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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-12537

QUALITY SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

California	**95-2888568**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
18111 Von Karman Avenue, Suite 700, Irvine, California	**92612**
(Address of principal executive offices)	*(Zip Code)*

(949) 255-2600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No o

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

Large accelerated filer ☑	Accelerated filer o	Non-accelerated filer o *(Do not check if a smaller reporting company)*	Small reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

The number of outstanding shares of the Registrant's common stock as of July 29, 2011 was 29,296,390 shares.

QUALITY SYSTEMS, INC.

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FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUALITY SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(unaudited)

	June 30, 2011	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 124,054	$ 116,617
Restricted cash	4,487	3,787
Marketable securities	1,110	1,120
Accounts receivable, net	148,907	139,772
Inventories	2,145	1,933
Deferred income taxes, net	10,397	10,397
Other current assets	8,232	8,768
Total current assets	299,332	282,394
Equipment and improvements, net	13,778	12,599
Capitalized software costs, net	15,738	15,150
Intangibles, net	17,919	16,890
Goodwill	48,624	46,721
Other assets	4,892	4,932
Total assets	$ 400,283	$ 378,686
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,145	$ 6,686
Deferred revenue	80,027	76,695
Accrued compensation and related benefits	9,901	10,247
Income taxes payable	7,889	3,530
Dividends payable	10,229	10,162
Other current liabilities	17,368	29,316
Total current liabilities	131,559	136,636
Deferred revenue, net of current	1,106	1,099
Deferred income taxes, net	11,384	11,384
Deferred compensation	2,784	2,488
Other noncurrent liabilities	2,918	2,409
Total liabilities	149,751	154,016
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock		
$0.01 par value; authorized 50,000 shares; issued and outstanding 29,264 and 29,034 shares at June 30, 2011 and March 31, 2011, respectively	292	290
Additional paid-in capital	150,363	133,259
Retained earnings	99,877	91,121
Total shareholders' equity	250,532	224,670
Total liabilities and shareholders' equity	$ 400,283	$ 378,686

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

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QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(unaudited)

	Three Months Ended June 30,	
	2011	2010
Revenues:		
Software, hardware and supplies	$ 28,911	$ 24,756
Implementation and training services	5,472	4,308
System sales	34,383	29,064
Maintenance	31,502	25,536
Electronic data interchange services	12,092	9,764
Revenue cycle management and related services	11,881	10,772
Other services	10,584	7,791
Maintenance, EDI, RCM and other services	66,059	53,863
Total revenues	100,442	82,927
Cost of revenue:		
Software, hardware and supplies	4,614	6,212
Implementation and training services	4,075	2,990
Total cost of system sales	8,689	9,202
Maintenance	3,854	3,454
Electronic data interchange services	7,962	6,709
Revenue cycle management and related services	8,826	8,145
Other services	5,597	4,349
Total cost of maintenance, EDI, RCM and other services	26,239	22,657
Total cost of revenue	34,928	31,859
Gross profit	65,514	51,068
Operating expenses:		
Selling, general and administrative	29,386	26,238
Research and development costs	6,827	5,456
Amortization of acquired intangible assets	482	347
Total operating expenses	36,695	32,041
Income from operations	28,819	19,027
Interest income	82	60
Other expense, net	(38)	(6)
Income before provision for income taxes	28,863	19,081
Provision for income taxes	9,880	6,989
Net income	$ 18,983	$ 12,092
Net income per share:		
Basic	$ 0.65	$ 0.42
Diluted	$ 0.65	$ 0.42
Weighted-average shares outstanding:		
Basic	29,181	28,896
Diluted	29,400	29,057
Dividends declared per common share	$ 0.35	$ 0.30

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

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QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	$ 18,983	$ 12,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,244	962
Amortization of capitalized software costs	1,925	1,669
Amortization of other intangibles	901	765
Provision for bad debts	980	850
Share-based compensation	956	1,065
Deferred income tax benefit	—	(262)
Tax benefit associated with stock options	852	175
Excess tax benefit from share-based compensation	(852)	(175)
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable	(9,651)	(4,924)
Inventories	(212)	(53)
Income taxes receivable	—	2,953
Other current assets	57	278
Other assets	40	(323)
Accounts payable	(571)	1,181
Deferred revenue	3,245	(214)
Accrued compensation and related benefits	(346)	(1,355)
Income taxes payable	4,359	3,843
Other current liabilities	(1,182)	721
Deferred compensation	296	71
Other noncurrent liabilities	509	47
Net cash provided by operating activities	21,533	19,366
Cash flows from investing activities:		
Additions to capitalized software costs	(2,513)	(2,545)
Additions to equipment and improvements	(2,423)	(878)
Purchase of IntraNexus	(3,279)	—
Net cash used in investing activities	(8,215)	(3,423)
Cash flows from financing activities:		
Excess tax benefit from share-based compensation	852	175
Proceeds from exercise of stock options	3,427	1,144
Dividends paid	(10,160)	(8,665)
Net cash used in financing activities	(5,881)	(7,346)
Net increase in cash and cash equivalents	7,437	8,597
Cash and cash equivalents at beginning of period	116,617	84,611
Cash and cash equivalents at end of period	$ 124,054	$ 93,208

QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(In thousands)
(Unaudited)

	Three Months Ended June 30,	
	2011	2010
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes, net of refunds	$ 4,668	$ 276
Non-cash investing and financing activities:		
Unrealized loss on marketable securities, net of tax	$ (10)	$ —
Common stock issued at fair value for Opus earnout settlement	$ 11,887	$ —
Effective April 29, 2011, the Company acquired IntraNexus in a transaction summarized as follows:		
Fair value of net assets acquired	$ 4,524	
Cash paid	(3,279)	
Purchase price holdback	(125)	
Fair value of contingent consideration	(800)	
Liabilities assumed	$ 320	

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

QUALITY SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except shares and per share data)
(Unaudited)

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Quality Systems, Inc. and its wholly-owned subsidiaries, which consists of NextGen Healthcare Information Systems ("NextGen"), Lackland Acquisition II, LLC dba Healthcare Strategic Initiatives ("HSI"), Practice Management Partners, Inc. ("PMP"), NextGen Inpatient Solutions, LLC ("NextGen IS" f/k/a Sphere), Opus Healthcare Solutions, LLC ("Opus"), IntraNexus, Inc. ("IntraNexus") and Quality Systems India Healthcare Private Limited ("QSIH") (collectively, the "Company"). All intercompany accounts and transactions have been eliminated.

Business Segments. The Company has prepared operating segment information in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, *Segment Reporting*, or ASC 280, which requires that companies disclose "operating segments" based on the manner in which management disaggregates the Company's operations for making internal operating decisions. See Note 13.

Basis of Presentation. The accompanying unaudited consolidated financial statements as of June 30, 2011 and for the three months ended June 30, 2011 and 2010 have been prepared in accordance with the requirements of Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information and notes which would be presented were such consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These consolidated financial statements should be read in conjunction with the audited consolidated financial statements presented in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011. Amounts related to disclosures of March 31, 2011 balances within these interim consolidated financial statements were derived from the aforementioned Form 10-K. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the results of operations and cash flows for the periods presented. The results of operations for such interim periods are not necessarily indicative of results of operations to be expected for the full year.

Certain prior period amounts have been reclassified to conform with fiscal year 2012 presentation.

References to amounts in the consolidated financial statement sections are in thousands, except shares and per share data, unless otherwise specified.

Revenue Recognition**.** The Company recognizes revenue for system sales pursuant to FASB ASC Topic 985-605, *Software, Revenue Recognition*, or ASC 985-605. The Company generates revenue from the sale of licensing rights to its software products directly to end-users and value-added resellers, or VARs. The Company also generates revenue from sales of hardware and third-party software, implementation, training, electronic data interchange ("EDI"), post-contract support (maintenance) and other services, including revenue cycle management ("RCM"), performed for clients who license its products.

A typical system contract contains multiple elements of the above items. FASB ASC Topic 985-605-25, *Software, Revenue Recognition, Multiple Elements*, or ASC 985-605-25, requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on vendor-specific objective evidence ("VSOE"). The Company limits its assessment of VSOE for each element to either the price charged when the same element is sold separately or the price established by management having the relevant authority to do so, for an element not yet sold separately. VSOE calculations are updated and reviewed quarterly or annually depending on the nature of the product or service. The Company has established VSOE for the related undelivered elements based on the bell-shaped curve method. Maintenance VSOE for the Company's largest clients is based on stated renewal rates only if the rate is determined to be substantive and falls within the Company's customary pricing practices.

When evidence of fair value exists for the delivered and undelivered elements of a transaction, then discounts for individual elements are aggregated and the total discount is allocated to the individual elements in proportion to the elements' fair value relative to the total contract fair value.

When evidence of fair value exists for the undelivered elements only, the residual method, provided for under ASC 985-605, is used. Under the residual method, the Company defers revenue related to the undelivered elements in a system sale based on VSOE of fair value of each of the undelivered elements and allocates the remainder of the contract price net of all discounts to revenue recognized from the delivered elements. If VSOE of fair value of any undelivered element does not exist, all revenue is deferred until VSOE of fair value of the undelivered element is established or the element has been delivered.

The Company bills for the entire system sales contract amount upon contract execution except for maintenance which is billed separately. Amounts billed in excess of the amounts contractually due are recorded in accounts receivable as advance billings. Amounts are contractually due when services are performed or in accordance with contractually specified payment dates. Provided the fees are fixed or determinable and collection is considered probable, revenue from licensing rights and sales of hardware and third-party software is generally recognized upon physical or electronic shipment and transfer of title. In certain transactions where collection risk is high, the cash basis method is used to recognize revenue. If the fee is not fixed or determinable, then the revenue recognized in each period (subject to application of other revenue

recognition criteria) will be the lesser of the aggregate of amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees were being recognized using the residual method. Fees which are considered fixed or determinable at the inception of the Company's arrangements must include the following characteristics:

§ The fee must be negotiated at the outset of an arrangement and generally be based on the specific volume of products to be delivered without being subject to change based on variable pricing mechanisms such as the number of units copied or distributed or the expected number of users.

