

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

IN RE QUADRAMED CORPORATION :
SECURITIES LITIGATION :
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: :

THIS DOCUMENT RELATES TO: :
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: :
ALL ACTIONS. :

X

Master File No: 02-CV-04770-SC

CLASS ACTION

**NOTICE OF PENDENCY AND
PROPOSED SETTLEMENT OF
CLASS ACTION AND
SETTLEMENT HEARING**

TO: ALL PERSONS OR ENTITIES WHO PURCHASED OR ACQUIRED THE COMMON STOCK OF QUADRAMED CORPORATION ("QUADRAMED" OR THE "COMPANY") DURING THE PERIOD FROM APRIL 19, 1999 THROUGH AUGUST 14, 2002, INCLUSIVE.

PLEASE READ THIS NOTICE CAREFULLY. THIS NOTICE RELATES TO THE PENDENCY AND PROPOSED SETTLEMENT OF THIS CLASS LITIGATION AND, IF YOU ARE A CLASS MEMBER, CONTAINS IMPORTANT INFORMATION AS TO YOUR RIGHTS TO OBTAIN A SHARE OF THE SETTLEMENT FUND FURTHER DESCRIBED BELOW.

CLAIMS DEADLINE: CLAIMANTS MUST SUBMIT PROOFS OF CLAIM, ON THE FORM ACCOMPANYING THIS NOTICE *POSTMARKED NO LATER THAN SEPTEMBER 7, 2004*

EXCLUSION DEADLINE: REQUESTS FOR EXCLUSION MUST BE SENT TO THE CLAIMS ADMINISTRATOR *POSTMARKED NO LATER THAN JULY 16, 2004.*

SECURITIES BROKERS AND OTHER NOMINEES: PLEASE SEE INSTRUCTIONS IN §VIII BELOW.

YOU ARE HEREBY NOTIFIED, pursuant to Rule 23 of the *Federal Rules of Civil Procedure*, and an order of the United States District Court for the Northern District of California (the "Court"), that a settlement of the above-captioned action in the amount of \$5,250,000 in cash (the "Settlement" or the "Settlement Fund") has been reached by the parties, which Settlement is subject to approval by the Court, and which, if approved, will result: (1) in the payment of the Settlement Fund, after certain deductions described below, to eligible Class Members who file timely and valid Proof of Claim and Release forms and evidence a recognized loss; and (2) in the dismissal of the above referenced action (the "Litigation") and the release of the Released Claims as against all Released Persons.¹

YOU ARE FURTHER NOTIFIED, pursuant to an Order of Court, dated May 10, 2004, that a hearing (the "Settlement Hearing") will be held before the Honorable Samuel Conti on July 30, 2004, at 10:00 a.m. in the United States District Court, Northern District of California, located at 450 Golden Gate Ave., San Francisco, CA 94102, to consider: (1) whether the Settlement described above should be approved by the Court as fair, reasonable and adequate; (2) whether the Litigation should be dismissed on the merits with prejudice as set forth in the Stipulation of Settlement (the "Stipulation") dated as of May 3, 2004, on file with the Court; (3) whether the proposed Plan of Allocation of Settlement proceeds should be approved as fair and reasonable; (4) whether the application of Plaintiffs' Counsel for fees and expenses, including the award of reasonable costs and expenses and interest thereon, should be approved; and (5) whether the releases should be approved as fair, reasonable and adequate to the Members of the Class and the Defendants.

This Notice is not intended to be, and should not be construed as, an expression of any opinion by the Court with respect to the truth of the allegations in the Litigation, or the merits of the claims or defenses asserted, or the fairness or adequacy of the Settlement. This Notice is merely to advise you of the pendency and Settlement of the Litigation and of your rights in connection with the Settlement.

A. Statement of Plaintiffs' Recovery

Pursuant to the Settlement described herein, a Settlement Fund in the amount of \$5,250,000 in cash has been established. Plaintiffs estimate that there were approximately 45 million shares of QuadraMed common stock purchased and/or acquired during the period of April 19, 1999 through August 14, 2002, inclusive (the "Class Period"), which were allegedly damaged as a result of the purported acts or omissions described below. Plaintiffs estimate that the average recovery per damaged share of QuadraMed common stock under the Settlement will be \$.117 per share before the deduction of attorneys' fees, costs and expenses, as approved by the Court. Depending on: (1) the number of claims filed; (2) when the shares were purchased during the Class Period,

¹ All capitalized terms are defined in §I below unless otherwise indicated.

and whether those shares were held at the end of the Class Period, or, if sold, when they were sold; and (3) the amounts awarded by the Court for attorneys' fees, costs and expenses, an individual Class Member may receive more or less than this average amount. A Class Member's distribution from the Settlement Fund will be governed by the description set forth below in Section VI.

B. Summary of Parties' Positions and Reasons for Settlement

The Lead Plaintiff believes that the claims asserted in the Litigation have merit and that the evidence developed to date supports the claims asserted. Defendants have denied and continue to deny each and all of the claims and contentions alleged by the Lead Plaintiff in the Litigation and do not believe any evidence supports Lead Plaintiff's claims and contentions. However, both the Lead Plaintiff and Defendants recognize and acknowledge the inherent difficulties of continued proceedings necessary to see the Litigation through trial and possible appeals, and have determined that the Settlement set forth in the Stipulation is in the best interests of all parties involved.

