporation, could have the effect of delaying or preventing (i) a tender offer for QuadraMed's Common Stock or other changes of control of QuadraMed that could be at a premium price, or (ii) changes in its management.

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

The trading price of QuadraMed's Common Stock has been, and is expected to continue to be, extremely volatile.

The NASDAQ Small Cap Market on which QuadraMed is listed, 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 QuadraMed's Common Stock has been and is likely to continue to be highly volatile due to such factors as:

- Variations in quarterly results of operations;
- Announcements of new products or acquisitions by QuadraMed's competitors;
- Governmental regulatory action;
- Developments or disputes with respect to proprietary rights;
- General trends in QuadraMed's industry and overall market conditions.

Movements in prices of equity securities may also affect the market price of QuadraMed's Common Stock in general.

Future sales of a substantial number of shares of QuadraMed's Common Stock could cause the price of the stock to decrease or fluctuate substantially.

Existing stockholders of QuadraMed 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 these shares in the public markets or the prospect of such sales could adversely affect or cause substantial fluctuations in the market price of QuadraMed's Common Stock and convertible debentures and impair QuadraMed's ability to raise additional capital through the sale of its securities.

If QuadraMed is unable to achieve profitability, it may be forced to file for bankruptcy.

If QuadraMed's financial condition deteriorates, QuadraMed may be forced to seek relief under Chapter 11 of the U.S. Bankruptcy Code. Chapter 11 permits a company to remain in control of its business, protected by a stay of all creditor action while the company attempts to negotiate and confirm a plan of reorganization with its creditors. If QuadraMed commenced a Chapter 11 case it would expect deterioration in its customer relationships, a reduction in orders, the loss of suppliers, and an erosion of employee morale. QuadraMed may be unsuccessful in its attempts to confirm a plan of reorganization with its creditors. Many Chapter 11 cases are unsuccessful, and virtually all involve substantial expense and damage to the business. If QuadraMed were unsuccessful in obtaining confirmation of a plan of reorganization, its assets could be liquidated and could be insufficient to pay all of its security holders.

QuadraMed may lose some or all of its equity investments in early stage companies if such companies become bankrupt or insolvent or do not succeed in executing their business strategy appropriately.

QuadraMed has made equity investments and acquired minority interests in certain early stage companies. QuadraMed does not have the ability to control the operations of these companies and these investments are subject to significant risks. There is no guarantee that QuadraMed will realize any return on such investments. QuadraMed could also lose some or all of its principal investment if these companies become bankrupt or insolvent or do not succeed in executing their business strategy.

Review of Financial Statements.

The financial information required in this Form 10-Q by Rule 10-01 of Regulation S-X has been subject to a review by Pisenti & Brinker LLP, the Company's independent certified public accountants, as described in their report dated October 29, 2001.

The unaudited condensed consolidated financial statements contained herein have been prepared on the same basis as QuadraMed's audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. Management is continuing to review QuadraMed's financial statements and will obtain the assistance of outside resources as deemed necessary. Management's review is not expected to result in any material adjustments or charges; however, there can be no assurance that additional adjustments and/or charges will not be required.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

None.

ITEM 2. Changes in Securities and Use of Proceeds.

None.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to Vote of Security Holders.

None.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) EXHIBITS.

10.5 Amendment of Employment Agreement between Lawrence P. English and QuadraMed, dated September 20, 2001.*

10.6 Amendment of Employment Agreement between Michael H. Lanza and QuadraMed, dated September 19, 2001.*

10.7 Amendment of Employment Agreement between Dean Souleles and QuadraMed, dated September 19, 2001.*

10.8 Amendment of Employment Agreement between Mark N. Thomas and QuadraMed, dated September 20, 2001.*

10.9 Amendment of Employment Agreement between Michael S. Wilstead and QuadraMed, dated September 20, 2001.*

10.10 Letter Agreement between QuadraMed and Peter T. van der Grinten, dated October 4, 2001.*

15 Accountant's Letter.

27.1 Financial Data Schedule for the Quarter Ended 09/30/2001.

27.2 Financial Data Schedule for the Quarter Ended 09/30/2000.

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* Management contract, or compensatory plan or arrangement.

(b) REPORTS ON FORM 8-K.

On August 16, 2001, QuadraMed filed a Current Report on Form 8-K in which it reported in Item 5 that it had entered into an asset purchase agreement with OAO Technology Solutions, Inc. and its wholly owned subsidiary OAO Transition, LLC, for the sale of certain assets used to conduct QuadraMed's EZ-CAP managed care software business for a purchase price equal to $9.0 million and the opportunity to receive up to $5.0 million in additional payments based on EZ-Cap's revenue growth and customer retention as part of OAO. The election on August 13, 2001 of Joseph L. Feshbach, chairman of the board of Curative Health Services, Inc., to QuadraMed's board of directors was also reported.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUADRAMED CORPORATION (Company)

Date: November 14, 2001

By: /s/ Lawrence P. English

Lawrence P. English
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Mark N. Thomas

Mark N. Thomas
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

3.4 Amended and Restated Bylaws of QuadraMed. (1)

3.5 Third Amended and Restated Certificate of Incorporation of QuadraMed. (5)

4.1 Reference is made to Exhibits 3.4 and 3.5. (1) (5)

4.2 Form of Common Stock certificate. (1)

4.3 Form of Warrant to Purchase Common Stock. (1)

4.4 Registration Rights Agreement dated December 5, 1996, by and between QuadraMed and the investors listed on Schedule A thereto. (2)

4.5 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)