§ Payment terms must not be considered extended. If a significant portion of the fee is due more than 12 months after delivery or after the expiration of the license, the fee is presumed not fixed or determinable.

Revenue from implementation and training services is recognized as the corresponding services are performed. Maintenance revenue is recognized ratably over the contractual maintenance period.

Product returns are estimated in accordance with FASB ASC Topic 605-15, *Revenue Recognition, Products,* or ASC 605-15. The Company also ensures that the other criteria in ASC 605-15 have been met prior to recognition of revenue:

§ the price is fixed or determinable;

§ the customer is obligated to pay and there are no contingencies surrounding the obligation or the payment;

§ the customer's obligation would not change in the event of theft or damage to the product;

§ the customer has economic substance;

§ the amount of returns can be reasonably estimated; and

§ the Company does not have significant obligations for future performance in order to bring about resale of the product by the customer.

The Company has historically offered short-term rights of return in certain sales arrangements. If the Company is able to estimate returns for these types of arrangements, revenue is recognized, net of an allowance for returns, and these arrangements are recorded in the consolidated financial statements. If the Company is unable to estimate returns for these types of arrangements, revenue is not recognized in the consolidated financial statements until the rights of return expire.

Revenue related to sales arrangements that include the right to use software stored on the Company's hardware is accounted for under FASB ASC Topic 985-605-05, *Software, Revenue Recognition, Hosting Arrangements,* or ASC 985-605-05, which requires that for software licenses and related implementation services to continue to fall under ASC 985-605-05, the customer must have the contractual right to take possession of the software without incurring a significant penalty and it must be feasible for the customer to either host the software themselves or through another third-party. If an arrangement is not deemed to be accounted for under ASC 985-605-05, the entire arrangement is accounted for as a service contract in accordance with ASC 985-605-25. In that instance, the entire arrangement would be recognized during the period that the hosting services are being performed.

From time to time, the Company offers future purchase discounts on its products and services as part of its sales arrangements. Pursuant to FASB ASC Topic 985-605-55, *Software, Revenue Recognition, Flowchart of Revenue Recognition on Software Arrangements,* or ASC 985-605-55, such discounts that are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, that are incremental to the range of discounts typically given in comparable transactions, and that are significant, are treated as an additional element of the contract to be deferred. Amounts deferred related to future purchase options are not recognized until either the customer exercises the discount offer or the offer expires.

RCM service revenue is derived from services fees, which include amounts charged for ongoing billing and other related services, and are generally billed to the customer as a percentage of total collections. The Company does not recognize revenue for services fees until these collections are made, as the services fees are not fixed or determinable until such time.

Revenue is divided into two categories, "system sales" and "maintenance, EDI, RCM and other services." Revenue in the system sales category includes software license fees, third-party hardware and software and implementation and training services related to purchase of the Company's software systems. Revenue in the maintenance, EDI, RCM and other services category includes maintenance, EDI, RCM services, follow on training and implementation services, annual third-party license fees, hosting services and other services revenue.

Cash and Cash Equivalents. Cash and cash equivalents generally consist of cash, money market funds and short-term U.S. Treasury securities with maturities of 90 days or less at the time of purchase. The money market fund in which the Company holds a portion of its cash invests in only investment grade money market instruments from a variety of industries, and therefore bears relatively low market risk. The average maturity of the investments owned by the money market fund is approximately two months.

Restricted Cash. Restricted cash consists of cash which is being held by HSI acting as agent for the disbursement of certain state social services programs. The Company records an offsetting "Care Services liability" (see also Note 7) when it initially receives such cash from the government social service programs and relieves both restricted cash and the Care Services liability when amounts are disbursed. HSI earns an administrative fee which is based on a percentage of funds disbursed on behalf of certain government social service programs.

Marketable Securities. Marketable securities are classified as available-for-sale and are recorded at fair value, based on quoted market rates when observable or valuation analysis when appropriate. Unrealized gains and losses, net of taxes, are reported as a component of shareholders' equity. Realized gains and losses on investments are included as interest income.

The Company's marketable securities consist of fixed-income municipal securities. Unrealized losses as of June 30, 2011 were $10, and unrealized losses as of March 31, 2011 were not significant.

Allowance for Doubtful Accounts. The Company provides credit terms typically ranging from thirty days to less than twelve months for most system and maintenance contract sales and generally does not require collateral. The Company performs credit evaluations of its clients and maintains reserves for estimated credit losses. Reserves for potential credit losses are determined by establishing both specific and general reserves. Specific reserves are based on management's estimate of the probability of collection for certain troubled accounts. General reserves are established based on the Company's historical experience of bad debt expense and the aging of the Company's accounts receivable balances, net of deferred revenue and specifically reserved accounts. Accounts are written off as uncollectible only after the Company has expended extensive collection efforts.

Included in accounts receivable are amounts related to maintenance and services which were billed, but which had not yet been rendered as of the end of the period. Undelivered maintenance and services are included as a component of deferred revenue (see also Note 7).

Equipment and Improvements. Equipment and improvements are stated at cost less accumulated depreciation and amortization. Repair and maintenance costs that do not improve service potential or extend economic life are expensed as incurred. Depreciation and amortization of equipment and improvements are provided over the estimated useful lives of the assets, or the related lease terms if shorter, by the straight-line method. Useful lives generally have the following ranges:

• Computers equipment	3-5 years
• Furniture and fixtures	5-7 years
• Leasehold improvements	lesser of lease term or estimated useful life of asset

Costs incurred to develop internal-use software during the application development stage are capitalized, stated at cost, and amortized using the straight-line method over the estimated useful lives of the assets, which is seven years. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized, whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred.

Software Development Costs. Development costs incurred in the research and development of new software products and enhancements to existing software products for external use are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any additional external software development costs are capitalized in accordance with FASB ASC Topic 985-20, *Software, Costs of Computer Software to be Sold, Leased or Marketed*, or ASC 985-20. Such capitalized costs are amortized on a straight-line basis over the estimated economic life of the related product, which is typically three years. The Company provides support services on the current and prior two versions of its software. Management performs an annual review of the estimated economic life and the recoverability of such capitalized software costs. If a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off.

Goodwill. Goodwill is related to NextGen and the HSI, PMP, NextGen IS, Opus and IntraNexus acquisitions (see Notes 3 and 4). In accordance with FASB ASC Topic 350-20, *Intangibles – Goodwill and Other, Goodwill*, or ASC 350-20, the Company tests goodwill for impairment annually at the end of its first fiscal quarter, referred to as the annual test date. The Company will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting-unit level, which is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component.

The Company has determined that NextGen qualifies as a separate reporting unit while HSI and PMP are aggregated as one reporting unit (the Practice Solutions Division) and NextGen IS, Opus and IntraNexus are aggregated as a separate reporting unit (the Inpatient Solutions Division) for which goodwill impairment testing is performed.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. The estimate of fair value of each of the Company's reporting units is based on the projection of revenues, cost of services, other expenses and cash flows considering historical and estimated future results, general economic and market conditions as well as the impact of planned business and operational strategies. The Company determines its fair value estimates using assumptions it believes to be reasonable at the time; however, such assumptions are subject to inherent uncertainty. Actual results may differ from those estimates. The valuations employ present value techniques to measure fair value and consider market factors.

For the Practice Solutions Division and Inpatient Solutions Division, fair value was determined based upon a combination of various valuation techniques, including an income approach, which utilizes discounted future cash flow projections based upon management's five-year forecasts, a market approach, which is based upon pricing multiples at which similar companies have been sold and a cost approach where an analysis of assets and liabilities is performed to restate each to fair value, then determining enterprise value from the difference between current assets and current liabilities. Key assumptions used to determine the fair value of each reporting unit as of the Company's annual assessment date are as follows: (a) expected cash flow for the period from 2012 to 2017 plus a terminal year; (b) a discount rate ranging from 15.0% to 19.0% for the Practice Solutions Division and Inpatient Solutions Division, which are based on marketplace participant expectations; and (c) a debt-free net cash flow long-term growth rate of between 3% and 5%, which is based on expected levels of growth for nominal GDP and inflation.

The estimated fair value of NextGen was determined using an estimate of future cash flows over both five and ten year periods and risk adjusted discount rates of between 10% and 25% to compute a net present value of discounted future cash flows.

An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. Based on its analysis, the Company has determined that there was no impairment to its goodwill as of June 30, 2011. See Note 4.

Intangible Assets. Intangible assets consist of capitalized software costs, customer relationships, trade names and certain software technology. Intangible assets related to customer relationships, trade names, and software technology arose in connection with the acquisitions of HSI, PMP, NextGen IS, Opus and IntraNexus. These intangible assets were recorded at fair value and are stated net of accumulated amortization. Intangible assets are amortized over their remaining estimated useful lives, ranging from 3 to 9 years. The Company's amortization policy for intangible assets is based on the principles in FASB ASC Topic 350-30, *Intangibles – Goodwill and Other, General Intangibles Other than Goodwill*, or ASC 350-30, which requires that the amortization of intangible assets reflect the pattern that the economic benefits of the intangible assets are consumed.