The Lead Plaintiff and Defendants do not agree on the average amount of damages per share that would be recoverable if plaintiffs were to have prevailed on each claim alleged. The issues on which the Settling Parties disagree include, but are not limited to: (1) the appropriate economic model for determining the amount by which QuadraMed common stock was allegedly artificially inflated (if at all) during the Class Period; (2) the amount by which QuadraMed common stock was allegedly artificially inflated (if at all) during the Class Period; (3) the effect of various market forces influencing the trading price of QuadraMed common stock at various times during the Class Period; (4) the extent to which external factors, such as general market conditions influenced the trading price of QuadraMed common stock at various times during the Class Period; (5) the extent to which the various matters that plaintiffs alleged were materially false or misleading influenced (if at all) the trading price of QuadraMed common stock at various times during the Class Period; (6) the extent to which the various allegedly adverse material facts that plaintiffs alleged were omitted influenced (if at all) the trading price of QuadraMed common stock at various times during the Class Period; and (7) whether the statements made or the facts allegedly omitted were material or otherwise actionable under the federal securities laws.

The Lead Plaintiff believes that the Settlement is a good recovery under the circumstances and is in the best interests of the Class. Because of the risks associated with continuing to litigate and proceeding to trial, there was a danger that plaintiffs would not have prevailed on any of their claims, in which case the Class would receive nothing. For example, plaintiffs faced the possibility that all or many of the claims in this case could have been dismissed. In addition, the amount of damages recoverable would have been subject to rigorous attack by Defendants. Recoverable damages are limited to losses caused by conduct actionable under applicable securities laws and, had the Litigation gone to trial, Defendants intended to prove that all or most of the losses at issue were caused by non-actionable market, industry or general economic factors.

C. Statement of Attorneys' Fees and Costs Sought

Plaintiffs' Counsel have not received any payment for prosecuting this case on behalf of the Lead Plaintiff and Members of the Class, nor have they been reimbursed for their out-of-pocket expenses. Plaintiffs' Counsel intend to apply for an award of attorneys' fees in an amount up to twenty-five percent of the Settlement Fund (*i.e.*, approximately \$.029 per share), as well as reimbursement for costs and expenses incurred in the prosecution of the Litigation of no greater than \$125,000. Defendants take no position on the application for attorneys' fees, costs and expenses.

D. Identification of Plaintiffs' Lawyers

Any questions regarding the Settlement should be directed to the following Plaintiffs' Lead Counsel:

Andrew L. Barroway
Michael K. Yarnoff
Kay E. Sickles
SCHIFFRIN & BARROWAY LLP
Three Bala Plaza East, Suite 400
Bala Cynwyd, PA 19004
Telephone: 610/667-7706
Facsimile: 610/667-7056

Plaintiffs' Lead Counsel

I. DEFINITIONS USED IN THIS NOTICE

As used in this Notice, the following terms have the meanings specified below:

"Authorized Claimant" means any Class Member whose claim for recovery has been allowed pursuant to the terms of the Stipulation.

"QuadraMed" means QuadraMed Corporation and all of its predecessors, successors, parents, subsidiaries, divisions and related or affiliated entities.

“Claimant” means any Class Member who files a Proof of Claim in such form and manner, and within such time, as the Court shall prescribe.

“Claims Administrator” means The Garden City Group, Inc.

“Class” means all Persons who purchased or acquired the common stock of QuadraMed during the period from April 19, 1999 through August 14, 2002, inclusive. Excluded from the Class are Defendants, the officers and directors of the Company, the members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which any Defendant has or had a majority equity interest. The Class shall also exclude those Persons who request exclusion from the Class pursuant to the Notice described herein.

“Class Member” or “Member of the Class” means a Person who falls within the definition of the Class as set forth above.

“Class Period” means the period of April 19, 1999 through August 14, 2002, inclusive.

“Defendants” means QuadraMed, James D. Durham, John V. Cracchiolo, Lawrence P. English, Mark N. Thomas and Pisenti & Brinker, LLP.

“Escrow Agent” means The Garden City Group, Inc.

“Effective Date” means the first date by which all of the events and conditions specified in §V-7.1 of the Stipulation have been met and have occurred.

“Lead Plaintiff” means Richard G. Patterson.

“Person” means an individual, corporation, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.

“Plaintiffs’ Lead Counsel” means Schiffrin & Barroway LLP, Andrew L. Barroway, Three Bala Plaza East, Suite 400, Bala Cynwyd, Pennsylvania, 19004, Telephone (610) 667-7706.

“Plaintiffs’ Counsel” means counsel who have appeared for any of the plaintiffs in the Litigation.

“Related Parties” means each of Defendants and each of their past and present directors, officers, employees, partners, members, principals, agents, insurers, co-insurers, reinsurers, controlling shareholders, attorneys, accountants or auditors, banks or investment banks, underwriters, associates, personal or legal representatives, predecessors, successors, parents, subsidiaries, divisions, joint ventures, assigns, spouses, heirs, related or affiliated entities, and any entity in which a Defendant has a controlling interest, and members of their immediate families, or any trust of which any Defendant is the settlor or which is for the benefit of any Defendant and/or member(s) of his family.

