

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

FORM 10-Q

(Mark One)

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: May 31, 2007 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: 0-11411

QMed, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-2468665

(I.R.S. Employer
Identification No.)

25 Christopher Way, Eatontown, New Jersey

(Address of principal executive offices)

07724

(Zip Code)

(732) 544-5544

(Registrant's telephone number, including area code)

N/A

Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report

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 _____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes _____ No X

The number of shares of the registrant's common stock outstanding on July 5, 2007: 17,046,198.

QMED, INC. AND SUBSIDIARIES
FORM 10-Q

For the Quarter Ended May 31, 2007

INDEX

	<u>Page</u>
Part I. Financial Information	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of May 31, 2007 and November 30, 2006.....	1
Condensed Consolidated Statements of Operations for the Three and Six Months Ended May 31, 2007 and 2006	2
Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended May 31, 2007 and 2006	3
Condensed Consolidated Statements of Stockholders' Equity for the Six Months Ended May 31, 2007	4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended May 31, 2007 and 2006	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	26
Item 4. Controls and Procedures.....	26
Part II Other Information	
Item 1. Legal Proceedings	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	27
Item 3. Defaults Upon Senior Securities.....	27
Item 4. Submission of Matters to a Vote of Security Holders	27
Item 5. Other Information.....	28
Item 6. Exhibits.....	28
Signature	
Certifications	

Part I.
Item 1. Financial Statements

QMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2007	November 30,
	(unaudited)	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,629,517	\$ 3,039,695
Investments	5,447,155	10,867,815
Accounts receivable, net of allowances of \$35,887 and \$59,505, respectively	2,596,799	2,005,485
Inventory, net of reserve	14,967	36,631
Prepaid commissions	459,681	-
Prepaid expenses and other current assets	757,867	301,282
	<u>12,905,986</u>	<u>16,250,908</u>
Restricted cash and cash equivalents, non-current	2,957,288	705,881
Property and equipment, net of accumulated depreciation	856,405	989,329
Product software development costs, net	2,113,721	2,104,788
Acquired intangibles, net	504,126	587,027
Other assets	144,838	149,202
Investment in joint ventures	19,050	23,703
	<u>\$ 19,501,414</u>	<u>\$ 20,810,838</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,081,966	\$ 2,827,223
Medical claims payable	2,717,312	364,830
Leases payable, current portion	29,458	65,881
Accrued salaries and commissions	449,187	446,740
Fees reimbursable to health plans	14,990	47,005
Contract billings in excess of revenue	1,564,667	1,396,423
Deferred warranty revenue	9,700	16,583
	<u>6,867,280</u>	<u>5,164,685</u>
Leases payable – long term	-	11,645
Accrued severance payable, long term	317,863	619,643
	<u>7,185,143</u>	<u>5,795,973</u>
Commitments and Contingencies		
Stockholders' equity		
Common stock \$.001 par value; 40,000,000 shares authorized; 17,007,489 and 16,858,539 shares issued and 16,985,489 and 16,836,539 outstanding, respectively	17,007	16,859
Paid-in capital	54,600,015	53,433,095
Accumulated deficit	(42,221,669)	(38,354,696)
Accumulated other comprehensive loss		
Unrealized loss on securities available for sale	(3,457)	(4,768)
	<u>12,391,896</u>	<u>15,090,490</u>
Less treasury stock at cost, 22,000 common shares	(75,625)	(75,625)
Total stockholders' equity	<u>12,316,271</u>	<u>15,014,865</u>
	<u>\$ 19,501,414</u>	<u>\$ 20,810,838</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

QMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended May 31, 2007	For the Three Months Ended May 31, 2006	For the Six Months Ended May 31, 2007	For the Six Months Ended May 31, 2006
Revenue	\$ 9,451,323	\$ 1,921,695	\$ 15,793,121	\$ 5,104,318
Cost of revenue	<u>8,240,565</u>	<u>1,680,566</u>	<u>13,310,781</u>	<u>3,579,455</u>
Gross profit	<u>1,210,758</u>	<u>241,129</u>	<u>2,482,340</u>	<u>1,524,863</u>
Selling, general and administrative expenses	4,038,774	3,599,776	8,045,628	7,073,864
Research and development expenses	<u>521,260</u>	<u>430,698</u>	<u>949,055</u>	<u>882,030</u>
Loss from operations	(3,349,276)	(3,789,345)	(6,512,343)	(6,431,031)
Interest expense	(6,962)	(4,960)	(14,941)	(10,809)
Interest income	159,481	189,359	321,375	375,319
Loss in operations of joint ventures	(6,827)	(18,678)	(24,973)	(38,438)
Other income	<u>400,000</u>	<u>450,000</u>	<u>2,375,400</u>	<u>450,000</u>
Loss before income tax				
Provision	(2,803,584)	(3,173,624)	(3,855,482)	(5,654,959)
(Provision) benefit for income taxes	<u>(5,613)</u>	<u>(1,725)</u>	<u>(11,491)</u>	<u>47,414</u>
Net loss	\$ <u>(2,809,197)</u>	\$ <u>(3,175,349)</u>	\$ <u>(3,866,973)</u>	\$ <u>(5,607,545)</u>
Basic and diluted loss per share				
Weighted average shares outstanding	<u>16,978,568</u>	<u>16,802,768</u>	<u>16,935,840</u>	<u>16,794,636</u>
Basic and diluted loss per share	\$ <u>(0.17)</u>	\$ <u>(0.19)</u>	\$ <u>(0.23)</u>	\$ <u>(0.33)</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

QMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended May 31, 2007	For the Three Months Ended May 31, 2006	For the Six Months Ended May 31, 2007	For the Six Months Ended May 31, 2006
Net loss	\$ (2,809,197)	\$ (3,175,349)	\$ (3,866,973)	\$ (5,607,545)
Other comprehensive income				
Unrealized gain on securities available for sale	536	9,106	1,311	18,161
Comprehensive loss	<u>\$ (2,808,661)</u>	<u>\$ (3,166,243)</u>	<u>\$ (3,865,662)</u>	<u>\$ (5,589,384)</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

QMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Six Months Ended May 31, 2007
(Unaudited)

	<u>Common Stock</u>		<u>Paid-in</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Common Stock Held</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Other Comprehensive Loss</u>	<u>Shares</u>	<u>Amount</u>	
Balance – November 30, 2006	16,858,539	\$ 16,859	\$ 53,433,095	\$ (38,354,696)	\$ (4,768)	22,000	\$ (75,625)	\$ 15,014,865
Exercise of stock options and Warrants	137,941	137	381,867					382,004
Issuance in connection with the Directors Equity Plan	11,009	11	47,927					47,938
Share-based employee compensation expense			737,126					737,126
Net loss for the six months ended May 31, 2007				(3,866,973)				(3,866,973)
Change in unrealized holding gains on securities available for sale					1,311			1,311
Balance – May 31, 2007	<u>17,007,489</u>	<u>\$ 17,007</u>	<u>\$ 54,600,015</u>	<u>\$ (42,221,669)</u>	<u>\$ (3,457)</u>	<u>22,000</u>	<u>\$ (75,625)</u>	<u>\$ 12,316,271</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

QMED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended May 31, 2007	For the Six Months Ended May 31, 2006
Cash flows from operating activities:		
Net loss	\$ (3,866,973)	\$ (5,607,545)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Loss in operations of joint ventures	24,973	38,438
Depreciation and amortization	581,509	375,716
Provision for loss on accounts receivable	20,190	4,464
Provision for slow-moving inventory	11,859	-
Stock compensation expense	47,938	27,738
Share-based employee compensation expense	737,126	946,628
Amortization of non-employee stock options	-	55,375
Amortization of bond discounts and premiums	518	(45,549)
(Increase) decrease in		
Accounts Receivable	(611,504)	1,427,620
Inventory	9,805	1,230
Prepaid expenses and other current assets	(916,266)	131,690
Increase (decrease) in		
Accounts payable and accrued liabilities	(1,076,605)	(170,161)
Medical claims payable	2,352,482	123,862
Contract billings in excess of revenues and deferred revenue	161,361	560,080
Other, net	-	(73,645)
Total adjustments	<u>1,343,386</u>	<u>3,403,486</u>
Net cash used in operating activities	<u>(2,523,587)</u>	<u>(2,204,059)</u>
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	5,588,996	5,260,001
Purchases of securities available for sale	(167,543)	(481,507)
Increase in restricted cash and cash equivalents – long term	(2,251,407)	(705,881)
Capital expenditures	(62,633)	(97,137)
Product software development expenditures	(307,621)	(491,818)
Investment in joint venture	(20,319)	(60,005)
Net cash provided by investing activities	<u>2,779,473</u>	<u>3,423,653</u>
Cash flows from financing activities:		
Payments for capital leases	(48,068)	(73,031)
Proceeds from exercise of stock options	382,004	111,819
Net cash provided by financing activities	<u>333,936</u>	<u>38,788</u>
Net increase in cash and cash equivalents	589,822	1,258,382
Cash and cash equivalents at beginning of period	<u>3,039,695</u>	<u>4,051,046</u>
Cash and cash equivalents at end of period	\$ <u>3,629,517</u>	\$ <u>5,309,428</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 5,449	\$ 10,809
Income taxes	12,389	89,655

See Accompanying Notes to Condensed Consolidated Financial Statements

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Interim Financial Reporting

The accompanying unaudited condensed consolidated financial statements of QMed, Inc. and its subsidiaries (the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month period ended May 31, 2007 are not necessarily indicative of the results that may be expected for the current fiscal year ending November 30, 2007. These condensed consolidated financial statements include the accounts of QMed, Inc., its wholly owned subsidiaries; Interactive Heart Management Corp. (“IHMC”); QMedCare, Inc., its wholly owned subsidiaries; QMedCare of New Jersey, Inc., and Positive Directions, Inc. (formerly Forward Health, Inc.). These condensed consolidated financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended November 30, 2006.