Income Taxes. The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, or ASC 740**.** Income taxes are provided based on current taxable income and the future tax consequences of temporary differences between the basis of assets and liabilities for financial and tax reporting. The deferred income tax assets and liabilities represent the future state and federal tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred income taxes are also recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. At each reporting period, management assesses the realizable value of deferred tax assets based on, among other things, estimates of future taxable income and adjusts the related valuation allowance as necessary. Management makes a number of assumptions and estimates in determining the appropriate amount of expense to record for income taxes. These assumptions and estimates consider the taxing jurisdiction in which the Company operates as well as current tax regulations. Accruals are established for estimates of tax effects for certain transactions and future projected profitability of the Company's businesses based on management's interpretation of existing facts and circumstances.

Self-Insurance Liabilities. Effective January 1, 2010, the Company became self-insured with respect to healthcare claims, subject to stop-loss limits. The Company accrues for estimated self-insurance costs and uninsured exposures based on claims filed and an estimate of claims incurred but not reported as of each balance sheet date. However, it is possible that recorded accruals may not be adequate to cover the future payment of claims. Adjustments, if any, to estimated accruals resulting from ultimate claim payments will be reflected in earnings during the periods in which such adjustments are determined. Periodically, the Company reevaluates the adequacy of the accruals by comparing amounts accrued on the balance sheets for anticipated losses to an updated actuarial loss forecasts and third-party claim administrator loss estimates and makes adjustments to the accruals as needed. The self-insurance accrual is included in other current liabilities. If any of the factors that contribute to the overall cost of insurance claims were to change, the actual amount incurred for the self-insurance liabilities would be directly affected.

Foreign Currency Translation. The U.S. dollar is considered to be the functional currency for QSIH because it acts primarily as an extension of the Company's operations. The determination of functional currency is primarily based on QSIH's relative financial and operational dependence. Assets and liabilities are re-measured at current exchange rates, except for property and equipment, depreciation and investments, which are translated at historical exchange rates. Revenues and expenses are re-measured at weighted average exchange rates in effect during the year except for costs related to the above mentioned balance sheet items, which are translated at historical rates. Any resulting foreign currency translation adjustments are reported as a component of shareholders' equity. The cumulative foreign currency translation adjustment as June 30, 2011 and March 31, 2011 was not significant. Foreign currency gains and losses are included in other expense in the consolidated statements of income. The net foreign currency loss for the three months ended June 30, 2011 was not significant.

Share-Based Compensation. FASB ASC Topic 718 *Compensation – Stock Compensation*, or ASC 718, requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. Expected term is estimated using historical exercise experience. Volatility is estimated using the weighted-average historical volatility of the Company's common stock, which approximates expected volatility. The risk free rate is the implied yield available on the U.S Treasury zero-coupon issues with remaining terms equal to the expected term. The expected dividend yield is the average dividend rate during a period equal to the expected term of the option. Those inputs are then entered into the Black Scholes model to determine the estimated fair value. The value of the portion of the award that is ultimately expected to vest is recognized ratably as expense over the requisite service period in the Company's consolidated statements of income.

Share-based compensation is adjusted on a quarterly basis for changes to estimated forfeitures based on a review of historical forfeiture activity. To the extent that actual forfeitures differ, or are expected to differ, from the estimate, share-based compensation expense is adjusted accordingly. The effect of the forfeiture adjustments for three months ended June 30, 2011 and 2010 was not significant.

The following table shows total share-based compensation expense included in the consolidated statements of income for three months ended June 30, 2011 and 2010:

	Three Months Ended June 30,	
	2011	2010
Costs and expenses:		
Cost of revenue	$ 49	$ 68
Research and development costs	33	28
Selling, general and administrative	874	969
Total share-based compensation	956	1,065
Amounts capitalized in software development costs	—	(1)
Amounts charged against earnings, before income tax benefit	$ 956	$ 1,064
Related income tax benefit	(358)	(348)
Decrease in net income	$ 598	$ 716

Recent Accounting Standards. In April 2010, FASB issued an amendment to stock compensation. The amendment clarifies that an employee stock-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. There was no material impact from the adoption of this guidance on the Company's consolidated financial position or results of operations since the Company's stock-based payment awards have an exercise price denominated in the same currency of the market in which the Company's shares are traded.

In December 2010, FASB issued an amendment to goodwill impairment test. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. There was no material impact from the adoption of this guidance on the Company's consolidated financial position or results of operations since the Company does not have any reporting units with zero or negative carrying amounts.

In December 2010, FASB issued an amendment to the disclosure of supplementary pro forma information for business combinations. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance had no material impact on the Company's consolidated financial position or results of operations but may have an effect on the required disclosures for future business combinations.

2. Fair Value Measurements

The Company applies ASC 820 with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value and (b) all financial assets and liabilities. As defined by ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company estimates fair value utilizing market data or assumptions that market participants would use in pricing the asset or liability in a current transaction, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The Company's financial instruments, other than those presented in the disclosures below, include accounts receivables, accounts payable and accrued liabilities. The carrying value of these assets and liabilities approximates fair value because of the short-term nature of these instruments. ASC 820 prioritizes the inputs used in measuring fair value into the following hierarchy (with Level 1 as the highest priority):

Level 1 — Quoted market prices in active markets for identical assets or liabilities;

Level 2 — Observable inputs other than those included in Level 1 (for example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets); and

Level 3 — Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

Recurring Fair Value Measurements

The fair value hierarchy requires the use of observable market data when available. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The following tables sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2011 and March 31, 2011:

	Balance at June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
ASSETS				
Cash and cash equivalents (1)	$ 124,054	$ 124,054	$ —	$ —
Restricted cash	4,487	4,487	—	—
Marketable securities (2)	1,110	1,110	—	—
	$ 129,651	$ 129,651	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 1,616	$ —	$ —	$ 1,616
	$ 1,616	$ —	$ —	$ 1,616

(1) Cash and cash equivalents consists of money market funds and certificates of deposit.

(2) Marketable securities consists of municipal fixed-income municipal securities.

	Balance at March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
ASSETS				
Cash and cash equivalents (1)	$ 116,617	$ 116,617	$ —	$ —
Restricted cash	3,787	3,787	—	—
Marketable securities (2)	1,120	1,120	—	—
	$ 121,524	$ 121,524	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 13,658	$ —	$ 12,743	$ 915
	$ 13,658	$ —	$ 12,743	$ 915

(1) Cash and cash equivalents consists of money market funds and certificates of deposit.

(2) Marketable securities consists of municipal fixed-income municipal securities.

The Company's contingent consideration liability is accounted for at fair value on a recurring basis and is adjusted to fair value when the carrying value differs from fair value. The categorization of the framework used to measure fair value of the contingent consideration liability is considered Level 3 due to the subjective nature of the unobservable inputs used. The fair values of the contingent consideration liability were $816 for NextGen IS and $800 for IntraNexus, which were estimated based on the probability of achieving certain business milestones and management's forecast of expected revenues. See Note 3.

The following table presents activity in the Company's financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3), as defined by ASC 820, as of and for the three months ended June 30, 2011:

	Liabilities
Balance at April 1, 2011	$ 915
Acquisition (Note 3)	800
Earnout payments	(99)
Balance at June 30, 2011	$ 1,616

Non-Recurring Fair Value Measurements

The Company has certain assets, including goodwill and other intangible assets, which are measured at fair value on a non-recurring basis and are adjusted to fair value only if an impairment charge is recognized. The categorization of the framework used to measure fair value of the assets is considered Level 3 due to the subjective nature of the unobservable inputs used. During the three months ended June 30, 2011, there were no adjustments to fair value of such assets.

Fair Value of Financial Instruments

The estimated fair value of financial instruments is determined using the best available market information and appropriate valuation methodologies. However, considerable judgment is necessary in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange, or the value that ultimately will be realized upon maturity or disposition. The use of different market assumptions may have a material effect on the estimated fair value amounts. The Company's financial instruments, other than those presented in the disclosures above, include accounts receivables, accounts payable and accrued liabilities. The carrying value of these assets and liabilities approximates fair value because of the short-term nature of these instruments.

3. Business Combinations

On April 29, 2011, the Company acquired IntraNexus, a provider of Web-based integrated clinical and hospital information systems. The IntraNexus purchase price totaled $4,204, including contingent consideration payable over a three year period with a fair value of $800, which was estimated based on management's forecast of expected revenues, but in no event shall exceed $1,650.

On February 10, 2010, the Company acquired Opus, a provider of clinical information systems to the small hospital inpatient market. The Opus purchase price totaled $21,113, which includes a fair value adjustment of $532 to goodwill and the contingent consideration liability that was recorded during the year ended March 31, 2011. The fair value of the total Opus contingent consideration of $12,048 was estimated at the time of purchase based on the probability of Opus achieving certain earnout payments to be paid over a two year period to the selling security holders and former stock option holders ("option holders") of Opus if certain operational and strategic objectives were met.

On March 30, 2011, the Company entered into an amendment to the merger agreement to modify and accelerate payment of the earnout consideration under the merger agreement, resulting in a total payment of $12,250, payable in 143,000 shares of Company common stock to the selling security holders and $856 in cash to the option holders. The Company has no further obligation to pay earnout consideration related to the Opus acquisition.

The fair value of the Opus earnout settlement was $12,743, which is the fair value of the Opus contingent consideration recorded in other current liabilities as of March 31, 2011. In reviewing the final settlement, the Company identified an error in the initial purchase price allocation related to the fair value of the price collar provisions in the merger agreement. As a result, the Company recorded an adjustment of $532 to goodwill and contingent consideration liability to correct the initial purchase price allocation as of February 10, 2010. The Company has concluded that this correction is not material to any periods affected.