“Released Claims” shall collectively mean all claims, actions, allegations, demands, rights, liabilities and causes of action of every nature and description whatsoever, known or unknown, whether or not concealed or hidden, asserted or that might have been asserted, including, without limitation, claims for negligence, gross negligence, recklessness, breach of duty of care and/or breach of duty of loyalty, breach of fiduciary duty, fraud, misrepresentation, mismanagement, breach of contract, violations of any state or federal statute, rules or regulations, including “Unknown Claims,” that have been or might have been asserted against the Released Persons in the Litigation by or on behalf of the Lead Plaintiff or any Class Member against the Released Persons which are based upon, arising out of, or related to the purchase of QuadraMed common stock by any Class member during the Class Period and the facts, transactions, events, occurrences, acts, disclosures, statements, omissions or failures to act which were or could have been alleged in the Litigation or any other forum, based upon, relating to or arising from the facts which were or could have been alleged. However, the Released Claims do not preclude the plaintiff in the action pending in the Superior Court of California for the County of Marin and captioned *In re QuadraMed Corporation Derivative Litigation*, Case No. CV025239 (the “Derivative Case”), from continuing the prosecution of, or seeking approval of a settlement in, the Derivative Case.

“Released Persons” means each and all of the Defendants and their Related Parties.

“Settlement Hearing” means that hearing the Court schedules after notice to QuadraMed’s stockholders of the pendency of the Litigation and of the preliminary approval of the Settlement to approve the Settlement herein and the application for fees and reimbursement of expenses submitted by Plaintiffs’ Counsel.

“Settling Parties” means, collectively, each of the Defendants and the Lead Plaintiff on behalf of himself and the Members of the Class.

“Unknown Claims” means any Released Claims which the Lead Plaintiff or any Class Member does not know or suspect to exist in his, her or its favor at the time of the release of the Released Persons which, if known by him, her or it, might have affected

his, her or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to this Settlement. With respect to any and all Released Claims, the Settling Parties stipulate and agree that, upon the Effective Date, the Lead Plaintiff shall expressly, and each of the Class Members shall be deemed to have, and by operation of the Judgment shall have, waived and relinquished, to the fullest extent permitted by law, the provisions, rights, and benefits of §1542 of the *California Civil Code*, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

The Lead Plaintiff expressly shall have, and the Class Members, upon the Effective Date, shall be deemed to have, and by operation of the Judgment shall have waived any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to §1542 of the *California Civil Code*. The Lead Plaintiff and the Class Members may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but the Lead Plaintiff expressly shall have, and each Class Member, upon the Effective Date, shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever settled and released any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. The Lead Plaintiff acknowledges, and the Class Members shall be deemed by operation of the Judgment to have acknowledged that the foregoing waiver was separately bargained for and is a key element of the Settlement of which this Release is a part.

II. COMMENCEMENT OF THE LITIGATION AND NATURE OF THE ACTION

On or after October 2, 2002, six related actions (the "Actions") were filed in this District. Each of the Actions was filed as a purported class action on behalf of all Persons who purchased or otherwise acquired publicly traded securities of QuadraMed during the period from May 11, 2000 through and including August 11, 2002. The complaints alleged various violations of the federal securities laws, including §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), against defendants QuadraMed, Lawrence P. English and Mark N. Thomas.

By Order dated December 10, 2002, the Court granted plaintiffs' motions to consolidate the six related Actions.² By Order dated February 6, 2003, the Court appointed Schiffrin & Barroway, LLP as Counsel for the Lead Plaintiff and Green & Jigargian, LLP, as local co-counsel for plaintiffs pursuant to §21D(a)(3)(B)(v) of the Exchange Act.

By Order of the Court, the Actions were effectively stayed until defendant QuadraMed restated historical financial results and became current with all required filings with the Securities and Exchange Commission (the "SEC"). QuadraMed filed its restated historical results and became current with its required filings with the SEC on August 18, 2003. Thereafter, on November 26, 2003, Lead Plaintiff filed the Consolidated Amended Complaint naming as additional defendants former QuadraMed officers James D. Durham and John V. Cracchiolo, and QuadraMed's former outside auditors, Pisenti & Brinker, LLP. The Complaint was brought on behalf of all Persons who purchased or otherwise acquired publicly traded securities of QuadraMed during the period from April 19, 1999 through August 14, 2002, inclusive. The Complaint alleges that all Defendants violated §10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder, and that defendants QuadraMed, Durham, Cracchiolo, English and Thomas violated §20(a) of the Exchange Act. By the parties' agreement, Defendants were to answer, or move to dismiss, the Complaint no later than February 20, 2004. The parties began settlement discussions on or about February 6, 2004 before mediator Anthony Piazza, Esq.

The Settlement described in this Notice was achieved after intense arms'-length negotiations during the mediation. During the mediation, counsel for the Lead Plaintiff and counsel for Defendants presented, among other things, their respective views regarding the merits of the Litigation, including the defenses, the claims and the damages sought in the Litigation.