Note 2 – Revenue Recognition

Managed Care Services

The Company’s captive insurance company, LakeShore Captive Insurance Company, entered into an agreement whereby the captive insurance company assumes 100% of the risk associated with the operations of a Special Needs Plan (“SNP”) in South Dakota. In addition, on January 1, 2007, QMedCare of New Jersey commenced operations of its SNP in New Jersey. The SNPs offer comprehensive health care coverage and prescription drug benefits for chronically ill Medicare recipients. The Company receives a fixed monthly member premium and a Medicare risk-adjusted premium, which is based upon the diagnoses of the enrolled member as captured by claims data from the prior year. The cost of health care provided is accrued in the period it is dispensed to the enrolled members, based in part on estimates for services and other health care costs that have been incurred but not yet reported or paid (IBNP), classified as “medical claims payable” on the condensed consolidated balance sheet. The Company’s estimates are initially based upon an independent actuarial model of expected costs. This model included factors such as age, gender and demographics. As the plan matures, the Company will develop these estimates using standard actuarial methods which may include, among other factors, the average interval between the dates services are rendered and the date claims are paid, denied claims activity, disputed claims activity, expected health care cost inflation, utilization, seasonality patterns and changes in membership. The Company records its best estimate of the liability for incurred claims; however, such estimates could materially understate or overstate our actual liability for medical and benefits payable. The estimates for submitted claims and IBNP claims liabilities are made on an accrual basis and adjusted in future periods as required. Adjustments to prior period estimates or financial results, if any, are included in current operations.

The Company records revenue from health care premiums received in the month that enrollees are entitled to coverage. Revenue for the Managed Care segment totaled approximately \$8,233,000 and \$313,000 for the three months ended May 31, 2007 and 2006, respectively. Revenue for the Managed Care segment totaled approximately \$12,824,000 and \$438,000 for the six months ended May 31, 2007 and 2006, respectively. For the three and six months ended May 31, 2007, revenue derived from this segment was approximately 87% and 81% of total revenue, respectively.

Generally, pharmacy benefits under Medicare Advantage (“MA”) plans (collectively referred to as “Part D plans”) may vary in terms of coverage levels and out-of-pocket costs for beneficiary premiums, deductibles and co-insurance. However, all Part D plans must offer either “standard coverage” or its actuarial equivalent (with out-of-pocket threshold and deductible amounts that do not exceed those of standard coverage). These “defined standard” benefits represent the minimum level of benefits mandated by Congress. In addition to defined standard plans, the Company offers prescription drug plans containing benefits in excess of the standard coverage limits as part of the monthly premium.

The monthly payment for Part D received from the Centers for Medicare and Medicaid Services, or CMS, generally represents the Company’s actuarially certified bid amount for providing prescription drug insurance coverage. However, our CMS payment is subject to 1) plan liability risk corridors and 2) low income cost sharing in order for the Company

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 – Revenue Recognition – (continued)
Managed Care Services – (continued)

and CMS to share the risk associated with financing the ultimate costs of our Part D benefit. Since the Company participates in the Flexible Capitation Reinsurance Demonstrations, there will not be reconciliation items for the Federal

Reinsurance component of the Part D Reconciliation.

The amount of revenue payable to a plan by CMS is subject to adjustment, positive or negative, based upon the application of risk corridors that compare a plan's revenue targeted in their bids ("target amount") to actual prescription drug costs. Variances exceeding certain thresholds may result in CMS making additional payments to the Company or require the Company to refund to CMS a portion of the premiums received. Actual prescription drug costs subject to risk sharing with CMS are limited to the costs that are, or would have been, incurred under the CMS "defined standard" benefit plan ("allowable risk corridor costs"). Included in the medical claims payable is an estimate of this adjustment totaling approximately \$51,000.

The Company recognizes pharmacy benefit costs as incurred. The Company has subcontracted the pharmacy claims administration to a third party pharmacy benefit manager.

The Company also entered into a services agreement with DAKOTACARE, a large health maintenance organization, to administer the SNP in South Dakota and New Jersey. In accordance with the agreement, the Company records revenue on a monthly basis as services are rendered.

Broker commissions related to the SNPs are paid at the time of enrollment and amortized on a straight-line basis over twelve months beginning with the effective date of coverage. Commissions are adjusted for subsequent disenrollments during the period. As a result, the unamortized balance of the commission payments are classified as prepaid on the balance sheet.

Disease Management

The Company enters into contractual arrangements with health plans and government agencies to provide disease management services. Fees under the Company's health plan contracts are generally determined by multiplying a contractually negotiated rate per health plan member per month ("PMPM") by the number of health plan members covered by the Company's services during the month. The PMPM rates usually differ between contracts due to the various types of health plan product groups (e.g. PPO, HMO, Medicare Advantage). These contracts are generally for terms of one to three years with provisions for subsequent renewal, and typically provide for a small portion of the Company's fees may be "performance-based". The Company bills its customers each month for the entire amount of the fees contractually due based on previous month's membership, which always includes the amount, if any that may be subject to refund for member retroactivity and a shortfall in performance. The Company adjusts or defers revenue for contracts where it believes performance is short of contractual obligations. Adjustments for shortfalls in performance targets under the terms of the contract or other factors affecting revenue recognition are accrued on an estimated basis in the period the services are provided and are adjusted in future periods when final settlement is determined. The Company reviews these estimates periodically and makes adjustments, as interim information is available.

Under performance based arrangements, the ability to make estimates at interim periods can be challenging due to the inherent nature of the medical claims process and the claims lag time associated with it. In most cases, paid claims data is not available until up to six months after claims are incurred. Although interim data measurement is indicative of performance objectives, actual results could differ from those estimates. As of May 31, 2007, based on information and data available, the Company has deferred approximately \$1,565,000 of revenue, which may be subject to refund. This deferral has been reflected as contract billings in excess of revenues on the balance sheet.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 – Impairment of Intangible Assets

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” the Company is required to review intangible assets for impairment on an annual basis or more frequently whenever events or circumstances indicate that the carrying value may not be recoverable.

The Company amortizes other identifiable intangible assets, such as acquired technologies and other intangibles, on the straight-line method over their estimated useful lives, except for trade names, which have an indefinite life and are not subject to amortization. The Company reviews intangible assets not subject to amortization on an annual basis or more frequently whenever events or circumstances indicate that the assets might be impaired. The Company also assesses the potential impairment of intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying values may not be recoverable.

If the Company determines that the carrying value of other identifiable intangible assets may not be recoverable, the Company calculates any impairment using an estimate of the asset’s fair value based on the projected net cash flows expected to result from that asset, including eventual disposition.

Note 4 – Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of deferral, contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 5 – Investments in Securities

Investment in securities treated as available-for-sale as of May 31, 2007 and November 30, 2006 were as follows:

<u>2007</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate debt securities	\$ <u>5,450,612</u>	\$ <u>5,447,155</u>	\$ <u>(3,457)</u>
<u>2006</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate debt securities	\$ <u>10,872,583</u>	\$ <u>10,867,815</u>	\$ <u>(4,768)</u>

Note 6 – Accounts Receivable

Accounts receivable primarily represent fees and insurance premiums receivable that are contractually due in the ordinary course of providing a service, net of contractual adjustments and the allowance for doubtful accounts.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 – Inventory

Inventories, consisting of finished units and raw materials, are stated at the lower of cost (determined on a moving weighted average method) or market. Inventories consist of the following:

	May 31, 2007 (Unaudited)	November 30, 2006
Raw materials (component parts)	\$ 115,812	\$ 114,225
Finished units	22,074	33,466
Total inventory	\$ 137,886	\$ 147,691
Reserve for slow moving inventory	(122,919)	(111,060)
Net inventory	\$ 14,967	\$ 36,631

Note 8 – Product Software Development Costs

During the three months ended May 31, 2007 and 2006, the Company capitalized approximately \$83,000 and \$294,000, respectively, in product software development costs. During the six months ended May 31, 2007 and 2006, the Company capitalized approximately \$308,000 and \$492,000, respectively. These costs are being amortized over a two to five-year useful life.