The Company accounted for the IntraNexus, Opus, and NextGen IS acquisitions as purchase business combinations as defined in FASB ASC Topic 805, *Business Combinations*, or ASC 805. Under the acquisition method of accounting, the purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The fair value of the assets acquired and liabilities assumed represent management's estimate of fair value. The estimated fair value of the acquired tangible and intangible assets and liabilities assumed were determined using multiple valuation approaches depending on the type of tangible or intangible asset acquired, including but not limited to the income approach, the excess earnings method as well as the relief from royalty method approach.

The total purchase price for IntraNexus is summarized as follows:

Cash paid	$ 3,279
Purchase price holdback	125
Contingent consideration	800
Total purchase price	$ 4,204

The following table summarizes the final allocation of the IntraNexus purchase price:

Fair value of the net tangible assets acquired and liabilities assumed:	
Current assets (including accounts receivable of $464)	$ 691
Accounts payable and accrued liabilities	(226)
Deferred revenues	(94)
Total net tangible assets acquired and liabilities assumed	371
Fair value of identifiable intangible assets acquired:	
Customer relationships	1,100
Software technology	830
Goodwill (including assembled workforce of $120)	1,903
Total identifiable intangible assets acquired	3,833
Total purchase price	$ 4,204

The pro forma effects of the IntraNexus, Opus and NextGen IS acquisitions would not have been material to the Company's results of operations and is therefore not presented.

4. Goodwill

In accordance with ASC 350-20, the Company does not amortize goodwill as the goodwill has been determined to have an indefinite useful life.

Goodwill consists of the following:

	March 31, 2011	Acquisitions	June 30, 2011
NextGen Division			
NextGen Healthcare Information Systems, Inc.	$ 1,840	$ —	$ 1,840
Total NextGen Division goodwill	1,840	—	1,840
Inpatient Solutions Division			
Opus Healthcare Solutions, Inc.	13,537	—	13,537
NextGen Inpatient Solutions, LLC	1,020	—	1,020
IntraNexus, Inc.	—	1,903	1,903
Total Inpatient Solutions Division goodwill	14,557	1,903	16,460
Practice Solutions Division			
Practice Management Partners, Inc.	19,485	—	19,485
Healthcare Strategic Initiatives	10,839	—	10,839
Total Practice Solutions Division goodwill	30,324	—	30,324
Total goodwill	$ 46,721	$ 1,903	$ 48,624

5. Intangible Assets

In connection with the IntraNexus acquisition, the Company recorded $1,930 of intangible assets related to customer relationships and software technology. The Company is amortizing the customer relationships over 5 years and the software technology over 4 years.

In connection with the Opus acquisition, the Company recorded $13,250 of intangible assets related to customer relationships and software technology. The Company is amortizing the Opus customer relationships intangible asset over 4 years and the software technology over 8 years.

In connection with the NextGen IS acquisition, the Company recorded $275 of intangible assets related to customer relationships and software technology. The Company is amortizing the NextGen IS customer relationships intangible asset over 4 years and the software technology over 3 years.

In connection with the PMP acquisition, the Company recorded $3,817 of intangible assets related to customer relationships and trade name. The Company is amortizing the PMP customer relationships intangible asset over 9 years and trade name over 4 years.

In connection with the HSI acquisition, the Company recorded $5,620 of intangible assets related to customer relationships and trade name. The Company is amortizing the HSI customer relationships intangible asset over 6 years and trade name over 4 years.

The Company's intangible assets, other than capitalized software development costs, with determinable lives are summarized as follows:

	June 30, 2011			
	Customer Relationships	Trade Name	Software Technology	Total
Gross carrying amount	$ 11,306	$ 637	$ 12,949	$ 24,892
Accumulated amortization	(4,321)	(469)	(2,183)	(6,973)
Net intangible assets	$ 6,985	$ 168	$ 10,766	$ 17,919

	March 31, 2011			
	Customer Relationships	Trade Name	Software Technology	Total
Gross carrying amount	$ 10,206	$ 637	$ 12,119	$ 22,962
Accumulated amortization	(3,879)	(429)	(1,764)	(6,072)
Net intangible assets	$ 6,327	$ 208	$ 10,355	$ 16,890

Activity related to the intangible assets for the three months ended June 30, 2011 and 2010 is summarized as follows:

	Customer Relationships	Trade Name	Software Technology	Total
Balance as of April 1, 2011	$ 6,327	$ 208	$ 10,355	$ 16,890
Acquisition	1,100	—	830	1,930
Amortization (1)	(442)	(40)	(419)	(901)
Balance as of June 30, 2011	$ 6,985	$ 168	$ 10,766	$ 17,919

	Customer Relationships	Trade Name	Software Technology	Total
Balance as of April 1, 2010	$ 7,849	$ 368	$ 11,928	$ 20,145
Amortization (1)	(307)	(40)	(418)	(765)
Balance as of June 30, 2010	$ 7,542	$ 328	$ 11,510	$ 19,380

(1) Amortization of the customer relationships and trade name intangible assets is included in operating expenses and amortization of the software technology intangible assets is included in cost of revenue for software, hardware and supplies.

The following table represents the remaining estimated amortization of intangible assets with determinable lives as of June 30, 2011:

For the year ended March 31, 2012 (remaining nine months)	$ 2,810
2013	3,611
2014	3,482
2015	2,441
2016 and beyond	5,575
Total	$ 17,919

6. Capitalized Software Costs

The Company's capitalized software development costs are summarized as follows:

	June 30, 2011	March 31, 2011
Gross carrying amount	$ 54,636	$ 52,123
Accumulated amortization	(38,898)	(36,973)
Net capitalized software costs	$ 15,738	$ 15,150

Activity related to net capitalized software costs for the three months ended June 30, 2011 and 2010 is summarized as follows:

	2011	2010
Balance as of April 1	$ 15,150	$ 11,546
Capitalized	2,513	2,545
Amortization	(1,925)	(1,669)
Balance as of June 30	$ 15,738	$ 12,422

The following table represents the remaining estimated amortization of capitalized software costs as of June 30, 2011:

For the year ended March 31, 2012 (remaining nine months)	$ 5,701
2013	6,107
2014	3,542
2015	388
Total	$ 15,738

7. Composition of Certain Financial Statement Captions

Accounts receivable include amounts related to maintenance and services that were billed but not yet rendered at each period end. Undelivered maintenance and services are included as a component of the deferred revenue balance on the accompanying consolidated balance sheets.

	June 30, 2011	March 31, 2011
Accounts receivable, excluding undelivered software, maintenance and services	$ 95,913	$ 90,487
Undelivered software, maintenance and implementation services billed in advance, included in deferred revenue	59,790	56,002
Accounts receivable, gross	155,703	146,489
Allowance for doubtful accounts	(6,796)	(6,717)
Accounts receivable, net	$ 148,907	$ 139,772

Inventories are summarized as follows:

	June 30, 2011	March 31, 2011
Computer systems and components, net of reserve for obsolescence of $264	$ 2,137	$ 1,925
Miscellaneous parts and supplies	8	8
Inventories	$ 2,145	$ 1,933

Equipment and improvements are summarized as follows:

	June 30, 2011	March 31, 2011
Computer equipment	$ 21,329	$ 23,567
Furniture and fixtures	5,596	5,861
Leasehold improvements	3,950	4,434
	30,875	33,862
Accumulated depreciation and amortization	(17,097)	(21,263)
Equipment and improvements, net	$ 13,778	$ 12,599

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Current and non-current deferred revenue are summarized as follows:

	June 30, 2011	March 31, 2011
Maintenance	$ 11,328	$ 11,108
Implementation services	56,147	52,197
Annual license services	9,776	10,127
Undelivered software and other	2,776	3,263
Deferred revenue	$ 80,027	$ 76,695
Deferred revenue, net of current	$ 1,106	$ 1,099

Accrued compensation and related benefits are summarized as follows:

	June 30, 2011	March 31, 2011
Payroll, bonus and commission	$ 3,990	$ 5,014
Vacation	5,911	5,233
Accrued compensation and related benefits	$ 9,901	$ 10,247

Other current liabilities are summarized as follows:

	June 30, 2011	March 31, 2011
Care services liabilities	$ 4,487	$ 3,787
Accrued EDI expense	2,344	2,801
Sales tax payable	1,179	589
Contingent consideration related to acquisitions	1,116	13,658
Accrued royalties	1,032	1,752
Customer deposits	908	962
Accrued travel	720	1,026
Outside commission payable	614	599
Self insurance reserve	603	475
Deferred rent	533	437
Professional services	448	155
Other accrued expenses	3,384	3,075
Other current liabilities	$ 17,368	$ 29,316

8. Income Tax

The provision for income taxes for the three months ended June 30, 2011 was approximately $9,880 as compared to approximately $6,989 for the same year ago period. The effective tax rates for the three months ended June 30, 2011 and 2010 were 34.2% and 36.6%, respectively. The provision for income taxes for the three months ended June 30, 2011 differs from the combined statutory rates primarily due to the impact of varying state income tax rates, tax-exempt interest income, and the qualified production activities deduction. The effective rate for the three months ended June 30, 2011 decreased as compared to the same prior year period primarily due to increased benefits from the qualified production activities deduction, research and development credits, which were not included in the provision for the same prior year period but included in the provision for the current year period, increased deductions related to incentive stock options that were exercised in the current quarter and fluctuations in the state effective tax rate.

Uncertain tax positions

As of June 30, 2011, the Company has provided a liability of $484 for unrecognized tax benefits related to various federal and state income tax matters. If recognized, $484 would impact the Company's effective tax rate. The reserve for the three months ended June 30, 2011 decreased from the same year ago period by $175 due to the expiration of the statute of limitations of prior year tax positions of acquired companies.