III. PRETRIAL PROCEEDINGS IN THE LITIGATION

Formal discovery in this case was effectively stayed pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), and by this Court's Order. However, Plaintiffs' Counsel conducted extensive investigations and informal discovery in relation to the Litigation, including the: (a) review and analysis of QuadraMed's public disclosures to the SEC and otherwise; (b) analysis of QuadraMed's publicly disseminated financial statements; (c) interviews with former QuadraMed employees; (d) extensive conferences with accounting and damages consultants and experts; (e) extensive research of the applicable law with respect to the claims asserted in the Complaint and Defendants' potential defenses thereto; (f) review of documents produced by QuadraMed; and (g) an interview of QuadraMed's CFO, Charles J. Stahl.

²*Burnell v. QuadraMed Corporation, et al.*, Case No. C-02-4770; *Lipstein v. QuadraMed Corporation, et al.*, Case No. C-02-4862; *Ewry v. QuadraMed Corporation, et al.*, Case No. C-02-5178; *Huang v. QuadraMed Corporation, et al.*, Case No. C-02-5252; *Young v. QuadraMed Corporation, et al.*, Case No. C-02-5266; *Moseng v. QuadraMed Corporation, et al.*, Case No. C-02-5543; and *Wallace v. QuadraMed Corporation, et al.*, Case No. C-02-5560.

IV. CLAIMS OF THE REPRESENTATIVE PLAINTIFF AND BENEFITS OF SETTLEMENT

The Lead Plaintiff believes that the claims asserted in the Litigation have merit and that the evidence developed to date supports the claims asserted. However, the Lead Plaintiff and his counsel recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Litigation against Defendants through trial and through appeals. The Lead Plaintiff and his counsel also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as this Litigation, as well as the difficulties and delays inherent in such litigation. The Lead Plaintiff and his counsel are mindful of the inherent problems of proof under, and possible defenses to, the federal securities law violations and other claims asserted in the complaints, including the defenses alleged by Defendants in the pleadings filed in the Litigation. The Lead Plaintiff and his counsel believe that the Settlement set forth in the Stipulation confers substantial benefits upon the Class and each of the Class Members. Based on their evaluation, the Lead Plaintiff and his counsel have determined that the Settlement set forth in the Stipulation is in the best interests of the Lead Plaintiff and the Class and each of the Class Members.

V. DEFENDANTS' STATEMENT AND DENIALS OF WRONGDOING AND LIABILITY

Defendants have denied, and continue to deny, each and all of the claims and contentions alleged by the Lead Plaintiff on behalf of the Class in the Litigation. Defendants expressly have denied, and continue to deny, all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Litigation. Defendants also have denied, and continue to deny, *inter alia*, the allegations that the Lead Plaintiff and the Class have suffered damage, that the price of QuadraMed common stock was artificially inflated by reasons of alleged misrepresentations, non-disclosures or otherwise, and that neither the Lead Plaintiff nor the Class were harmed by the conduct alleged in the Complaint. Defendants believe that the claims asserted in the Litigation do not have merit and that the evidence developed to date does not support any of the claims asserted.

Nonetheless, Defendants have concluded that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation in order to limit further expense, inconvenience, distraction and diversion of personnel with respect to matters at issue in the Litigation. Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like this Litigation. Defendants have, therefore, determined that it is desirable and beneficial to them that the Litigation be settled in the manner and upon the terms and conditions set forth in the Stipulation.

VI. THE PROPOSED SETTLEMENT

A Settlement has been reached in the Litigation between the Lead Plaintiff, on behalf of himself and the Members of the Class, and Defendants, which is embodied in the Stipulation on file with the Court. The Lead Plaintiff and his counsel, on the basis of a thorough investigation of the facts and the law relating to the acts, events, and conduct complained of in the Litigation, among other things, have concluded that the Settlement is fair to, and in the best interests of, the Members of the Class. While Defendants deny all charges of wrongdoing and do not concede liability, they have agreed to settle the Litigation on the basis proposed in order to put to rest all further controversy and to limit further expense, inconvenience, distraction and diversion of personnel with respect to matters at issue in the Litigation.

The following description of the Settlement of the Litigation is only a summary, and reference is made to the text of the Stipulation, on file with the Court, for a full statement of its provisions:

A. The Settlement Fund consists of \$5,250,000 in cash.

B. Upon approval of the Settlement by the Court, and when the Judgment has become final and all other conditions to the Settlement are satisfied, including those set forth in §IV-7 of the Stipulation, the Settlement Fund shall be distributed as follows:

1. To pay all the costs and expenses reasonably and actually incurred in connection with providing notice to the Members of the Class, locating Class Members, soliciting Class claims, assisting with the filing of claims, administering and distributing the Settlement Fund to the Class, processing Proofs of Claim and Release, and paying escrow fees and costs, if any;

2. To pay Plaintiffs' Counsel's fees, expenses and costs (including the award of reasonable costs and expenses, including lost wages, directly relating to the representation of the Class to the Lead Plaintiff serving on behalf of the Class) with interest thereon (the "Fee and Expense Award") to the extent allowed by the Court;

3. To pay the taxes and tax expenses owed by the Settlement Fund; and

4. To pay to Class Members the remainder of the Settlement Fund, as described in the Plan of Allocation below.

C. **Plan of Allocation** - Subject to the approval and further Order(s) of the Court as may be necessary, the balance of the Settlement Fund (the "Net Settlement Fund") shall be distributed to Authorized Claimants pursuant to the following Plan of Allocation:

1. Each Person claiming to be an Authorized Claimant shall be required to timely submit a separate Proof of Claim (that shall include a general release of all Released Claims, including Unknown Claims, against the Released Persons) in the form

set forth in the Proof of Claim and Release accompanying this Notice, signed under penalty of perjury and supported by proof of all sales and purchases or acquisitions of QuadraMed common stock during the Class Period.