During the three months ended May 31, 2007 and 2006, amortization expense related to product software development costs was approximately \$158,000 and \$55,000, respectively. During the three months ended May 31, 2007 and 2006 amortization expense related to product software development costs was approximately \$299,000 and \$99,000, respectively. Accumulated amortization was \$1,200,072 and \$714,768 at May 31, 2007 and 2006, respectively. Estimated amortization expense is \$316,000 for the remainder of fiscal year 2007, \$591,000 for fiscal year 2008, \$556,000 for fiscal year 2009, \$363,000 for fiscal year 2010, \$257,000 for fiscal year 2011 and \$31,000 thereafter.

Note 9 – Restricted Cash and Cash Equivalents

In December 2005, the Company established a \$250,000 letter of credit with Wachovia Bank, N.A. to establish the appropriate capital required for the Company's captive insurance company in South Carolina. The letter of credit is collateralized by cash and expires on December 31, 2007. These funds were classified as noncurrent assets as the cash was not available for current operations and the Company had intent on extending the letter of credit at the time of expiration. In May 2007, the letter of credit was released by the State of South Carolina and accordingly, the funds are classified as current assets as the cash is available for current operations. The funds are currently invested in a money market account.

In May 2006, the Company received approval of their application to obtain a license to operate as a Health Maintenance Organization within the State of New Jersey from the Department of Banking and Insurance. In accordance with statutory requirements, the Company was required to establish an administrative reserve in the amount of approximately \$456,000. These funds are classified as noncurrent assets as the cash is not available for current operations. The funds are currently invested in certificates of deposit.

In December 2006, the Company funded an additional \$2.5 million representing an insolvency reserve established for QMedCare of New Jersey, Inc. as required by the State of New Jersey Department of Banking and Insurance. These funds are classified as noncurrent assets as the cash is not available for current operations. The funds are held in trust currently invested in certificates of deposit.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 – Acquired Intangibles

In April 2005, the Company acquired all of the outstanding common stock of Positive Directions, Inc. (formerly Forward Health, Inc.). Positive Directions had developed a weight management program but had not yet commenced significant operations. In accordance with SFAS No. 141 “Business Combinations,” this transaction was accounted for as a purchase of assets as defined by EITF Issue No. 98-3 “Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business” rather than a business combination. Accordingly, no goodwill was recorded from this acquisition, as consideration in excess of the fair value of identified assets was allocated pro-rata to the identified intangible assets. The aggregate purchase price was \$500,000, which consisted of \$200,000 in cash and \$300,000 of common stock. In addition, transaction costs were approximately \$30,000. As additional consideration under the purchase agreement, the company would be obligated to release an additional 60,709 shares of common stock upon certain targets being achieved in 2006. The targets for 2006 were not achieved and as a result, the Company has no obligation to release these shares. Pursuant to FAS No. 141 the direct costs to acquire Positive Directions have been allocated to the assets acquired based upon an independent appraisal and the contingent consideration will be recorded if and when it becomes due and payable.

In October 2005, the Company acquired all of the assets of Disease Management Technologies, Inc. (“DMT”). DMT had developed a website for a weight management program that will complement Positive Direction’s existing weight management program but had not yet commenced significant operations. In accordance with SFAS No. 141 “Business Combinations,” this transaction was accounted for as a purchase of assets as defined by EITF Issue No. 98-3 “Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business” rather than a business combination. Accordingly, no goodwill was recorded from this acquisition, as consideration in excess of the fair value of identified assets was allocated pro-rata to the identified intangible assets. The aggregate purchase price was \$302,000, which consisted of \$250,000 in cash and \$52,000 of common stock. In addition, transaction costs were approximately \$42,000. As additional consideration under the purchase agreement, the company would be obligated to issue an additional 87,664 shares of common stock upon certain targets being achieved in 2006. The targets for 2006 were not achieved and as a result, the Company has no obligation to release these shares. Pursuant to FAS No. 141 the direct costs to acquire DMT have been allocated to the assets acquired based upon an independent appraisal and the contingent consideration will be recorded if and when it becomes due and payable.

The following table summarizes the estimated fair value of the assets acquired and their balances as of May 31, 2007:

	Original Fair <u>Value</u>	Accumulated <u>Amortization</u>	Net Book <u>Value</u>	Useful Life <u>in Years</u>
Positive Directions:				
Covenant not to compete	\$ 483,363	\$ (205,429)	\$ 277,934	5
Acquired technology	46,307	(19,680)	26,627	5
DMT:				
Software and contents	299,348	(99,783)	199,565	5
Assembled workforce	45,117	(45,117)	-	-
	<u>\$ 874,135</u>	<u>\$ (370,009)</u>	<u>\$ 504,126</u>	

During the three months ended May 31, 2007, amortization expense related to the covenant not to compete, acquired technology, and software and contents was \$24,168, \$2,315, and \$14,968, respectively. During the three months ended May 31, 2006, amortization expense related to the covenant not to compete, acquired technology, software and contents, and assembled workforce was \$24,168, \$2,315, \$14,967 and \$2,820, respectively. During the six months ended May 31, 2007, amortization expense related to the covenant not to compete, acquired technology and software and contents was \$48,336, \$4,630, and \$29,935, respectively. During the six months ended May 31, 2006, amortization expense related to the covenant not to compete, acquired technology, software and contents, and assembled workforce was \$48,336, \$4,631, \$29,935 and \$5,639, respectively. Estimated amortization expense is \$83,000 for the remainder of fiscal year 2007, \$166,000 for fiscal years 2008 and 2009, and \$90,000 for the fiscal year thereafter.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 – Investment in Joint Ventures

The Company has a 33.33% interest in HealthSuite Partners, LLC (“HSP”). The management agreement provides for profits and losses to be allocated based on the Company’s 33.33% interest. As of May 31, 2007, the Company has recorded losses to date of approximately \$254,000 bringing its investment in this joint venture to approximately \$19,000. This joint venture is not a variable interest entity and therefore is not required to be consolidated under the provisions of FIN 46R. As of May 31, 2007, approximately \$704,000 is due from this joint venture, which is included in accounts receivable, \$655,000 of which represents a withhold against performance guarantees.

Note 12 – Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following:

	May 31, 2007 (Unaudited)	November 30, 2006
Accounts payable trade	\$ 930,142	\$ 1,378,999
Insurance premiums payable	39,387	79,124
Professional fees payable	516,634	609,553
Accrued severance payable, current	316,785	323,776
Other accrued expenses – none in excess of 5% of current liabilities	279,018	435,771
	<u>\$ 2,081,966</u>	<u>\$ 2,827,223</u>

Note 13 – Medical Claims Payable

The following table represents a roll-forward of our medical claims reserve inclusive of our incurred but not reported or paid (IBNP) reserve as of the period indicated:

	For the Six Months Ended May 31, 2007
IBNP as of December 1, 2006	\$ 364,830
Health care claim expenses incurred during the period	4,125,800
Health care claims paid during the period	(2,167,886)
IBNP as of February 28, 2007	<u>\$ 2,322,744</u>
Health care claim expenses incurred during the period	7,255,937
Health care claims paid during the period	(6,861,369)
IBNP as of May 31, 2007	<u><u>\$ 2,717,312</u></u>

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 – Medical Claims Payable – (continued)

Included in the health care claim expenses incurred during the period is our provision for the IBNP reserve. The IBNP reserve for the SNP in South Dakota was estimated utilizing an independent actuarial analysis performed at November 30, 2006. For 2007, with the significant increase in enrollment in the South Dakota SNP and the commencement of the QMedCare of New Jersey, Inc. SNP, the Company's estimates for the six months ended May 31, 2007 are based upon an independent actuarial model of expected costs.

Note 14 – Fees Reimbursable to Health Plans

Health plans utilizing the disease management program of the Company pay participating physicians fees for their services related to use of the program. Such fees are additional costs to the health plan, which in some cases are deducted from fees paid to the Company. As of May 31, 2007 and November 30, 2006, there were \$14,990 and \$47,005 outstanding under these provisions, respectively.

Note 15 – Accrued Severance Payable

On November 28, 2006, the Company incurred certain obligations under the terms of the employment agreement related to separation of service of its former CEO. These obligations consist of: (i) three times last base salary, to be paid in three equal annual installments, with the first installment to be paid no later than thirty (30) days after November 28, 2006 (the "Payment Date"), and thereafter, the second and third installments on each of the next two annual anniversaries of the payment date; (ii) immediate vesting of all options; and (iii) continued coverage, at the Company's expense for a period of 36 months from November 28, 2006 under all executive health plans in which the Executive participates as of November 28, 2006. As of May 31, 2007, the Company has a liability of \$634,648 representing the present value of these obligations using an interest rate of 4% of which \$316,785 is included within accounts payable and accrued expenses and \$317,863 is classified as long term.

Note 16 – Income Taxes

The Company has cumulative pre-tax losses through the period ended May 31, 2007 for financial reporting purposes. Recognition of deferred tax assets will require generation of future taxable income. Given the recent non-renewal of disease management contracts and the costs associated with the new business segments, there can be no assurance that the Company will generate earnings in future years. Therefore, the Company established a 100% valuation allowance on its deferred tax assets.

Note 17 – Business Segment Information

The Company presents segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company's senior management.