The Company's income tax returns filed for tax years 2007 through 2009 and 2006 through 2009 are subject to examination by the federal and state taxing authorities, respectively. The Company is currently under examination by the IRS and is under examination by one state income tax authority and pending examination by three additional state agencies. The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statute of limitations within the next twelve months.

9. Earnings per Share

Pursuant to FASB ASC Topic 260, *Earnings Per Share*, or ASC 260, the Company provides dual presentation of "basic" and "diluted" earnings per share ("EPS").

Basic EPS excludes dilution from common stock equivalents and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from common stock equivalents and is based on the assumption that the Company's outstanding options are included in the calculation of diluted earnings per share, except when their effect would be anti-dilutive. Dilution is computed by applying the treasury stock method. Under this method, options are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. The following table reconciles the weighted-average shares outstanding for basic and diluted net income per share for the periods indicated:

	Three Months Ended June 30,	
	2011	2010
Net income	$ 18,983	$ 12,092
Basic net income per share:		
Weighted-average shares outstanding — Basic	29,181	28,896
Basic net income per common share	$ 0.65	$ 0.42
Net income	$ 18,983	$ 12,092
Diluted net income per share:		
Weighted-average shares outstanding — Basic	29,181	28,896
Effect of potentially dilutive securities	219	161
Weighted-average shares outstanding — Diluted	29,400	29,057
Diluted net income per common share	$ 0.65	$ 0.42

The computation of diluted net income per share does not include 78 and 253 options for the three months ended June 30, 2011 and 2010, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

10. Share-Based Awards

Employee Stock Option Plans

In September 1998, the Company's shareholders approved a stock option plan (the "1998 Plan") under which 4,000,000 shares of common stock were reserved for the issuance of options. The 1998 Plan provides that employees, directors and consultants of the Company may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted options to purchase shares of common stock. The exercise price of each option granted was determined by the Board of Directors at the date of grant, and options under the 1998 Plan expire no later than ten years from the grant date. Options granted will generally become exercisable in accordance with the terms of the agreement pursuant to which they were granted. Certain option grants to directors became exercisable three months from the date of grant. Upon an acquisition of the Company by merger or asset sale, each outstanding option may be subject to accelerated vesting under certain circumstances. The 1998 Plan terminated on December 31, 2007. As of June 30, 2011, there were 173,931 outstanding options related to this Plan.

In October 2005, the Company's shareholders approved a stock option and incentive plan (the "2005 Plan") under which 2,400,000 shares of common stock were reserved for the issuance of awards, including stock options, incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance shares, performance units (including performance options) and other share-based awards. The 2005 Plan provides that employees, directors and consultants of the Company may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted awards to acquire shares of common stock. The exercise price of each option award shall be determined by the Board of Directors at the date of grant in accordance with the terms of the 2005 Plan, and under the 2005 Plan awards expire no later than ten years from the grant date. Options granted will generally become exercisable in accordance with the terms of the agreement pursuant to which they were granted. Upon an acquisition of the Company by merger or asset sale, each outstanding option may be subject to accelerated vesting under certain circumstances. The 2005 Plan terminates on May 25, 2015, unless terminated earlier by the Board of Directors. As of June 30, 2011, there were 667,595 outstanding options and 1,556,924 shares available for future grant related to this Plan.

A summary of stock option transactions during the three months ended June 30, 2011 and 2010 is as follows:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, April 1, 2011	698,778	$ 44.40	3.9	
Granted	229,700	86.08	7.9	
Exercised	(86,952)	39.42	1.8	$ 4,163
Forfeited/Canceled	—	—	—	
Outstanding, June 30, 2011	841,526	$ 56.29	5.0	$ 26,097
Vested and expected to vest, June 30, 2011	819,212	$ 56.14	5.0	$ 25,530
Exercisable, June 30, 2011	273,873	$ 36.23	2.2	$ 13,986

The Company accounts for share-based compensation in accordance with ASC 718 and utilizes the Black-Scholes valuation model for estimating the fair value of share-based compensation with the following assumptions:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Expected life	4.3 years	4.2 years
Expected volatility	41.2%	44.6% - 44.7%
Expected dividends	1.6%	2.1%
Risk-free rate	1.8%	2.0% - 2.1%

The weighted average grant date fair value of stock options granted during the three months ended June 30, 2011 and 2010 was $26.64 and $18.36 per share, respectively.

The Company issues new shares to satisfy option exercises. Based on historical experience of option cancellations, the Company has estimated an annualized forfeiture rate of 3.3% and 2.4% for employee options for the three months ended June 30, 2011 and 2010, respectively, and 0.0% for director options for the three months ended June 30, 2011 and 2010. Forfeiture rates will be adjusted over the requisite service period when actual forfeitures differ, or are expected to differ, from the estimate.

During the three months ended June 30, 2011, a total of 229,700 options were granted under the 2005 Plan at an exercise price equal to the market price of the Company's common stock on the date of grant. A summary of stock options granted under the 2005 Plan during fiscal years 2012 and 2011 is as follows:

Option Grant Date	Number of Shares	Exercise Price	Vesting Terms (1)	Expires
May 31, 2011	229,700	$ 86.08	Five years	May 31, 2019
Fiscal year 2012 option grants	229,700			
November 29, 2010	10,000	$ 64.32	Five years	November 29, 2018
August 3, 2010	5,000	55.24	Five years	August 3, 2018
June 4, 2010	25,000	56.29	Five years	June 4, 2018
June 2, 2010	15,000	58.62	Five years	June 2, 2018
Fiscal year 2011 option grants	55,000			

(1) Options vest in equal annual installments on each grant anniversary date commencing one year following the date of grant.

Performance-Based Awards

On May 25, 2011, the Board of Directors approved its fiscal year 2012 equity incentive program for certain employees to be awarded options to purchase the Company's common stock. The maximum number of options available under the equity incentive program plan is 300,000, of which 150,000 are reserved for the Company's named executive officers and 150,000 for non-executive employees of the Company. Under the program, executives are eligible to receive options based on meeting certain target increases in earnings per share performance and revenue growth during fiscal year 2012. Under the program, the non-executive employees are eligible to receive options based on satisfying certain management established criteria and recommendations of senior management. The options shall be issued pursuant to one of the Company's shareholder approved option plans, have an exercise price equal to the closing price of the Company's shares on the date of grant, a term of eight years and vesting in five equal annual installments commencing one year following the date of grant.

Compensation expense associated with the performance based awards under the Company's equity incentive plans are initially based on the number of options expected to vest after assessing the probability that certain performance criteria will be met. Cumulative adjustments are recorded quarterly to reflect subsequent changes in the estimated outcome of performance-related conditions. The Company utilized the Black-Scholes option valuation model and recorded stock compensation expense related to the performance based awards of approximately $213 and $18 during the three months ended June 30, 2011 and 2010, respectively, using the assumptions below.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Expected life	4.3 years	4.2 years
Expected volatility	41.2%	44.4%
Expected dividends	1.8%	2.1%
Risk-free rate	1.8%	1.8%

Non-vested stock option award activity, including employee stock options and performance-based awards, during the three months ended June 30, 2011 is summarized as follows:

	Non-Vested Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding, April 1, 2011	401,518	$ 16.17
Granted	229,700	26.64
Vested	(63,565)	12.01
Forfeited/Canceled	—	—
Outstanding, June 30, 2011	567,653	$ 20.87

As of June 30, 2011, $9,284 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 6.4 years. This amount does not include the cost of new options that may be granted in future periods or any changes in the Company's forfeiture percentage. The total fair value of options vested during the three months ended June 30, 2011 and 2010 was $764 and $936, respectively.

Restricted Stock Units

On May 27, 2009, the Board of Directors approved its Outside Director Compensation Plan, whereby each non-employee Director is to be awarded shares of restricted stock units upon election or re-election to the Board. The restricted stock units are awarded under the 2005 Plan. Such restricted stock units vest in two equal, annual installments on the first and second anniversaries of the grant date and are nontransferable for one year following vesting. Upon each vesting of the award, one share of common stock shall be issued for each restricted stock unit. The weighted-average grant date fair value for the restricted stock units was estimated using the market price of its common stock on the date of grant. The fair value of these restricted stock units is amortized on a straight-line basis over the vesting period.

As of June 30, 2011, 17,146 restricted stock units have been awarded under this Plan and approximately $103 and $73 of compensation expense related to these restricted stock units was recorded during the three months ended June 30, 2011 and 2010, respectively. Restricted stock units activity for the three months ended June 30, 2011 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding, April 1, 2011	11,448	$ 54.18
Granted	—	—
Vested	—	—
Outstanding, June 30, 2011	11,448	$ 54.18

As of June 30, 2011, $265 of total unrecognized compensation costs related to restricted stock units is expected to be recognized over a weighted-average period of 0.8 years. This amount does not include the cost of new restricted stock units that may be granted in future periods.

11. Concentration of Credit Risk

The Company had cash deposits at U.S. banks and financial institutions which exceeded federally insured limits at June 30, 2011. The Company is exposed to credit loss for amounts in excess of insured limits in the event of non-performance by the institutions; however, the Company does not anticipate non-performance by these institutions.

12. Commitments, Guarantees and Contingencies

Commitments and Guarantees

Software license agreements in both the QSI Dental Division and NextGen Division include a performance guarantee that the Company's software products will substantially operate as described in the applicable program documentation for a period of 365 days after delivery. To date, the Company has not incurred any significant costs associated with its performance guarantee or other related warranties and does not expect to incur significant warranty costs in the future. Therefore, no accrual has been made for potential costs associated with these warranties. Certain arrangements also include performance guarantees related to response time, availability for operational use, and other performance-related guarantees. Certain arrangements also include penalties in the form of maintenance credits should the performance of the software fail to meet the performance guarantees. To date, the Company has not incurred any significant costs associated with these warranties and does not expect to incur significant warranty costs in the future. Therefore, no accrual has been made for potential costs associated with these warranties.