4.6 Subordinated Indenture, dated as of May 1, 1998, between QuadraMed and The Bank of New York. (4)

4.7 Officers' Certificate delivered pursuant to Sections 2.3 and 11.5 of the Subordinated Indenture. (4)

4.8 Registration Rights Agreement dated April 27, 1998, by and among QuadraMed and the Initial Purchasers named therein. (4)

4.9 Form of Global Debenture. (4)

4.10 Form of Certificated Debenture. (4)

4.11 Registration Rights Agreement dated December 23, 1998, by and between QuadraMed and the shareholders listed therein. (7)

4.12 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 Grantor Trust Agreement by and between QuadraMed and Wachovia Bank, N.A., dated January 1, 2000.(8)

10.2 Grantor Trust Agreement Amendment by and between QuadraMed and Wachovia Bank, N.A., dated January 1, 2000.(8)

10.3 QuadraMed 1996 Stock Incentive Plan, as amended April 18, 2001.(8)

10.4 Amendment of Severance Agreement between James D. Durham and QuadraMed, dated July 31, 2001.(8)

10.5 Amendment of Employment Agreement between Lawrence P. English and QuadraMed, dated September 20, 2001.

10.6 Amendment of Employment Agreement between Michael H. Lanza and QuadraMed, dated September 19, 2001.

10.7 Amendment of Employment Agreement between Dean Souleles and QuadraMed, dated September 19, 2001.

10.8 Amendment of Employment Agreement between Mark N. Thomas and QuadraMed, dated September 20, 2001.

10.9 Amendment of Employment Agreement between Michael S. Wilstead and QuadraMed, dated September 20, 2001.

10.10 Letter Agreement between QuadraMed and Peter T. van der Grinten, dated October 4, 2001.

15 Accountant's Letter.

(1) Incorporated herein by reference to the Company's Registration Statement on Form SB-2, No 333-5l80-LA, as filed with the Commission on June 28, 1996, as amended by Amendment No. l, Amendment No. 2 and Amendment No. 3 thereto, as filed with the Commission on July 26, 1996, September 9, 1996, and October 2, 1996, respectively.

(2) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, as filed with the Commission on August 14, 1997, as amended September 4, 1997.

(3) Incorporated herein by reference to the Company's Current Report on Form 8-K, as filed with the Commission on June 11, 1998.

(4) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 333-55775, as filed with the Commission on June 2, 1998, and as amended by Amendment No. 1 thereto, as filed with the Commission on June 17, 1998.

(5) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, as filed with the Commission on August 14, 1998, as amended on August 24, 1988.

(6) Incorporated herein by reference to the Company's Current Report on Form 8-K/A filed with the Commission on March 22, 1999.

(7) Incorporated herein by reference to the Company's Registration Statement on Form S-3, No. 333-80617, as filed with the Commission on June 14, 1999, and as amended by Amendment No. l thereto, as filed with the Commission on August 4, 1999.

(8) Incorporated by reference the Company's Quarterly Report on Form 10-Q, filed August 14, 2001.

EXHIBIT 15

Independent Accountants' Report

To the Stockholders and Board of Directors
QuadraMed Corporation ("QuadraMed")
San Rafael, California

We have reviewed the accompanying condensed consolidated balance sheet of QuadraMed and its subsidiaries as of September 30, 2001, the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2001 and 2000 and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2001 and 2000. These condensed consolidated financial statements are the responsibility of QuadraMed's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles in the United States of America.

We have audited, in accordance with generally accepted auditing standards in the United States of America, the consolidated balance sheet as of December 31, 2000, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive loss, and cash flows for the year then ended (not presented herein); and in our report dated March 6, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

Pisenti & Brinker LLP

Petaluma, California
October 29, 2001

ARCTICLE 5

27.1 Financial Data Schedule for the Quarter Ended 09/30/2001.

27.2 Financial Data Schedule for the Quarter Ended 09/30/2000.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE NINE- MONTHPERIODS ENDED SEPTEMBER 30, 2001 AND 2000 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD-TYPE	9-MOS	
FISCAL-YEAR-END	DEC-31-2001	DEC-31
PERIOD-START	JAN-01-2001	JAN-01
PERIOD-END	SEP-30-2001	SEP-30

CASH	32,818	1
SECURITIES	2,414	1
RECEIVABLES	47,591	4
ALLOWANCES	(3,706)	(2
PREPAID	2,195	
CURRENT ASSETS	81,312	7
LONG TERM INVESTMENTS	1,135	2
EQUIPMENT	28,327	2
ACCUM DEPRECIATION	(20,889)	(19
OTHER LONG TERM ASSETS	37,910	5
TOTAL ASSETS	127,795	15
CURRENT LIABILITIES	35,255	3
DEBT - BONDS	73,719	11
OTHER LIABILITIES	49	
TOTAL LIABILITIES	109,023	15
COMMON STOCK	194	
OTHER SHAREHOLDER EQUITY	18,578	
TOTAL LIABILITIES & STCOKHOLDERS EQUITY	127,795	15
TOTAL-REVENUES	94,539	9
COST OF GOODS SOLD	30,346	4
OTHER OPERATING EXPENSES	63,982	11
LOSS FROM OPERATIONS	211	(73
INTEREST EXPENSE	(4,778)	(4
INTEREST INCOME	2,048	
OTHER EXPENSES	(4,298)	
LOSS PRE INCOME TAX	(6,817)	(76
PROVISION FOR INCOME TAX	(105)	
EXTRAORDINARY	21,063	2
NET-INCOME	14,141	(54
EPS-BASIC	0.54	(
EPS-DILUTED	0.54	(