The Company has decided to incorporate the health and wellness programs of Positive Directions, Inc. as part of its disease management offerings. As a result, the Company is currently organized into two business units, disease-management services and specialty managed care services, which are considered reportable segments. The segments are managed separately and the Company evaluates performance on operating profits of the respective segments. The Company supports these segments with shared human resources, financial, clinical, sales and marketing, operations and information technology resources. The accounting policies of the operating segments are substantially consistent with those applied in the condensed consolidated financial statements. Income (loss) before income taxes by operating segment excludes general corporate expenses.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 – Business Segment Information – (continued)

Summarized financial information by operating segment for three and six months ended May 31, 2007 and 2006 is as follows:

Three Months Ended May 31, 2007

	Disease Management <u>Services</u>	Managed Care <u>Services</u>	General Corporate	<u>Elimination</u>	Total <u>Consolidated</u>
Revenue	\$ 1,218,328	\$ 8,232,995	\$ -	\$ -	\$ 9,451,323
Revenue – related parties	621,120	-	-	(621,120)	-
Cost of revenue/medical expenses	778,302	7,225,937	-	-	8,034,239
Cost of revenue - reinsurance	-	206,326	-	-	206,326
General operating expenses	1,701,430	2,269,588	1,064,444	(621,120)	4,414,342
Settlement proceeds	400,000	-	-	-	400,000
Loss before income taxes	(240,284)	(1,498,856)	(1,064,444)	-	(2,803,584)
Depreciation and amortization	209,437	4,706	84,942	-	299,085
Expenditures for long-lived assets	83,123	13,375	27,766	-	124,264

Three Months Ended May 31, 2006

	Disease Management <u>Services</u>	Managed Care <u>Services</u>	General Corporate	<u>Elimination</u>	Total <u>Consolidated</u>
Revenue	\$ 1,608,699	\$ 312,996	\$ -	\$ -	\$ 1,921,695
Revenue – related parties	20,610	-	-	(20,610)	-
Cost of revenue/medical expenses	1,413,359	267,207	-	-	1,680,566
General operating expenses	2,117,808	902,563	414,992	(20,610)	3,414,753
Loss before income taxes	(1,901,858)	(856,774)	(414,992)	-	(3,173,624)
Depreciation and amortization	125,816	442	67,505	-	193,763
Expenditures for long-lived assets	310,591	35,135	9,760	-	355,486

Six Months Ended May 31, 2007

	Disease Management <u>Services</u>	Managed Care <u>Services</u>	General Corporate	<u>Elimination</u>	Total <u>Consolidated</u>
Revenue	\$ 2,969,673	\$ 12,823,448	\$ -	\$ -	\$ 15,793,121
Revenue – related parties	961,320	-	-	(961,320)	-
Cost of revenue/medical expenses	1,722,718	11,381,737	-	-	13,104,455
Cost of revenue - reinsurance	-	206,326	-	-	206,326
General operating expenses	3,437,534	4,137,480	2,099,128	(961,320)	8,712,822
Settlement proceeds	2,375,000	-	-	-	2,375,000
Income (loss) before income taxes	1,145,741	(2,902,095)	(2,099,128)	-	(3,855,482)
Depreciation and amortization	406,284	9,033	166,192	-	581,509
Expenditures for long-lived assets	304,421	16,575	49,258	-	370,254
Identifiable assets	6,043,252	8,378,701	15,111,501	(10,032,040)	19,501,414

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 – Business Segment Information – (continued)

Six Months Ended May 31, 2006

	Disease Management Services	Managed Care Services	General Corporate	Elimination	Total Consolidated
Revenue	\$ 4,666,233	\$ 438,085	\$ -	-	\$ 5,104,318
Revenue – related parties	28,620	-	-	(28,620)	-
Cost of revenue/medical expenses	3,208,424	371,031	-	-	3,579,455
General operating expenses	4,507,346	1,841,634	859,462	(28,620)	7,179,822
Loss before income taxes	(3,020,917)	(1,774,580)	(859,462)	-	(5,654,959)
Depreciation and amortization	241,173	442	134,101	-	375,716
Expenditures for long-lived assets	508,713	35,135	45,107	-	588,955
Identifiable assets	8,110,681	730,942	19,094,668	(1,361,491)	26,574,800

Related party revenue represents an agreement entered into by QMedCare Dakota, LLC with QMed Inc. for disease management services in connection with the administration of the SNP in South Dakota and New Jersey.

Note 18 – Share-Based Compensation

The Company has shareholder-approved stock incentive plans for employees. Effective December 1, 2005, we adopted SFAS No. 123(R), “Share-Based Payment,” using the modified prospective transition method. Under the modified prospective transition method, recognized compensation cost includes: 1) compensation cost for all share-based payments granted prior to, but not yet vested as of, December 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123; and 2) compensation cost for all share-based payments granted on or after December 1, 2005, based on the grant date fair value estimated in accordance with Statement 123(R). In accordance with the modified prospective method, we have not restated prior period results.

For the three months ended May 31, 2007, we recognized share-based compensation cost of \$342,878, which consisted of \$32,930 in cost of services, \$291,197 in selling, general and administrative expenses and \$18,751 in research and development. For the three months ended May 31, 2006, we recognized share-based compensation cost of \$504,042, which consisted of \$60,739 in cost of services, \$408,862 in selling, general and administrative expenses and \$34,441 in research and development.

For the six months ended May 31, 2007, we recognized share-based compensation cost of \$737,126, which consisted of \$55,860 in cost of services, \$642,624 in selling, general and administrative expenses and \$38,642 in research and development. For the six months ended May 31, 2006, we recognized share-based compensation cost of \$946,628, which consisted of \$130,045 in cost of services, \$745,610 in selling, general and administrative expenses and \$70,973 in research and development. The Company did not capitalize any share-based compensation cost.

As a result of adopting Statement 123(R), loss before income taxes and net loss for the three months ended May 31, 2007 and 2006 totaling \$342,878 and \$504,042, respectively, were lower than if the Company had continued to account for share-based compensation under APB 25. As a result of adopting Statement 123(R), loss before income taxes and net loss for the six months ended May 31, 2007 and 2006 totaling \$737,126 and \$946,628, respectively, were lower than if the Company had continued to account for share-based compensation under APB 25. The effect of adopting Statement 123(R) on basic and diluted earnings per share was \$.02 and \$.03 for the three months ended May 31, 2007 and 2006, respectively, and \$.04 and \$.06 for the six months ended May, 31, 2007 and 2006, respectively.

Prior to adopting Statement 123(R), we presented the tax benefit of stock option exercises as operating cash flows. Statement 123(R) requires that tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options be classified as financing cash flows.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18 – Share-Based Compensation – (continued)

Statement 123(R) also requires companies to calculate an initial “pool” of excess tax benefits available at the adoption date to absorb any tax deficiencies that may be recognized under Statement 123(R). The pool includes the net excess tax benefits that would have been recognized if the company had adopted Statement 123 for recognition purposes on its effective date.

The Company has elected to calculate the pool of excess tax benefits under the alternative transition method described in FASB Staff Position (“FSP”) No. FAS 123(R)-3, “Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards,” which also specifies the method we must use to calculate excess tax benefits reported on the statement of cash flows. The Company is in a net operating loss position; therefore, no excess tax benefits from share-based payment arrangements have been recognized for the three and six months ended May 31, 2007.

Potentially dilutive options and warrants to purchase 968,555 and 1,585,263 shares of the common stock were outstanding for the three months ending May 31, 2007 and 2006, respectively, but were not included in the computation of diluted loss per share because the effect of their inclusion would have been anti-dilutive. Potentially dilutive options and warrants to purchase 1,039,826 and 1,697,800 shares of the common stock were outstanding for the six months ending May 31, 2007 and 2006, respectively, but were not included in the computation of diluted loss per share because the effect of their inclusion would have been anti-dilutive. Additionally, options to purchase 995,529 and 342,694 shares of common stock were outstanding as of May 31, 2007 and 2006, respectively, but were also not included in the computation of diluted loss per share for the three months ended May 31, 2007 and 2006 and options to purchase 920,058 and 406,194 shares of common stock were outstanding as of May 31, 2006 and 2005, respectively, but were also not included in the computation of diluted loss per share for the six months ended May 31, 2006 and 2005 because the option exercise price was greater than the average market price of the common shares.

As noted above, the Company has shareholder-approved stock incentive plans for employees under which we have granted non-qualified and incentive stock options. Options granted under these plans must be at a price per share not less than the fair market value per share of common stock on the date the option is granted. The options generally vest over a three-year period and expire ten years from the date of grant. Certain option and share awards provide for accelerated vesting upon a change in control or normal or early retirement (as defined in the plans). At the Company’s annual shareholder meeting on April 28, 2006, the amendment to the 1999 Equity Incentive Plan to increase the number of shares reserved for issuance under such plan from 2,000,000 to 3,000,000 and to ensure compliance with Section 409A of the Internal Revenue Code was approved. At May 31, 2007, we have reserved approximately 1,177,000 shares for future equity grants.

As of May 31, 2007, there was \$2.4 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the stock incentive plans. That cost is expected to be recognized over a weighted-average period of 2.1 years.