2. All Proof of Claim and Release forms must be sent to the Claims Administrator and **postmarked on or before September 7, 2004**. Unless otherwise ordered by this Court, any Class Member who fails to submit a Proof of Claim and Release within that period, or such other period as may be ordered by the Court, shall be forever barred from receiving any payments pursuant to the Stipulation, but will, in all other respects, be subject to the provisions of the Stipulation and the final Judgment entered by the Court.

3. To the extent there are sufficient funds in the Net Settlement Fund, each Authorized Claimant will receive an amount equal to the Authorized Claimant's claim. If, however, the amount in the Net Settlement Fund is not sufficient to permit payment of the total claim of each Authorized Claimant, then each Authorized Claimant shall be paid the percentage that each Authorized Claimant's claim bears to the total of the claims of all Authorized Claimants.

- a. The date of purchase, acquisition or sale is the "contract" or "trade" date and not the "settlement" date.
- b. All profits will be subtracted from all losses to determine the net recognized loss of each Class Member.
- c. In processing claims, the first-in, first-out basis ("FIFO") will be applied to purchases, acquisitions and sales. Sales will be matched in chronological order, by trade date, first against the common stock held as of the close of trading on April 18, 1999 (the last day before the Class Period begins) and then against the purchases during the Class Period.
- d. The date of covering a "short sale" is deemed to be the date of purchase of QuadraMed common stock. The date of a "short sale" is deemed to be the date of sale of QuadraMed common stock. Shares originally sold short prior to the Class Period will result in a zero claim.
- e. Where common stock was purchased/sold by reason of having exercised an option, the option premium should be incorporated into the price accordingly.
- f. If an Authorized Claimant's trading activity during the Class Period exceeds 70 transactions, he/she/it must provide, in an electronic file, all purchase and sales information required in the Proof of Claim and Release. For a copy of instructions and parameters concerning such a submission, contact the Claims Administrator by phone: 866-808-3593 or via the website: www.gardencitygroup.com.
- g. No cash payment will be made on a claim where the potential distribution amount is \$10.00 or less.
- h. Brokerage commissions and transfer taxes paid by you in connection with your purchase and sale of QuadraMed common stock should be included in the "total purchase price" and net of the "total proceeds."
- i. The Court has reserved jurisdiction to allow, disallow or adjust the claim of any Class Member on equitable grounds.

4. The following proof of claim schedule is designed to fairly reflect the outcome of counsels' deliberations and the settlement proposed and agreed to with the defendants as a result of mediation. This proposed proof of claim schedule reflects an assessment of the merits of the case and strength of the case throughout the Class Period as plead by counsel for the class, the facts regarding the portion of the decline and identified declines in the stock price of QuadraMed during the Class Period that were determined to be reasonably attributable to the allegations in the Consolidated Class Action Complaint. A total of approximately 45 million shares are estimated to have been damaged during the class period. The total funds available for the Gross Settlement Fund are \$5,250,000.

- a. For shares of common stock purchased between April 19, 1999 and July 2, 2002, inclusive, and retained at the end of trading on August 14, 2002, the Recognized Loss shall be the lesser of:
 - (1) \$3.75 per share; or
 - (2) the difference between the purchase price per share and the sales price per share for each share sold between August 15, 2002 and November 12, 2002; or
 - (3) the difference between the purchase price per share and \$1.98 for each share still held at the close of trading on November 12, 2002.³

³Pursuant to Section 21(D)(e)(1) of the Private Securities Litigation Reform Act of 1995, "in any private action arising under this title in which the plaintiff seeks to establish damages by reference to the market price of a security, the award of damages to the plaintiff shall not exceed the difference between the purchase or sale price paid or received, as appropriate, by the plaintiff for the subject security and the mean trading price of that security during the 90-day period beginning on the date on which the information correcting the misstatement or omission that is the basis for the action is disseminated."

- b. For shares of common stock purchased and sold between April 19, 1999 and July 2, 2002, inclusive, there shall be no Recognized Loss.
- c. For shares of common stock purchased between April 19, 1999 and July 2, 2002, inclusive, and sold between July 3, 2002 and August 14, 2002, the Recognized Loss shall be the lesser of:
 - (1) \$3.25 per share; or
 - (2) the difference between the purchase price per share and the sales price per share for each share sold.
- d. For shares of common stock purchased between July 3, 2002 and August 14, 2002, inclusive, and retained at the end of trading on August 14, 2002, the Recognized Loss shall be the lesser of:
 - (1) \$0.50 per share; or
 - (2) the difference between the purchase price per share and the sales price per share for each share sold between August 15, 2002 and November 12, 2002; or
 - (3) the difference between the purchase price per share and \$1.98 for each share still held at the close of trading on November 12, 2002.
- e. For shares of common stock purchased between July 3, 2002 and August 14, 2002, inclusive, and sold between July 3, 2002 and August 14, 2002, inclusive, there shall be no Recognized Loss.