The Company has historically offered short-term rights of return in certain sales arrangements. If the Company is able to estimate returns for these types of arrangements and all other criteria for revenue recognition have been met, revenue is recognized and these arrangements are recorded in the consolidated financial statements. If the Company is unable to estimate returns for these types of arrangements, revenue is not recognized in the consolidated financial statements until the rights of return expire, provided also, that all other criteria of revenue recognition have been met.

Certain standard sales agreements contain a money back guarantee providing for a performance guarantee that is already part of the software license agreement as well as training and support. The money back guarantee also warrants that the software will remain robust and flexible to allow participation in the federal health incentive programs. The specific elements of the performance guarantee pertain to aspects of the software, which the Company has already tested and confirmed to consistently meet using the Company's existing software without any modifications or enhancements. To date, the Company has not incurred any costs associated with this guarantee and does not expect to incur significant costs in the future. Therefore, no accrual has been made for potential costs associated with this guarantee.

The Company's standard sales agreements in the NextGen Division contain an indemnification provision pursuant to which it shall indemnify, hold harmless, and reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any United States patent, any copyright or other intellectual property infringement claim by any third-party with respect to its software. The QSI Dental Division arrangements occasionally utilize this type of language as well. As the Company has not incurred any significant costs to defend lawsuits or settle claims related to these indemnification agreements, the Company believes that its estimated exposure on these agreements is currently minimal. Accordingly, the Company has no liabilities recorded for these indemnification obligations.

The Company has entered into marketing assistance agreements with existing users of the Company's products which provide the opportunity for those users to earn commissions if they host specific site visits upon the Company's request for prospective clients that directly result in a purchase of the Company's software by the visiting prospects. Amounts earned by existing users under this program are treated as a selling expense in the period when earned.

Litigation

The Company has experienced certain legal claims by parties asserting that it has infringed certain intellectual property rights. The Company believes that these claims are without merit and the Company has defended them vigorously. However, in order to avoid the further legal costs and diversion of management resources it is reasonably possible that a settlement may be reached which could result in a liability to the Company. However, at this time it is not possible to estimate with reasonable certainty what amount, if any, may be incurred as a result of a settlement. Litigation is inherently uncertain and always difficult to predict. Refer to the discussion of infringement and litigation risks in the "Item 1A. Risk Factors" section of the Company's most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

13. Operating Segment Information

The Company has prepared operating segment information in accordance with ASC 280 to report components that are evaluated regularly by its chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

During fiscal year 2011, as a result of certain organizational changes, the composition of the Company's NextGen Division was revised to exclude the Company's inpatient solutions entities (Opus and NextGen IS), both of which are now aggregated in the Company's Inpatient Solutions Division. Following the reorganization, the Company now operates four reportable segments (not including Corporate), comprised of the NextGen Division, the Inpatient Solutions Division, the QSI Dental Division and the Practice Solutions Division.

Prior period segment results were revised accordingly to reflect the organizational changes. The results of operations related to the fiscal year 2010 acquisitions of Opus and NextGen IS are now included in the Inpatient Solutions Division. The results of operations related to the fiscal year 2009 acquisitions of HSI and PMP are included in the Practice Solutions Division.

The QSI Dental Division, co-located with the Company's corporate headquarters in Irvine, California, currently focuses on developing, marketing and supporting software suites sold to dental practices.

The NextGen Division, with headquarters in Horsham, Pennsylvania, provides integrated clinical, financial and connectivity solutions for ambulatory and dental provider organizations and focuses principally on developing and marketing products and services for medical practices.

The Inpatient Solutions Division, with its primary location in Austin, Texas, provides integrated clinical, financial and connectivity solutions for rural and community hospitals. The Inpatient Solutions Division is comprised of IntraNexus, Opus and NextGen IS.

The Practice Solutions Division, with locations in St. Louis, Missouri and Hunt Valley, Maryland, focuses primarily on providing physician practices with RCM services, primarily billing and collection services for medical practices. This Division combines a Web-delivered SaaS model and the NextGenpm software platform to execute its service offerings. The Practice Solutions Division is comprised of HSI and PMP.

The Divisions operate largely as stand-alone operations, with each Division maintaining its own distinct product lines, product platforms, development, implementation and support teams and branding. The Divisions share the resources of the Company's "corporate office," which includes a variety of accounting and other administrative functions. Additionally, there are a small but growing number of clients who are simultaneously utilizing software or services from more than one of the Divisions.

In January 2011, QSIH was formed in Bangalore, India to function as the Company's India-based captive to offshore technology application development and business processing services.

The accounting policies of the Company's operating segments are the same as those described in Note 1, except that the disaggregated financial results of the segments reflect allocation of certain functional expense categories consistent with the basis and manner in which Company management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. Certain corporate overhead costs, such as executive and accounting department personnel-related expenses, are not allocated to the individual segments by management.

Operating segment data is as follows:

	Three Months Ended June 30,	
	2011	2010
Revenue:		
QSI Dental Division	$ 5,096	$ 5,352
NextGen Division	74,624	62,671
Inpatient Solutions Division	7,290	3,159
Practice Solutions Division	13,432	11,745
Consolidated revenue	$ 100,442	$ 82,927
Operating income:		
QSI Dental Division	$ 1,278	$ 1,591
NextGen Division	29,325	22,554
Inpatient Solutions Division	3,062	235
Practice Solutions Division	2,041	187
Unallocated corporate expense (1)	(6,887)	(5,540)
Consolidated operating income	$ 28,819	$ 19,027

(1) Unallocated corporate expense includes eliminations relating to QSIH revenues and related expenses included in the results of the operating segments. For the three months ended June 30, 2011, eliminations were not significant, and there were no eliminations for the three months ended June 30, 2010.

Management evaluates performance based upon stand-alone segment operating income. Because the Company does not evaluate performance based upon return on assets at the operating segment level, assets are not tracked internally by segment. Therefore, segment asset information is not presented.

All of the recorded goodwill at June 30, 2011 relates to the Company's NextGen Division, Inpatient Solutions Division and Practice Solutions Division. The goodwill relating to the acquisitions of HSI and PMP is recorded in the Practice Solutions Division. The goodwill amounts relating to the acquisitions of IntraNexus, Opus and NextGen IS are recorded in the Inpatient Solutions Division. See Note 4.

14. Subsequent Events

On July 26, 2011, the Company acquired 100% of the outstanding common stock of C.Q.I. Solutions, Inc. ("CQI") in exchange for newly issued shares of the Company's common stock and cash. CQI provides surgery scheduling software and services for the inpatient market and will be a part of the Company's Inpatient Solutions Division.

On July 27, 2011, the Board of Directors approved a two-for-one split of the Company's outstanding shares of common stock and a proportional increase in the number of Company common shares authorized from 50,000 shares to 100,000 shares. Each shareholder of record at the close of business on October 6, 2011 will receive one additional share for every outstanding share held on the record date. The additional shares will be distributed October 26, 2011 and trading will begin on a split-adjusted basis on October 27, 2011.

On July 27, 2011, the Board of Directors approved a quarterly cash dividend of $0.35 per share on the Company's outstanding shares of common stock, payable to shareholders of record as of September 16, 2011 with an expected distribution date on or about October 5, 2011.

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

Except for the historical information contained herein, the matters discussed in this management's discussion and analysis of financial condition and results of operations, or MD&A, including discussions of our product development plans, business strategies and market factors influencing our results, may include forward-looking statements that involve certain risks and uncertainties. Actual results may differ from those anticipated by us as a result of various factors, both foreseen and unforeseen, including, but not limited to, our ability to continue to develop new products and increase systems sales in markets characterized by rapid technological evolution, consolidation, and competition from larger, better-capitalized competitors. Many other economic, competitive, governmental and technological factors could affect our ability to achieve our goals, and interested persons are urged to review any risks that may be described in "Item 1A. Risk Factors" as set forth herein and other risk factors appearing in our most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2011 ("Annual Report"), as supplemented by additional risk factors, if any, in our interim filings on our Quarterly Report on Form 10-Q, as well as in our other public disclosures and filings with the Securities and Exchange Commission.

This MD&A is provided as a supplement to the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q in order to enhance your understanding of our results of operations and financial condition and should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Historical results of operations, percentage margin fluctuations and any trends that may be inferred from the discussion below are not necessarily indicative of the operating results for any future period.

Our MD&A is organized as follows:

- *Management Overview.* This section provides a general description of our Company and operating segments, a discussion as to how we derive our revenue, background information on certain trends and developments affecting our Company, a summary of our acquisition transactions and a discussion on management's strategy for driving revenue growth.
- *Critical Accounting Policies and Estimates.* This section discusses those accounting policies that are considered important to the evaluation and reporting of our financial condition and results of operations, and whose application requires us to exercise subjective or complex judgments in making estimates and assumptions. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 1, "Summary of Significant Accounting Policies," of our notes to consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.
- *Company Overview.* This section provides a more detailed description of our Company, operating segments, products and services offered.
- *Overview of Results of Operations and Results of Operations by Operating Divisions.* These sections provide our analysis and outlook for the significant line items on our consolidated statements of income, as well as other information that we deem meaningful to understand our results of operations on both a consolidated basis and an operating division basis.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity and cash flows.
- *New Accounting Pronouncements.* This section provides a summary of the most recent authoritative accounting standards and guidance that have either been recently adopted by our Company or may be adopted in the future.