Stock Options

For the three and six months ended May 31, 2007 and 2006, the Company based expected volatility on both historical volatility and implied volatility on the Company’s stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The Company used historical data to estimate expected option exercise and post-vesting employment termination behavior. The Company utilized the risk-free interest rate for periods equal to the expected term of the option based upon the U.S. Treasury yield curve in effect at the time of the grant. The Company has no intention of declaring any dividends for the foreseeable future.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18 – Share-Based Compensation – (continued)

The following table shows the weighted average grant date fair values and the weighted average assumptions the Company used to develop the fair value estimates under each of the option valuation models for three and six months ended May 31, 2007 and 2006:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2007	2006	2007	2006
Weighted average grant - date fair value of options	\$2.41	\$3.12	\$2.53	\$4.65
Assumptions:				
Expected volatility	66.96%	64.1%	66.96%	64.1%
Expected dividends	—	—	—	—
Expected term (in years)	4.0	4.0	4.0	4.0
Risk-free rate	4.6%	4.9%	4.6%	4.4%

A summary of option activity as of May 31, 2007 and changes during the three months then ended is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 1, 2006	2,022,983	\$7.43		
Granted	515,000	5.46		
Exercised	(127,274)	2.75		
Forfeited or expired	(35,866)	10.14		
Outstanding at February 28, 2007	2,374,843	\$7.22		
Granted	104,000	4.43		
Exercised	(10,667)	3.00		
Forfeited or expired	(319,663)	7.93		
Outstanding at May 31, 2007	2,148,513	\$6.97		
Exercisable at May 31, 2007	1,217,020	\$7.26	5.2	\$22,968

The total intrinsic value, which represents the difference between the underlying stock's market price and the option's exercise price, of options exercised during the three months ended May 31, 2007 and 2006 was \$15,155 and \$8,637, respectively. The total intrinsic value, which represents the difference between the underlying stock's market price and the option's exercise price, of options exercised during the six months ended May 31, 2007 and 2006 was \$265,049 and \$62,487, respectively. The total fair value of options vested during the three and six months ended May 31, 2007 was \$193,865 and \$1,142,487, respectively.

Cash received from option and warrant exercises under all share-based payment arrangements for the six months ended May 31, 2007 and 2006 was \$382,004 and \$111,819, respectively. No tax benefit was realized from option exercises of the share-based payment arrangements for the three and six months ended May 31, 2007 and 2006.

As of May 31, 2007, the Company also has 1,672,522 stock warrants outstanding at a weighted average exercise price of \$1.85. As of December 1, 2005, the adoption date of Statement 123(R), these warrants were exercisable; therefore, no expense has been recognized in the current period. The warrants expire in November 2007.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19 – Sale of Intellectual Property

On May 22, 2006, the Company entered into an agreement to amend a certain patent license agreement with a third party resulting in the sale of the patent for \$450,000. The Company received the proceeds from the sale on May 26, 2006. Accordingly, the proceeds from the transaction were recorded within other income.

Note 20 – Commitments and Contingencies
Litigation

The action against Healthcare First, a division of Gallagher Insurance Services, Inc., and of Arthur J. Gallagher & Co. (“HCF”), described in prior filings, and pending in the Superior Court of New Jersey, Law Division, Monmouth County has been resolved. Following a mediation process, the matter was resolved on terms including a payment to the Company of \$400,000, which was received in June 2007. At May 31, 2007, this amount was included in prepaid expenses and other current assets.

On November 21, 2005, the Company brought an arbitration proceeding against Alere Medical Incorporated (“Alere”), seeking damages and an award for unjust enrichment, on allegations that Alere materially misled and misrepresented to the Company, its intentions to enter into long-term agreements with the Company for the provision of disease management services.

In the arbitration, Alere counterclaimed, asserting that, under a seventh agreement between the parties, there was no obligation to enter into a long term agreement, and thus, claimed Alere, the Company’s claims were not well founded and Alere is allegedly entitled to damages for breach of the duty of good faith and fair dealing, as well as its attorneys’ fees. Alere also filed a lawsuit in state court, in the Second Judicial District Court of Nevada, Washoe County, seeking essentially the same relief.

Following extensive discovery, these matters were mediated, and both the arbitration and the litigation were resolved during December, 2006. As part of the resolution, in December 2006, the Company received a payment totaling \$1,975,000 bringing these matters to a conclusion.

The Company is subject to claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business. Although management of the Company cannot predict the ultimate outcome of these legal proceedings with certainty, it believes that their ultimate resolution, including any additional amounts we may be required to pay, will not have a material effect on the financial statements.

Statutory Reserves

New Jersey

The Company maintains an administrative statutory reserve and a minimum net worth as required by the State of New Jersey Department of Banking and Insurance. Accordingly, the Company deposited funds of approximately \$456,000 for the administrative reserve and contributed capital to meet its minimum net worth requirements.

In December 2006, the Company funded an additional \$2.5 million representing an insolvency reserve established for QMedCare of New Jersey, Inc. as required by the State of New Jersey Department of Banking and Insurance. These funds will be classified as noncurrent assets as the cash is not available for current operations. The funds are held in trust currently invested in certificates of deposit.

South Carolina

The Company has committed to maintain a minimum 10 to 1 premium to capital ratio in order to operate the captive insurance company. This capital reserve is required by the South Carolina Department of Insurance. This ratio will be monitored by the Company on an on-going basis and will be funded as required. As of May 31, 2007, the Company was in compliance with this requirement.

QMED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 20 – Commitments and Contingencies – (continued)

Guaranty

New Jersey

The Company has provided the State of New Jersey Department of Banking and Insurance with a capital and surplus guaranty dated May 10, 2006 whereby the Company has guaranteed that QMedCare of New Jersey, Inc. will have and maintain capital and surplus at a minimum amount as required by law or such additional surplus as required by the Commissioner of Banking and Insurance of the State of New Jersey. The guaranty also requires that these capital and surplus funds are maintained in assets under the investment laws governing health maintenance organizations in the State of New Jersey. At May 31, 2007, QMedCare of New Jersey, Inc. was in full compliance with its capital and surplus obligations.

Government Contracts

The Company's Managed Care business, which accounted for approximately 87% and 81% of our total revenues for the three and six months ended May 31, 2007, respectively, primarily consisted of products covered under Medicare Advantage contracts with the federal government. These contracts are renewed generally for a one-year term each January 1, unless CMS notifies the Company or DAKOTACARE of its decision not to renew by August of the contract year, or the Company OR DAKOTACARE notifies CMS of its decision not to renew in June through August of the contract year depending on the results of the final bid submission. For the year beginning January 1, 2007, we have entered into a Medicare Advantage contract with CMS for New Jersey.

Sales Guarantees

Typically, the Company's fees or incentives are higher in contracts with increased financial risk such as those contracts with performance-based fees or guarantees against cost increases. The failure to achieve targeted cost reductions could, in certain cases, render a contract unprofitable and could have a material negative impact on the Company's results of operations.

Leases

In March 2007, the Company executed a five-year extension of its lease for its corporate office space under similar terms of the original lease.

Major Customers

In a letter dated October 4, 2006, the Company was notified by HealthSuite Partners, a joint venture with Alere Medical, Airlogix and the Company, that the HealthSuite Partners contract with HealthPartners, a Minnesota managed care organization, would not be extended beyond April 5, 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements, which are based upon current expectations and involve a number of risks and uncertainties. In order for us to utilize the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, investors are hereby cautioned that these statements may be affected by the important factors, among others, set forth below, and consequently, actual operations and results may differ materially from those expressed in these forward-looking statements. The Company is facing risk factors in connection with the operations of its Managed Care segment. These risk factors may include, but not be limited, to the following:

- the risks inherent in starting a new venture including the incurring of significant start-up expenses, the time and number of enrollees in the Special Needs Plans, and the ability to achieve profitable operations;
- our ability to maintain certain levels of equity (referred to as surplus) that may be required by state regulations;
- our ability to maintain the Risk-Based Capital ratio (RBC ratio) as defined and utilized by the National Association of Insurance Commissioners (NAIC) to identify weakly capitalized companies by comparing each company's adjusted surplus to its required surplus (RBC ratio);
- our ability to reasonably estimate appropriate medical claims reserves and related benefit expenses;
- our ability to maintain regulatory compliance associated with governmental supervisory agencies including state health, insurance, managed care and securities departments which have the authority to grant, suspend, and revoke licenses to transact business, regulate many aspects of the products and services offered, assess fines, penalties and/or sanctions, monitor our solvency and reserve adequacy and regulate our investment activities on the basis of quality, diversification and other quantitative criteria;
- our ability to be competitive, set prices and renew business as pricing and underwriting regulations by states limit the Company's and other health insurers' flexibility to their underwriting and rating practices.
- the ability to maintain and develop existing and new contracts with providers, hospitals and other health care systems.
- the legislation providing for Special Needs Plans expires at the end of 2008 and must be renewed in order for SNPs to continue beyond 2008.