5. Although the Net Settlement Fund is being allocated among the Class Members based on the formula stated above (subject to Court approval), it should not be assumed that an Authorized Claimant's claim is equal to the amount of damages, if any, which could have been recovered had this Litigation been fully tried instead of settled. The amount of damages which the Lead Plaintiff could prove, if any, is a matter of serious dispute, and the Settlement's use of the formula set forth above does not constitute a concession, finding or admission that any damages could be proven or that provable damages, if any, would be commensurate with a claim. No determination has been made by the Court as to whether **any** Class Member suffered **any** damages, or as to the proper measure of any damages. The determination of damages, like the determination of liability, is a complicated and uncertain process, typically involving conflicting expert opinions. During the course of the Litigation, Defendants, in addition to denying any liability, denied that the Class Members suffered any legally compensable harm. The Settlement avoids the risks to the Class Members that liability or damages might not have been proven at trial.

6. Payment pursuant to the Plan of Allocation set forth herein shall be deemed conclusive against all Authorized Claimants. No Person shall have any claim against any plaintiffs' counsel, or any Claims Administrator or other agent designated by Plaintiffs' Lead Counsel, or against Released Persons or Defendants' Counsel based on distributions made substantially in accordance with the Stipulation and the Settlement contained therein, the Plan of Allocation, or further Orders of the Court. The Released Persons shall have no responsibility for, or any liability whatsoever with respect to, any payment, the timing of any payment, or the failure of any payment to be made, to Plaintiffs' Counsel from the Settlement Fund, nor shall the Released Persons have any responsibility for, or any liability whatsoever, with respect to the refunding of or failure of Plaintiffs' Lead Counsel to refund to the Settlement Fund any money Plaintiffs' Lead Counsel may be ordered to refund. The Released Persons shall have no responsibility for, or any liability whatsoever with respect to, the allocation of the Settlement Fund among Plaintiffs' Counsel and any other Person who may assert some claim thereto, or for any Fee and Expense Awards that the Court may make in this Litigation.

7. All Class Members who fail to complete and file a valid and timely Proof of Claim and Release shall be barred from participating in distributions from the Net Settlement Fund, unless otherwise ordered by the Court, but otherwise shall be bound by all of the terms of the Stipulation, including the terms of any Judgment entered and the releases given.

VII. DISMISSAL AND RELEASES

If the Settlement is approved by the Court, the Court will enter a Judgment which will:

A. Dismiss the Litigation in its entirety as against Defendants with prejudice and without costs to any party as against any other party;

B. Adjudge that the Lead Plaintiff and each Class Member, except those who both timely and validly request exclusion in accordance with the procedures detailed herein, shall be deemed conclusively to have fully, finally and forever settled any and all Released Claims and Unknown Claims (described above and in the Stipulation) against the Released Persons. Notwithstanding that the Lead Plaintiff, or one or more Class Members, may hereafter discover facts in addition to, or different from, those which the Lead Plaintiff or Class Members now know, or believe to be true, with respect to the Litigation and Released Claims or to the subject matter

\$1.98 was the mean closing price of QuadraMed common stock during the 90-day period beginning on August 15, 2002 and ending on November 12, 2002.

of the Litigation or Released Claims, which, if known, might have affected his, her, or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to the Settlement, the Lead Plaintiff and each of the Class Members shall be deemed, upon the Effective Date of the Settlement, to have fully, finally and forever settled and released as against any of the Released Persons, and all Released Claims and Unknown Claims, that have been, or might have been, asserted by the Lead Plaintiff or Class Members, or any of them, against Defendants, or any of them, based upon or related to the purchase or acquisition of QuadraMed common stock by the Lead Plaintiff or Class Members during the Class Period, and the facts, transactions, events, occurrences, acts or omissions which were, or could have been, alleged in the Litigation;

C. Bar and permanently enjoin the Lead Plaintiff and the Class Members from prosecuting the Released Claims (including Unknown Claims) against the Released Persons; and

D. Reserve jurisdiction, without affecting the finality of the Judgment entered, over:

1. Implementation and enforcement of this Settlement and any award or distribution of the Net Settlement Fund, including interest earned or accrued thereon;
2. Disposition of the Settlement Fund and the Net Settlement Fund;
3. Hearing and determining Plaintiffs' Counsel's applications for attorneys' fees, costs, interest, and expenses, including fees and costs of experts and/or consultants and the award of reasonable costs and expenses (including lost wages) directly relating to the representation of the Class to the Lead Plaintiff serving on behalf of the Class;
4. Enforcing and administering the Stipulation, including any releases executed in connection therewith; and
5. Other matters related or ancillary to any of the foregoing.