Management Overview

Quality Systems, Inc. and its wholly-owned subsidiaries operate as four business divisions and are comprised of: (i) the QSI Dental Division, (ii) the NextGen Division, (iii) the Inpatient Solutions Division and (iv) the Practice Solutions Division, together with Quality Systems India Healthcare Private Limited ("QSIH"). Operationally, Lackland Acquisition II, LLC dba Healthcare Strategic Initiatives ("HSI") and Practice Management Partners, Inc. ("PMP") comprise the Practice Solutions Division while IntraNexus, Inc. ("IntraNexus"), Opus Healthcare Solutions, LLC ("Opus") and NextGen Inpatient Solutions, LLC ("NextGen IS" f/k/a Sphere) operate under the Inpatient Solutions Division. We primarily derive revenue by developing and marketing healthcare information systems that automate certain aspects of medical and dental practices, networks of practices such as physician hospital organizations ("PHOs") and management service organizations ("MSOs"), ambulatory care centers, community health centers and medical and dental schools along with comprehensive systems implementation, maintenance and support and add on complementary services such as revenue cycle management ("RCM") and electronic data interchange ("EDI"). Our systems and services provide our clients with the ability to redesign patient care and other workflow processes while improving productivity through facilitation of managed access to patient information. Utilizing our proprietary software in combination with third-party hardware and software solutions, our products enable the integration of a variety of administrative and clinical information operations.

The turbulence in the worldwide economy has impacted almost all industries. While healthcare is not immune to economic cycles, we believe it is more resilient than most segments of the economy. The impact of the current economic conditions on our existing and prospective clients has been mixed. We continue to see organizations that are doing fairly well operationally; however, some organizations with a large dependency on Medicaid populations are being impacted by the challenging financial condition of the many state governments in whose jurisdictions they conduct business. A positive factor for U.S. healthcare is the fact that the Obama Administration is pursuing broad healthcare reform aimed at improving issues surrounding healthcare. The American Recovery and Reinvestment Act ("ARRA"), which became law on February 17, 2009, includes more than $20 billion to help healthcare organizations modernize operations through the acquisition of health care information technology. The Certification Commission for Health Information Technology ("CCHIT®"), a non-profit organization recognized by the Office of the National Coordinator for Health Information Technology as an approved Authorized Testing and Certification Body, announced that our EHR solution was certified as a Complete EHR and 2011/2012 compliant during the quarter ended September 30, 2010, which comes off the heels of the Stage 1 Meaningful Use definition criteria under the ARRA that was announced in July 2010. With the lifting of the many Meaningful Use definition uncertainties, which has impacted software revenue, we believe we are well positioned to aid physicians and hospitals with their EHR decisions as they prepare to make incentive-based purchases.

Our strategy is, at present, to focus on providing software and services to medical and dental practices. The key elements of this strategy are to continue development and enhancement of select software solutions in target markets, to continue to bring further integration between the Company's ambulatory and inpatient products, to continue investments in our infrastructure including but not limited to product development, sales, marketing, implementation and support, to continue efforts to make infrastructure investments within an overall context of maintaining reasonable expense discipline, to add new clients through maintaining and expanding sales, marketing and product development activities and to expand our relationship with existing clients through delivery of add-on and complementary products and services and continuing our gold-standard commitment of service in support of our client satisfaction programs.

Critical Accounting Policies and Estimates

The discussion and analysis of our consolidated financial statements and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate estimates (including but not limited to those related to revenue recognition, uncollectible accounts receivable, software development cost, intangible assets and self-insurance accruals) for reasonableness. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We describe our significant accounting policies in Note 2, "Summary of Significant Accounting Policies," of our notes to consolidated financial statements included in our Annual Report. We discuss our critical accounting policies and estimates in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report. There have been no material changes in our significant accounting policies or critical accounting policies and estimates since the end of fiscal year 2011.

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Company Overview

Quality Systems, Inc., a California corporation formed in 1974, was founded with an early focus on providing information systems to dental group practices. In the mid-1980's, we capitalized on the increasing focus on medical cost containment and further expanded our information processing systems to serve the medical market. In the mid-1990's, we made two acquisitions that accelerated our penetration of the medical market. These two acquisitions formed the basis for the NextGen Division. In 2008, we acquired two revenue cycle management companies that formed the basis of our Practice Solutions Division, which provides revenue cycle management services. In 2009 and 2010, we made two more acquisitions that formed the basis of our Inpatient Solutions Division. Today, we serve the physician, inpatient and dental markets through our four business segments: QSI Dental Division, NextGen Division, Inpatient Solutions Division and Practice Solutions Division.

The following table breaks down our reported segment revenue and segment revenue growth by division for the three months ended June 30, 2011 and 2010:

	Segment Revenue Breakdown Three Months Ended June 30,		Segment Revenue Growth Three Months Ended June 30,	
	2011	2010	2011	2010
QSI Dental Division	5.1%	6.5%	(4.8)%	38.8%
NextGen Division	74.2%	75.5%	19.1%	19.5%
Inpatient Solutions Division (1)	7.3%	3.8%	130.8%	N/A
Practice Solutions Division	13.4%	14.2%	14.4%	13.5%
Consolidated	100.0%	100.0%	21.1%	24.4%

(1) Inpatient Solutions Division consists of three acquisitions: IntraNexus, Opus and NextGen IS, acquired in April 2011, February 2010 and August 2009, respectively.

QSI Dental Division. The QSI Dental Division, co-located with our corporate headquarters in Irvine, California, currently focuses on developing, marketing and supporting software suites sold to dental organizations located throughout the US. In addition, the Division supports a growing number of organizations utilizing its Software as a Service ("SaaS") model-based NextDDS™ financial and clinical software and certain number of medical clients that utilize the Division's UNIX®-based medical practice management software product.

The QSI Dental Division's practice management software suite utilizes a UNIX® operating system. Its Clinical Product Suite ("CPS") utilizes the Windows operating system and can be fully integrated with the practice management software offered from each of our Divisions. CPS incorporates a wide range of clinical tools including, but not limited to, periodontal charting and digital imaging of X-ray and inter-oral camera images as part of the electronic patient record. The Division develops, markets and manages our Dental EDI/connectivity applications including our QSInet Application Service Provider ("ASP"). The QSI Dental Division also provides EDI services to dental Practices. EDI services include electronic submission of claims to insurance providers as well as automated patient statements.

The QSI Dental Division participates jointly with the NextGen Division in providing software and services to Federally Qualified Health Centers ("FQHCs"). FQHCs are community based organizations funded by the Federal government, which provide medical and dental services to underprivileged and underserved communities. The Patient Protection and Affordable Care Act, which was signed into law in March 2010, legislated $11 billion over a multiyear time period for the FQHCs program, creating unprecedented opportunities for FQHCs growth and the formation of new FQHCs.

In July 2009, we licensed source code that allows us to deliver hosted, Web-based SaaS model practice management and clinical software solutions to the dental industry. This new software solution ("NextDDS™") is being marketed primarily to the multi-location dental group practice market in which the Division has historically been a dominant player. NextDDS™ brings the QSI Dental Division to the forefront of the emergence of Internet-based applications and cloud computing and represents a significant growth opportunity for the Division to sell both to its existing client base as well as new clients.

NextGen Division. The NextGen Division, with headquarters in Horsham, Pennsylvania and significant locations in Atlanta, Georgia, provides integrated clinical, financial and connectivity solutions for ambulatory and dental provider organizations. The NextGen Division's major product categories include the NextGen ambulatory product suite and NextGen Community Connectivity.

The NextGen Ambulatory product suite streamlines patient care with standardized, real-time clinical and administrative workflows within a physician's practice, and major product categories include NextGen Electronic Health Records ("NextGen^{ehr}"), NextGen Practice Management ("NextGen^{pm}"), NextGen Dashboard, NextGen Mobile and NextGen NextPen. NextGen Community Connectivity consists of NextGen Health Information Exchange ("NextGen HIE," formerly Community Health Solution), NextGen Patient Portal ("NextMD.com"), and NextGen Health Quality Measures ("NextGen HQM"). The NextGen Division also offers hosting services, NextGuard — Data Protection services, and consulting services, such as strategic governance models and operational transformation, technical consulting such as data conversions or interface development. The NextGen Division products utilize Microsoft Windows technology and can operate in a client-server environment as well as via private intranet, the Internet, or in an ASP environment. The NextGen Division also provides EDI services, which include electronic submission of claims to insurance providers as well as automated patient statements.

Practice Solutions Division. The Practice Solutions Division, with locations in St. Louis, Missouri and Hunt Valley, Maryland, focuses primarily on providing physician practices with RCM services, primarily billing and collection services for medical practices. This Division combines a Web-delivered SaaS model and the NextGen^{pm} software platform to execute its service offerings. Execution of the plan to transition our client base onto the NextGen platform is under execution. The Practice Solutions Division provides technology solutions and consulting services to cover the full spectrum of providers' revenue cycle needs from patient access through claims denials.

On May 20, 2008, we acquired St. Louis-based HSI, a full-service healthcare RCM company. Founded in 1996, HSI provides RCM services to providers including health systems, hospitals and physicians in private practice with an in-house team consisting of specialists in medical billing, coding and compliance, payor credentialing and information technology.

On October 28, 2008, as part of our growth strategy for our Practice Solutions Division, we acquired Maryland-based PMP, a full-service healthcare RCM company. Founded in 2001, PMP provides physician billing and technology management services to healthcare providers, primarily in the Mid-Atlantic region. HSI and PMP operate under the umbrella of the Company's Practice Solutions Division.