Some additional factors include: our ability to renew and/or maintain contracts with our customers under existing terms or restructure these contracts on terms that would not have a material negative impact on our results of operations;

- our ability to execute new contracts for health plan disease management services;
- our ability to effect estimated cost savings and clinical outcome improvements under health plan disease management contracts and reach mutual agreement with customers with respect to cost savings, or to effect such savings and improvements within the timeframes contemplated by us;
- the ability of our health plan customers to provide timely, complete and accurate data that is essential to the operation and measurement of our performance under the terms of our health plan contracts, and our accurate analysis of such data;
- our ability to effectively integrate new technologies into our care management information technology platform;
- our ability to obtain adequate financing to provide the capital that may be needed to support the growth of our current and future operations and financing or insurance to support our performance in these operations;
- unusual and unforeseen patterns of healthcare utilization by individuals within the health plans with chronic conditions, including coronary artery disease ("CAD"), stroke, heart failure ("HF"), hypertension, hyperlipidemia and the cardiovascular complications of diabetes with which we have executed disease management contracts;
- the impact of the introduction of new technologies;
- the ability of the health plans to maintain the number of covered lives enrolled in the plans during the terms of the agreements between the health plans and us;
- our ability to attract and/or retain and effectively manage the employees required to implement our agreements with health plan organizations;
- the impact of future state and federal healthcare legislation and regulations on our business;
- the financial health of our customers and their willingness to purchase our services;
- the impact of litigation or arbitration;

- our ability to accurately estimate our performance and revenue recognition under the terms of our contracts;
- our ability to develop new products and deliver outcomes on those products;
- our ability to implement our strategy within expected cost estimates;
- general economic conditions

Overview

We manage, own and operate Medicare Advantage Special Needs Plans for chronically ill Medicare beneficiaries. We also provide disease management services to health plans and to the federal government through its Medicare program. Our services provide Care Management Solutions to assist health plans and government organizations in managing the cost and care of diabetes, cardiovascular disease, coronary artery disease (“CAD”), congestive heart failure (“CHF”), chronic obstructive pulmonary disease (COPD), stroke, weight and obesity and all associated co-morbid conditions. By leveraging our innovative clinical practices and proprietary analytical technology, our model improves patient outcomes, reduces practice variation, and measures quality.

Recent Developments

Managed Care Segment

In December 2004, we formed QMedCare, Inc. as a wholly owned subsidiary of QMed, Inc. This organization acts as a management company that will operate a series of specialty Managed Care products serving a high-risk population of Medicare beneficiaries. The first of these products was offered in South Dakota, beginning January 2006, as a Special Needs Plan (“SNP”) for chronically ill Medicare recipients. QMedCare Inc., specifically formed QMedCare Dakota, LLC to administer this Plan for DAKOTACARE, a health maintenance organization in South Dakota. The SNP is being marketed as HeartLinePlus and is providing exclusive health coverage for CAD, heart failure and stroke patients.

LakeShore Captive Insurance Company, a wholly owned subsidiary of QMedCare, Inc., entered into an agreement whereby the captive insurance company assumes 100% of the risk associated with the operations of DAKOTACARE’s HeartLinePlus SNP.

The Company formed QMedCare of New Jersey, Inc. on January 17, 2006 in order to fulfill its previously announced intention and filed an application for a wholly owned SNP in New Jersey. On May 18, 2006, the Company received approval of its application from the State of New Jersey, Department of Banking and Insurance (DOBI) and has a license to operate as an HMO within the State.

In September 2006, the Company executed a contract with CMS to operate its SNP in New Jersey and DAKOTACARE executed two contracts, which are comprised of a renewal of the HeartLinePlus program for 2007 and a new SNP for dual eligibles. Dual eligibles are individuals that are eligible for both Medicare and Medicaid programs.

In March 2007, the Company submitted an expansion application to add an additional disease state for its two chronic SNPs in New Jersey and South Dakota.

Positive Directions, Inc. (formerly Health e Monitoring, Inc.)

Positive Directions, Inc. is a wholly owned subsidiary of QMed, Inc. In May of 2005, QMed, Inc. acquired Positive Directions, Inc., (formerly Health e Monitoring, Inc.), a privately owned firm offering a program for healthy weight and lifestyle management. In October 2005, QMed, Inc. acquired all of the assets of Disease Management Technologies, Inc. (“DMT”). DMT has developed a website for a health and wellness program.

Its program focuses on the role of wellness and prevention to establish healthy lifestyle habits, dietary and nutrition education, exercise regimens and behavioral modifications. Since the direction of this program will be primarily focused on our care coordination programs for our SNP initiatives, we expect that minimal revenue will be derived from third parties.

Recently Issued Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities," or SFAS 159. SFAS 159 allows an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements. We are required to adopt SFAS 159 in the first quarter of 2008. We currently are evaluating the provisions of SFAS 159 and do not expect the adoption of SFAS 159 to have a material impact on our financial position or results of operations.

Critical Accounting Estimates

Our accounting policies are described in Note 2 of the condensed consolidated financial statements included in this Report on Form 10-Q for the six months ended May 31, 2007. The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We consider the following policies to be the most critical in understanding the judgments involved in preparing the financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

Revenue Recognition

Premiums

For its SNP plans, the Company records revenue from health care premiums received in the month that enrollees are entitled to coverage.

Managed Care Services

The Company's captive insurance company entered into an agreement whereby the captive insurance company assumes 100% of the risk associated with the operations of a Special Needs Plan ("SNP") in South Dakota. In addition, on January 1, 2007, QMedCare of New Jersey commenced operations of its SNP in New Jersey. The SNPs offer comprehensive health care coverage and prescription drug benefits for chronically ill Medicare recipients. The Company receives a fixed monthly member premium and a Medicare risk-adjusted premium, which is based upon the diagnoses of the enrolled member as captured by claims data from the prior year. The cost of health care provided is accrued in the period it is dispensed to the enrolled members, based in part on estimates for services and other health care costs that have been incurred but not yet reported or paid (IBNP), classified as "medical claims payable" on the condensed consolidated balance sheet. Since this is a new plan, the Company's estimates are initially based upon an independent actuarial model of expected costs. This model included factors such as age, gender and demographics. As the plan matures, the Company will develop these estimates using standard actuarial methods which may include, among other factors, the average interval between the dates services are rendered and the date claims are paid, denied claims activity, disputed claims activity, expected health care cost inflation, utilization, seasonality patterns and changes in membership. The Company records its best estimate of the liability for incurred claims; however, such estimates could materially understate or overstate our actual liability for medical and benefits payable. The estimates for submitted claims and IBNR claims liabilities are made on an accrual basis and adjusted in future periods as required. Adjustments to prior period estimates or financial results, if any, are included in current operations.

The Company also entered into an agreement with DAKOTACARE, a health maintenance organization, to administer the SNP in South Dakota and New Jersey. In accordance with the agreement, the Company records revenue on a monthly basis as services are rendered.

The Company's Managed Care business, which accounted for approximately 87% and 81% of our total revenues for the three and six months ended May 31, 2007, respectively, primarily consisted of products covered under Medicare Advantage contracts with the federal government.

Disease Management Services

We enter into contractual arrangements with health plans and government agencies to provide disease management services. Fees under our health plan contracts are generally determined by multiplying a contractually negotiated rate per health plan member per month (“PMPM”) by the number of health plan members covered by our services during the month. The PMPM rates usually differ among contracts due to the various types of health plan product groups (e.g. PPO, HMO, and Medicare Advantage) that we interact with. These contracts are generally for terms of one to three years with provisions for subsequent renewal, and typically provide that a small portion of our fees may be “performance-based.” We bill our customers each month for the entire amount of the fees contractually due based on previous months membership, which always includes the amount, if any that may be at risk due to retroactive member terminations or a shortfall in performance. We adjust or defer revenue for contracts where we believe performance is short of contractual obligations. We recognize revenue, in accordance with SEC Staff Accounting Bulletins No. 101 and No. 104, as follows: 1.) we recognize the fixed portion of our monthly fee as revenue during the period we perform the services; 2.) we recognize the performance – based portion of the monthly fees based on indicators of performance to date in the contract year; and 3.) we recognize previously recorded deferred revenue upon final settlement of the contract measurement year. Adjustments for shortfalls in performance targets under the terms of the contracts or other factors affecting revenue recognition are accrued on an estimated basis in the period the services are provided and are adjusted in future periods when final settlement is determined. We review these estimates periodically and make adjustments, as interim information is available.

The settlement process under a contract, which includes the settlement of any performance-based fees and involves reconciliation of health-care claims and clinical data, is generally not completed until after the end of the contract year. Data reconciliation differences between the Company and the customer can arise due to health plan data deficiencies, omissions and/or data discrepancies, for which the Company negotiates with the customer until agreement is reached with respect to identified issues.

Impairment of Intangible Assets

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” the Company is required to review intangible assets for impairment on an annual basis or more frequently whenever events or circumstances indicate that the carrying value may not be recoverable.

The Company amortizes other identifiable intangible assets, such as acquired technologies and other intangibles, on the straight-line method over their estimated useful lives, except for trade names, which have an indefinite life and are not subject to amortization. The Company reviews intangible assets not subject to amortization on an annual basis or more frequently whenever events or circumstances indicate that the assets might be impaired. The Company also assesses the potential impairment of intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying values may not be recoverable.

If the Company determines that the carrying value of other identifiable intangible assets may not be recoverable, the Company calculates any impairment using an estimate of the asset’s fair value based on the projected net cash flows expected to result from that asset, including eventual disposition.