VIII. SPECIAL NOTICE TO BANKS, BROKERS, AND OTHER NOMINEES

A. To all banks, brokerage firms, institutions, and other Persons that are nominees who purchased or otherwise acquired the common stock of QuadraMed for the beneficial interest of other Persons during the Class Period (April 19, 1999 through August 14, 2002, inclusive), within ten (10) days after you receive this Notice and the accompanying Proof of Claim and Release, you must either: (1) provide the Claims Administrator with the names and addresses of such beneficial owners, **preferably on computer-generated mailing labels or, electronically, in MS Word or WordPerfect files (label size Avery® # 5162), or in an MS Excel data table setting forth (a) title/registration, (b) street address, (c) city/state/zip**; or (2) send a copy of this Notice and the Proof of Claim form to all beneficial owners by first-class mail and provide the Claims Administrator with written confirmation of having done so. Additional copies of the Notice may be obtained by contacting:

In re QuadraMed Corporation Securities Litigation
c/o The Garden City Group, Inc.
Claims Administrator
P.O. Box 9000 #6208
Merrick, NY 11566-9000
Telephone: 866-808-3593
Website: www.gardencitygroup.com

B. You are entitled to the reimbursement of any *reasonable* expenses actually incurred only in connection with the research of records and: (1) the generating of labels or electronic media; or (2) the mailing of this Notice, upon submission to the Claims Administrator of a written request together with all appropriate supporting documentation.

IX. APPLICATION FOR ATTORNEYS' FEES AND COSTS

Plaintiffs' Counsel will apply to the Court, at the conclusion of the Settlement Hearing described below, for an aggregate award of counsel fees of up to twenty-five percent of the Settlement Fund, plus litigation expenses of no greater than \$125,000, together with interest earned on said sums at the same rate, and for the same periods, as earned by the Settlement Fund. In addition, the Lead Plaintiff will be applying for lost wages and unreimbursed expenses for his time spent prosecuting this action in an amount not to exceed \$5,000, in total. Such awards as may be granted by the Court will be paid from the Settlement Fund, and Plaintiffs' Counsel have reserved the right to make additional applications for fees and expenses incurred relating to the Settlement.

The fees sought by Plaintiffs' Counsel are customary in actions brought on a contingency fee basis, and Plaintiffs' Counsel believe they are justified by the time and effort already invested in the prosecution of the Litigation and the result achieved, as well as the time and effort that will be required of Plaintiffs' Counsel prior to final approval of this Settlement. The expense reimbursement sought by Plaintiffs' Counsel consists of expenses actually incurred in the prosecution of the Litigation to date.

X. CONDITIONS OF SETTLEMENT

The Settlement Hearing will be held on July 30, 2004, at 10:00 a.m., before the Honorable Samuel Conti in the United States District Court, Northern District of California, located at 450 Golden Gate Ave., San Francisco, CA 94102. The Settlement is conditioned upon the occurrence of a number of events, any of which may be waived by the mutual agreement of the Settling Parties. Those events include, among other things: (a) entry of the Final Judgment by the Court, as provided for in the Stipulation; and (b) expiration of the time to appeal from the Final Judgment. If, for any reason, any one of the conditions described in §IV-7 of the Stipulation is not met, the Stipulation and the Settlement it proposes might be terminated and, if terminated, will become null and void, and the Settling Parties to the Stipulation will be restored to their respective positions as of February 6, 2004. Likewise, if Defendants exercise their right to withdraw from the Settlement in accordance with the terms of the Stipulation, or if the Settlement is not consummated for any other reason, the Stipulation will become null and void, and the parties will resume their former positions in this action.

XI. THE RIGHTS OF SETTLEMENT CLASS MEMBERS

A. If you are a Member of the Class, you may receive the benefit of, and you will be bound by, the terms of the Settlement described in §VI of this Notice, upon approval of the Settlement by the Court.

B. If you are eligible to be a Member of the Class (that is, if you purchased or otherwise acquired QuadraMed common stock during the period from April 19, 1999 through August 14, 2002, inclusive), you have the following options:

1. You may file a Proof of Claim and Release. If you choose this option: (a) you will remain a Member of the Class; (b) you will share in the proceeds of the Settlement, if your claim is timely and validly filed and if the Settlement is finally approved by the Court; and (c) you will be bound by the Judgment and releases.

2. If you do not wish to be included in the Class, and you do not wish to participate in the Settlement described in this Notice, you may request to be excluded. To do so, you must state **in writing** that you wish to be excluded from the Settlement. Your written request for exclusion must also set forth the name of this Litigation, *In re QuadraMed Corporation Securities Litigation*, Master File No: 02-CV-04770 (SC), your name, address and telephone number, and the name, address and telephone number of the record owner of QuadraMed common stock, if different from your own as the beneficial owner. The exclusion request must also state the number of shares of QuadraMed common stock you purchased or otherwise acquired during the Class Period, and the number of shares of QuadraMed common stock you sold during the Class Period, along with the dates of your purchase(s) and sale(s). The **written** exclusion request must be sent to:

In re QuadraMed Corporation Securities Litigation
c/o The Garden City Group, Inc.
Attn: Exclusions Department
P.O. Box 9000 #6208
Merrick, NY 11566-9000

To be considered valid, the exclusion request must be postmarked no later than July 16, 2004. NO REQUEST FOR EXCLUSION WILL BE CONSIDERED VALID UNLESS ALL OF THE INFORMATION DESCRIBED ABOVE IS INCLUDED IN THE REQUEST.