Future events could cause the Company to conclude that impairment indicators exist and that acquired intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Share-Based Compensation

On December 1, 2005, we adopted SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values at the date of grant. Determining the fair value of share-based awards at the grant date requires judgment in developing assumptions, which involve a number of variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and expected stock option exercise behavior. In addition, we also use judgment in estimating the number of share-based awards that are expected to be forfeited.

Results of Operations

The following table presents the percentage of total revenues for the periods indicated and changes from period to period of certain items included in our Condensed Consolidated Statements of Operations.

	For the Three Months Ended May 31,		For the Six Months Ended May 31,		For the Three Months Ended May 31, 2007 vs. 2006		For the Six Months Ended May 31, 2007 vs. 2006	
	2007	2006	2007	2006				
Revenue	100.0 %	100.0 %	100.0 %	100.0 %	391.8 %		209.4 %	
Cost of revenue	87.2	87.5	84.3	70.1	390.3		271.9	
Gross Profit	12.8	12.5	15.7	29.9	402.1		62.8	
Selling general and administrative	42.7	187.3	50.9	138.6	12.2		13.7	
Research and development	5.5	22.4	6.0	17.3	21.0		7.6	
Loss from operations	(35.4)	(197.2)	(41.2)	(126.0)	(11.6)		1.3	
Interest expense	(0.1)	(0.3)	(0.1)	(0.2)	40.4		38.2	
Interest income, net	1.7	9.9	2.0	7.4	(15.8)		(14.4)	
Loss on operations of joint venture	(0.1)	(1.0)	(0.2)	(0.8)	(63.5)		(35.0)	
Other income	4.2	23.4	15.0	8.8	(11.1)		427.9	
Loss before tax benefit (provision)	(29.7)	(165.1)	(24.4)	(110.8)	(11.7)		(31.8)	
Income tax (provision) benefit	(0.1)	(0.1)	(0.1)	0.9	*		*	
Net loss	(29.8)	(165.2)	(24.5)	(109.9)	(11.5)		(31.0)	

* Not meaningful

Three Months Ended May 31, 2007 Compared to Three Months Ended May 31, 2006

Revenue for the three months ended May 31, 2007 increased approximately \$7.5 million as compared to the three months ended May 31, 2006. This increase is attributable to an increase of approximately \$7.9 million in premium and service revenue related to increased enrollment in the South Dakota Special Needs Plan (SNP) project and the commencement of operations of the QMedCare SNP in New Jersey on January 1, 2007. This increase was offset by a decrease of approximately \$408,000 in disease management services revenue. The decrease was primarily attributable to a decrease of \$738,000 related to the expiration of two contracts offset by an increase of approximately \$330,000 primarily related to the commencement of a new contract during the first quarter of fiscal 2007.

Cost of revenue for the three months ended May 31, 2007 increased by approximately \$6.6 million as compared to the three months ended May 31, 2006. This increase was attributable to an increase of approximately \$7.0 million related to the medical claims associated with the SNP projects. This increase was offset by: (i) the decrease of approximately \$150,000 related to the outsourcing of certain call center services for our disease management programs; and (ii) a decrease of approximately \$412,000 of labor costs associated with the reduction in workforce and operating costs related to the non-renewal of two disease management contracts.

Gross profit margins for the three months ended May 31, 2007 increased to 12.8% from 12.5% for the three months ended May 31, 2006. This increase represents the net increase in revenue over cost of revenue.

Selling, general and administrative expenses for the three months ended May 31, 2007 increased by approximately \$439,000 over the three months ended May 31, 2006. The increase was attributable to (i) an increase of approximately \$130,000 in salaries and related costs for the operations of the managed care business; (ii) an increase of approximately \$289,000 associated with the operations of the SNP for costs related to claims processing, broker commissions, reinsurance premiums, registration services and office space; (iii) an increase in depreciation and amortization of approximately \$113,000 primarily related to capitalized product software development costs; (iv) an increase of approximately \$52,000 in actuarial services primarily attributable to the SNP projects; (v) an increase of approximately \$36,000 in software licensing fees related to the operations of the managed care business; (vi) an increase of approximately \$14,000 in premium tax related to our captive insurance company for HeartLine Plus and; (vii) an increase of approximately \$106,000 in consulting fees primarily related to HeartLine Plus and QMedCare SNPs. This increase was offset by (i) a reduction of approximately \$58,000 in advertising and promotion expenses related to more cost effective marketing for HeartLine Plus and QMedCare SNPs; (ii) a decrease of approximately \$40,000 in personnel recruiting costs; (iii) a decrease of approximately \$118,000 in compensation costs associated with SFAS No. 123(R) "Share Based Payment" and; (iv) a decrease of approximately \$95,000 in legal expenses primarily related to the settlement with Alere in the first quarter of 2007.

Research and development expenses for the three months ended May 31, 2007 increased approximately \$91,000 or 21% over the three months ended May 31, 2006. Our accounting policy is to capitalize certain software development costs during development and amortize them upon implementation. Subsequent to implementation any further costs (i.e. maintenance costs) are expensed as incurred. The increase in expenses is primarily attributable to (i) an increase of approximately \$89,000 in salaries and related costs associated with new hires and a reduction in capitalization of salaries for product software development; and (ii) an increase of approximately \$50,000 in consulting fees associated with special projects and a decrease in capitalization of software development costs as software is transitioned into production. This increase was offset by a decrease of approximately \$16,000 in compensation costs associated with the adoption of SFAS No. 123(R) "Share Based Payment" and a decrease of approximately \$25,000 in personnel recruiting costs. During the three months ended May 31, 2007, there was an increase of approximately \$211,000 in capitalization of costs, which include salaries and consultant fees, incurred for product software development as compared to the three months ended May 31, 2006. We continue to focus our efforts on the development of new, advanced software programs to assist in the identification and evaluation of patients who are at risk for developing various disease conditions. These programs incorporate telecommunications, data management, and security and information technology. We intend to continue to improve and expand the capabilities of all of our technologies since it has a direct impact on our ability to manage our Medical Loss Ratio (MLR).

Interest income for the three months ended was approximately \$159,000 as compared to \$189,000 for the three months ended May 31, 2006. This decrease is attributable to the reduction in funds available for investment.

Other income of \$400,000 for the three months ended May 31, 2007 represents the proceeds from the settlement agreement with Healthcare First within the second quarter. Other income for the three months ended May 31, 2006 represents the proceeds from the sale of a patent for \$450,000 to a third party in May 2006.

Six Months Ended May 31, 2007 Compared to Six Months Ended May 31, 2006

Revenue for the six months ended May 31, 2007 increased approximately \$10.7 million as compared to the six months ended May 31, 2006. This increase is attributable to an increase of approximately \$12.4 million in premium and service revenue related to increased enrollment in the South Dakota Special Needs Plan (SNP) project and the commencement of operations of the QMedCare SNP in New Jersey on January 1, 2007. This increase was offset by a decrease of approximately \$1.7 million in disease management services revenue. The decrease was primarily attributable to a decrease of \$2.3 million related to the expiration of four contracts offset by an increase of approximately \$600,000 primarily related to the commencement of a new contract during the first quarter of fiscal 2007.

Cost of revenue for the six months ended May 31, 2007 increased by approximately \$9.7 million as compared to the six months ended May 31, 2006. This increase was attributable to (i) an increase of approximately \$11 million related to the medical claims associated with the SNP projects; and (ii) the increase of approximately \$181,000 primarily related to a purchase commitment. This increase was offset by: (i) approximately \$951,000 of labor and related cost reductions associated with the reduction in workforce and operating costs related to the non-renewal of contracts and in efficiencies related to enhancements in our programs; and (ii) an increase of approximately \$221,000 in cost reductions related to the outsourcing of certain call center services for our disease management programs.

Gross profit margins for the six months ended May 31, 2007 decreased to 15.7% from 29.9% for the six months ended May 31, 2006. This decrease represents the net increase in revenue as compared to cost of revenue.