3. If you validly request exclusion from the Class: (a) you will be excluded from the Class; (b) you will not share in the proceeds of the Settlement described herein; (c) you will not be bound by any Judgment entered in the Litigation; and (d) you will not be precluded from otherwise prosecuting an individual claim at your own expense, if timely, against Defendants based on the matters complained of in the Litigation.

4. If you do not request to be excluded from the Class, you will be bound by any and all determinations or judgments in the Litigation concerning the Settlement entered or approved by the Court, whether favorable or unfavorable to the Class Members, including, without limitation, the Judgment described above.

5. If you do not request to be excluded from the Class, you may object to the Settlement, the Plan of Allocation and/or the application of Plaintiffs' Counsel for an award of attorneys' fees and reimbursement of expenses in the manner set forth below. The filing of a Proof of Claim and Release form by a Class Member does not preclude a Class Member from objecting to the Settlement, the Plan of Allocation, or the fees and expenses applied for by Plaintiffs' Counsel. However, if your objection is rejected, you will be bound by the Settlement and the Judgment just as if you had not objected.

6. You may do nothing at all. If you choose this option, you will not share in the proceeds of the Settlement, but you will be bound by the Judgment just as if you had filed a Proof of Claim and Release form.

7. If you are a Member of the Class, you may, but are not required to, enter an appearance in writing through counsel of your own choosing at your own expense. If you do not do so, you will be represented by Plaintiffs' Lead Counsel.

XII. THE RIGHT TO BE HEARD AT THE SETTLEMENT HEARING

A. At the Settlement Hearing, the Court will consider: (1) whether the Settlement is fair, reasonable and adequate; (2) whether it should be approved by the Court; (3) whether Judgment should be entered dismissing the Litigation on the merits and with prejudice as against Defendants; (4) whether the proposed Plan of Allocation is fair and reasonable; and (5) whether the application of Plaintiffs' Counsel for attorneys' fees and reimbursement of costs and expenses should be approved. However, any objections or oppositions must be made in advance, in writing, setting forth each objection and the basis therefore, as set forth below. The Settlement Hearing may be continued or adjourned, from time to time and without further notice to the Class, by Order of the Court.

B. Any Member of the Class who has not requested exclusion may appear at the Settlement Hearing to show cause why the Settlement should or should not be approved and the Litigation should or should not be dismissed on the merits with prejudice, and/or to present any opposition to the Plan of Allocation or the application of Plaintiffs' Counsel for fees and expenses. However, no such Person shall be heard, unless his, her, or its objection or statement of support is made in writing and is filed, together with copies of all other papers and briefs, and submitted by him, her, or it with the Court no later than July 16, 2004 and showing due proof of service on:

Clerk of the Court
United States District Court
Northern District of California
450 Golden Gate Ave.
San Francisco, CA 94102

Andrew L. Barroway
Michael K. Yarnoff
SCHIFFRIN & BARROWAY LLP
Three Bala Plaza East, Suite 400
Bala Cynwyd, PA 19004

Plaintiffs' Lead Counsel

Mary T. Huser
BINGHAM McCUTCHEN, LLP
1900 University Avenue
East Palo Alto, CA 94303

Stephen A. Scott
HAYES, DAVIS, ELLINGSON,
McLAY, SCOTT, LLP
120 Constitution Drive
Menlo Park, CA 94025

Counsel for Defendants QuadraMed Corp., James D. Durham, John V. Cracchiolo, Lawrence P. English and Mark N. Thomas

Counsel for Defendant Pisenti & Brinker, LLP

Any Member of the Class who does not make his, her or its objection or statement of support in the manner provided shall be deemed to have waived all objections and opposition to the fairness, reasonableness and adequacy of the Settlement, the Plan of Allocation, or to the request of Plaintiffs' Counsel for attorneys' fees and expenses.

XIII. EXAMINATION OF PAPERS AND INQUIRIES

For a more detailed statement of the matters involved in the Litigation and the Settlement thereof, reference is made to the pleadings, to the Stipulation and to other papers filed in the Litigation, which may be inspected at the Office of the Clerk of the United States District Court, Northern District of California, 450 Golden Gate Ave., San Francisco, CA 94102, during the business hours of each business day.

Inquiries regarding the Litigation or this Notice should be addressed as follows:

In re QuadraMed Corporation Securities Litigation
c/o The Garden City Group, Inc.
Claims Administrator
P.O. Box 9000 #6208
Merrick, NY 11566-9000
Telephone: 866-808-3593
Website: www.gardencitygroup.com

However, communications which convey confidential information should be sent directly to Plaintiffs' Lead Counsel, or to your own attorney.

DO NOT CONTACT THE COURT OR THE CLERK'S OFFICE REGARDING THIS NOTICE.

Dated: May 10, 2004

BY ORDER OF THE UNITED STATES DISTRICT COURT FOR
THE NORTHERN DISTRICT OF CALIFORNIA

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