Selling, general and administrative expenses for the six months ended May 31, 2007 increased by approximately \$972,000 over the six months ended May 31, 2006. The increase was attributable to (i) an increase of approximately \$480,000 in salaries related to additional new hires for the operations of the managed care business; (ii) an increase of approximately \$603,000 associated with the operations of the SNP for costs related to claims processing, broker commissions, registration services and office space; (iii) an increase in depreciation and amortization of approximately \$221,000 primarily related to capitalized product software development costs; (iv) an increase of approximately \$176,000 in consulting fees primarily related to the SNP projects; and (v) an increase of approximately \$79,000 in actuarial services primarily attributable to the SNP projects. These increases were offset by (i) a decrease of approximately \$341,000 in advertising and promotion expenses related to primarily our second year of operation in South Dakota in which our branding costs are substantially reduced for HeartLine Plus and we are just starting to build QMedCare of New Jersey's SNP; (ii) a decrease of approximately \$94,000 in travel and entertainment expenses related to the reduction of costs incurred with respect to the development and/or launch activities associated with the SNP and Positive Directions, Inc. in 2006; and (iii) a decrease of approximately \$77,000 of legal fees primarily related to the settlement agreement with Alere in the first quarter of 2007;

Research and development expenses for the six months ended May 31, 2007 increased approximately \$67,000 or 7.6% over the six months ended May 31, 2006. Our accounting policy is to capitalize certain software development costs during development and amortize them upon implementation. Subsequent to implementation any further costs (i.e. maintenance costs) are expensed as incurred. The increase in expenses is primarily attributable to: (i) an increase of approximately \$109,000 in salaries and related costs associated with new hires and a reduction in capitalization of salaries for product software development; (ii) an increase of approximately \$46,000 in consulting fees associated with special projects and a decrease in capitalization of software development costs as software is transitioned into production. These increases were offset by: (i) a decrease of approximately \$32,000 in compensation costs associated with the adoption of SFAS No. 123(R) "Share Based Payments"; (ii) a decrease of approximately \$31,000 in travel expenses; and (iii) a decrease of approximately \$25,000 in personnel recruitment costs. During the six months ended May 31, 2006 there was a decrease of approximately \$184,000 in capitalization of costs, which include salaries and consultant fees, incurred for development as compared to the six months ended May 31, 2005. We continue to focus our efforts on the development of new, advanced software programs to assist in the identification and evaluation of patients who are at risk for developing various disease conditions. These programs incorporate state of the art telecommunications, data management, and security and information technology. We intend to continue to improve and expand the capabilities of all of our technologies since it has a direct impact on our ability to manage our Medical Loss Ratio (MLR).

Interest income for the six months ended May 31, 2007 was approximately \$321,000 as compared to \$375,000 for the six months ended May 31, 2006. This decrease is attributable to the reduction in funds available for investment.

Other income for the six months ended May 31, 2007 increased approximately \$1,925,000 as compared to the six months ended May 31, 2006. The increase represents the proceeds from the settlement agreement with Alere and Healthcare First.

Liquidity and Capital Resources

To date, our principal sources of working capital have been the proceeds from public and private placements of securities. We had working capital of approximately \$6.0 million at May 31, 2007 compared to approximately \$11.1 million at November 30, 2006 and ratios of current assets to current liabilities of 1.9:1 as of May 31, 2007 and 3.2:1 as of November 30, 2006. The working capital decrease of approximately \$5.1 million was primarily due to the net loss of approximately \$3.9 million resulting in cash used in operations of approximately \$2.5 million along with an additional \$2.5 million of cash classified as long term restricted cash in order to establish a required insolvency reserve for QMedCare of New Jersey, Inc. In December 2005, the Company established a \$250,000 letter of credit with Wachovia Bank, N.A. to establish the capital required by regulation for the Company's captive insurance company in South Carolina. In May 2007, this letter of credit was released by the State of South Carolina.

On May 18, 2006 the Company received approval of their application to obtain a license to operate as a Health Maintenance Organization within the State of New Jersey from the Department of Banking and Insurance. In

accordance with statutory requirements, the Company was required to establish a statutory reserve and must maintain a minimum net worth. Accordingly, the Company deposited funds of approximately \$456,000 for the administrative reserve and contributed capital to meet its minimum net worth requirements. In December 2006, the Company deposited an additional \$2.5 million in an insolvency reserve account as required by the New Jersey Department of Banking and Insurance.

We anticipate that we will expend cash to fund our current operations, fund our continuing implementation costs associated with our managed care segments, and for establishing and maintaining certain levels of capital reserves as required by regulatory agencies in connection with the operations of our insurance subsidiary. Although we expect to incur these expenditures, we believe that our cash and investments will be sufficient to fund our current level of growth and our existing and anticipated commitments. However, to the extent any future expansion of our operations requires significant additional resources or certain forms of financial guarantees to assure our performance under the terms of new health plan contracts or to file for approval and implement additional SNP's, we may be required to seek additional financing. No assurance can be given that such financing would be available on terms that would be acceptable to us.

Material Commitments

The following schedule summarizes our contractual cost obligation as of May 31, 2007 in the periods indicated:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Lease Obligations	30,710	30,710	-	-	-
Operating Leases	2,806,000	634,000	1,484,000	688,000	-
Unconditional Purchase Obligations	-	-	-	-	-
Other Long-Term Obligations	1,637,943	1,234,788	403,155	-	-
Total Contractual Cash Obligations	\$ 4,474,653	\$ 1,899,498	\$ 1,887,155	\$ 688,000	\$ -

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk for changes in interest rates relates primarily to the market-driven increase or decrease in interest rates, and the impact of those changes on the Company's ability to realize a return on invested or available funds. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in short term high-credit investment grade securities.

Item 4. Evaluation of Disclosure Controls and Procedure

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of May 31, 2007, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

No changes in the Company's internal controls over financial reporting have occurred during the quarterly period covered by this report that have materially affected, or are reasonably likely to material affect the Company's internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The action against Healthcare First, a division of Gallagher Insurance Services, Inc., and of Arthur J. Gallagher & Co. ("HCF"), described in prior filings, and pending in the Superior Court of New Jersey, Law Division, Monmouth County has been resolved. Following a mediation process, the matter was resolved on terms including a payment to the Company of \$400,000.

On November 21, 2005, the Company brought an arbitration proceeding against Alere Medical Incorporated ("Alere"), seeking damages and an award for unjust enrichment, on allegations that Alere materially misled and misrepresented to the Company, its intentions to enter into long-term agreements with the Company for the provision of disease management services.

In the arbitration, Alere counterclaimed, asserting that, under a seventh agreement between the parties, there was no obligation to enter into a long term agreement, and thus, claimed Alere, the Company's claims were not well founded and Alere is allegedly entitled to damages for breach of the duty of good faith and fair dealing, as well as its attorneys' fees. Alere also filed a lawsuit in state court, in the Second Judicial District Court of Nevada, Washoe County, seeking essentially the same relief.

Following extensive discovery, these matters were mediated, and both the arbitration and the litigation were resolved during December 2006. As part of the resolution, in December 2006, the Company received a payment totaling \$1,975,000 bringing these matters to a conclusion.

The Company is subject to claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business. Although management of the Company cannot predict the ultimate outcome of these legal proceedings with certainty, it believes that their ultimate resolution, including any additional amounts we may be required to pay, will not have a material effect on the financial statements.

Item 1A. Risk Factors

See Management's Discussion and Analysis and Risk Factors contained earlier in this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Non applicable
- (b) Non applicable
- (c) None

Item 3. Defaults upon Senior Securities

None.

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

The following is a report of the voting results of the Company's annual shareholders meeting held on April 26, 2007.

The proposal to elect seven directors, as described in the Company's proxy statement for its annual meeting of shareholders held on April 26, 2007, was approved. The directors were elected until the next annual meeting of shareholders or until their successors are duly elected and qualified. The tabulation was as follows:

<u>Director</u>	<u>Votes For</u>	<u>Withhold Authority</u>
Bruce F. Wesson	15,424,748	446,328
Jane A. Murray	15,584,372	286,704
Richard I. Levin	15,555,294	315,782
Lucia L. Quinn	13,693,572	2,177,504
John J. Gargana, Jr.	15,702,368	168,708
A. Bruce Campbell	15,728,524	142,552
John P. Zanotti	15,700,868	170,208

The proposal to ratify the appointment of Amper, Politziner & Mattia, P.C. as the Company's independent auditors for the fiscal year ending November 30, 2007 was approved. The tabulation was as follows:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstain</u>
14,881,586	367,599	621,891

Item 5. Other Information

- (a) None
- (b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Item 6. Exhibits

- (a) The following exhibits are filed as part of this report:
 - 31.1 Certification of Chief Executive Officer of Periodic Report pursuant to Rule 13a-14a and Rule 15d-14(a).
 - 31.2 Certification of Chief Financial Officer of Periodic Report pursuant to Rule 13a-14a and Rule 15d-14(a).
 - 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. - Section 1350.

SIGNATURES

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

QMed, Inc.

By: /s/ Jane A. Murray
Jane A. Murray
Chief Executive Officer

By: /s/ William T. Schmitt, Jr.
William T. Schmitt, Jr.
Senior Vice President, Chief Financial
Officer and Treasurer

July 9, 2007

CERTIFICATIONS

I, Jane A. Murray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of QMed, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 9, 2007

/s/ Jane A. Murray

Jane A. Murray
Chief Executive Officer

CERTIFICATIONS

I, William T. Schmitt, Jr. certify that:

1. I have reviewed this quarterly report on Form 10-Q of QMed, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 9, 2007

/s/ William T. Schmitt, Jr.

William T. Schmitt, Jr.
Chief Financial Officer

**CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of QMed, Inc. (the "Company"), on Form 10-Q for the quarter ended May 31, 2007, as filed with the Securities and Exchange Commission (the "Report"), Jane A. Murray, Chief Executive Officer of the Company and William T. Schmitt, Jr., Chief Financial Officer of the Company, respectively, do each hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Jane A. Murray

Jane A. Murray
Chief Executive Officer
July 9, 2007

/s/ William T. Schmitt, Jr.

William T. Schmitt, Jr.
Chief Financial Officer
July 9, 2007

[A signed original of this written statement required by Section 906 has been provided to QMed, Inc. and will be retained by QMed Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]