Inpatient Solutions Division. The Inpatient Solutions Division, with its primary location in Austin, Texas, provides integrated clinical, financial and connectivity solutions for rural and community hospitals. This Division also develops and markets for the small hospital market an equivalent practice management software product, which performs administrative functions required for operating a small hospital. The Inpatient Solutions Division products deliver secure, highly adaptable and easy to use applications to patient centered hospitals and health systems and consist of NextGen Clinicals and NextGen Financials.

On April 29, 2011, we acquired IntraNexus, a provider of Web-based integrated clinical and hospital information systems, on February 10, 2010, we acquired Opus, a provider of Web-based clinical solutions to hospital systems and integrated health networks nationwide and on August 12, 2009, we acquired NextGen IS, a provider of financial information systems to the small hospital inpatient market. These acquisitions are part of our strategy to expand into the small hospital market and to add new clients by taking advantage of cross-selling opportunities between the ambulatory and inpatient markets. The acquired companies are established developers of software and services for the inpatient market and operate under the Company's Inpatient Solutions Division.

The Divisions operate largely as stand-alone operations, with each Division maintaining its own distinct product lines, product platforms, development, implementation and support teams and branding. The Divisions share the resources of our "corporate office," which includes a variety of accounting and other administrative functions. Additionally, there are a small but growing number of clients who are simultaneously utilizing software or services from more than one of our Divisions. The Company is in the process of further integrating the ambulatory and inpatient products to provide a more robust platform to offer both the inpatient and ambulatory markets.

The QSI Dental Division and NextGen Division develop and market practice management software that is designed to automate and streamline a number of the administrative functions required for operating a medical or dental practice. Examples of practice management software functions include scheduling and billing capabilities, and it is important to note that in both the medical and dental environments, practice management software systems have already been implemented by the vast majority of practices. Therefore, we actively compete for the replacement market. In addition, the QSI Dental Division and NextGen Division develop and market software that automates patient records in both a practice and hospital setting. Therefore, we are typically competing to replace paper-based patient record alternatives as opposed to replacing previously purchased systems.

In January 2011, QSIH was formed in Bangalore, India to function as the Company's India-based captive to offshore technology application development and business processing services.

We continue to pursue product and service enhancement initiatives within each Division. The majority of such expenditures are currently targeted to the NextGen Division product line and client base.

Overview of Our Results

- § Consolidated revenue increased 21.1% and income from operations grew by 51.5% in the three months ended June 30, 2011 as compared to the same prior year period. Revenue was positively impacted by growth in recurring revenue, including maintenance, EDI and RCM revenue, which grew 23.4%, 23.8% and 10.3%, respectively and accounted for 55.2% of total consolidated revenue for the three months ended June 30, 2011. In the same period a year ago, recurring revenue represented 55.6% of total consolidated revenue. Revenue was also positively impacted by growth in sales of systems, which increased 18.3% in the three months ended June 30, 2011 as compared to the same prior year period.
- § The increase in income from operations was partially offset by: (a) higher selling, general and administrative expenses, which was primarily a result of increased headcount expenses and selling-related expenses at the NextGen Division, (b) increased research and development costs and (c) higher corporate-related expenses.
- § We have benefited and hope to continue to benefit from the increased demands on healthcare providers for greater efficiency and lower costs, financial incentives from the ARRA to physicians who adopt electronic health records, as well as increased adoption rates for electronic health records and other technology in the healthcare arena.
- § While we expect to benefit from the increasing demands for greater efficiency as well as government support for increased adoption of electronic health records, the current economic environment, combined with unpredictability of the federal government's plans to promote increased adoption of electronic medical records, makes the near term achievement of such benefits and, ultimately, their impact on system sales, uncertain.

NextGen Division

- § NextGen Division revenue increased 19.1% in the three months ended June 30, 2011 and divisional operating income (excluding unallocated corporate expenses) increased 30.0% as compared to the same prior year period.
- § Recurring revenue, which consists of maintenance and EDI revenue, increased 23.8% to $37.4 million and accounted for 50.1% of total NextGen Division revenue for the three months ended June 30, 2011. In the same period a year ago, recurring revenue of $30.2 million represented 48.2% of total NextGen Division revenue.
- § During the three months ended June 30, 2011, we added staffing resources and increased our investment in research and development in anticipation of growth from the ARRA. Our goals include taking maximum advantage of benefits related to the ARRA and continuing to further enhance our existing products, including continued efforts to maintain our status as a qualified vendor under the ARRA, integrating our inpatient and ambulatory software products, developing new products for targeted markets, continuing to add new clients, selling additional software and services to existing clients, expanding penetration of connectivity and other services to new and existing clients, and capitalizing on growth and cross selling opportunities within the Practice Solutions Division and the Inpatient Solutions Division.
- § The NextGen Division's growth is attributed to a strong brand name and reputation within a growing marketplace for electronic health records and investments in sales and marketing activities, including new marketing campaigns, trade show attendance and other expanded advertising and marketing expenditures. We have also benefited from winning numerous industry awards for the NextGen Division's flagship NextGen^{ehr} and NextGen^{pm} software products and more recently in 2010 for its NextGen HIE product. Further, the increasing acceptance of electronic records technology in the healthcare industry continues to provide growth opportunities.

QSI Dental Division

- § QSI Dental Division revenue decreased 4.8% in the three months ended June 30, 2011 and divisional operating income (excluding unallocated corporate expenses) decreased 19.7% as compared to the same prior year period.
- § The QSI Dental Division is well-positioned to sell to the FQHCs market and intends to continue leveraging the NextGen Division's sales force to sell its dental electronic medical records software to practices that provide both medical and dental services, such as FQHCs, which are receiving grants as part of the ARRA.
- § Our goal for the QSI Dental Division is to maximize profit performance given the constraints represented by a relatively weak purchasing environment in the dental group practice market while taking advantage of opportunities with the new NextDDS™ product.

Practice Solutions Division

- § Practice Solutions Division revenue increased 14.4% in the three months ended June 30, 2011. Divisional operating income (excluding unallocated corporate expenses) increased to $2.0 million in the three months ended June 30, 2011 as compared to $0.2 for the same prior year period.
- § The Practice Solutions Division benefited from organic growth achieved through cross selling RCM services to existing NextGen Division clients and well as new clients added during the three months ended June 30, 2011.
- § Operating income as a percentage of revenue increased to approximately 15.2% of revenue in the three months ended June 30, 2011 versus 1.6% of revenue in the same prior year period primarily as a result of higher RCM revenue. The same prior year period also included higher expenses related to certain non-recurring integration related expenses related to integrating the two entities that make up the Division, transitioning and training of staff on the NextGen platform, initial set up and other costs related to achieving higher production volume from a new business.

Inpatient Solutions Division

- Inpatient Solutions Division revenue increased 130.8% in the three months ended June 30, 2011. Divisional operating income (excluding unallocated corporate expenses) increased to $3.1 million for the three months ended June 30, 2011 as compared to $0.2 for the same prior year period. This Division consists of three acquisitions, IntraNexus, Opus and NextGen IS, acquired in April 2011, February 2010 and August 2009, respectively.
- The Inpatient Solutions Division has benefited from being able to offer both financial and CCHIT® certified clinical software, which has been packaged together. The Division has also benefited from cross-sell opportunities with existing NextGen Division customers, including hospitals that are owned or affiliated with physician offices.
- Operating income as a percentage of revenue increased to approximately 42.0% of revenue in the three months ended June 30, 2011 versus 7.4% of revenue in the same prior year period primarily as a result of a $4.1 million increase in divisional revenue, including system sales, implementation and training services, and maintenance.

The following table sets forth, for the periods indicated, the percentage of net revenue represented by each item in our consolidated statements of income (certain percentages below may not sum due to rounding):

(Unaudited)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Revenues:		
Software, hardware and supplies	28.8%	29.9%
Implementation and training services	5.4	5.2
System sales	34.2	35.0
Maintenance	31.4	30.8
Electronic data interchange services	12.0	11.8
Revenue cycle management and related services	11.8	13.0
Other services	10.5	9.4
Maintenance, EDI, RCM and other services	65.8	65.0
Total revenues	100.0	100.0
Cost of revenue:		
Software, hardware and supplies	4.6	7.5
Implementation and training services	4.1	3.6
Total cost of system sales	8.7	11.1
Maintenance	3.8	4.2
Electronic data interchange services	7.9	8.1
Revenue cycle management and related services	8.8	9.8
Other services	5.6	5.2
Total cost of maintenance, EDI, RCM and other services	26.1	27.3
Total cost of revenue	34.8	38.4
Gross profit	65.2	61.6
Operating expenses:		
Selling, general and administrative	29.3	31.6
Research and development costs	6.8	6.6
Amortization of acquired intangible assets	0.5	0.4
Total operating expenses	36.5	38.6
Income from operations	28.7	22.9
Interest income	0.1	0.1
Other expense, net	0.0	0.0
Income before provision for income taxes	28.7	23.0
Provision for income taxes	9.8	8.4
Net income	18.9%	14.6%

Comparison of the Three Months Ended June 30, 2011 and June 30, 2010

During fiscal year 2011, as a result of certain organizational changes, the composition of the Company's NextGen Division was revised to exclude the Company's inpatient solutions entities (Opus and NextGen IS), both of which are now aggregated in the Company's Inpatient Solutions Division. Following the reorganization, the Company now operates four reportable segments (not including Corporate), comprised of the NextGen Division, the Inpatient Solutions Division, the QSI Dental Division and the Practice Solutions Division.

Prior period segment results were revised accordingly to reflect the organizational changes. The results of operations related to the fiscal year 2010 acquisitions of Opus and NextGen IS are now included in the Inpatient Solutions Division. The results of operations related to the fiscal year 2009 acquisitions of HSI and PMP are included in the Practice Solutions Division.

Net Income. The Company's net income for the three months ended June 30, 2011 was $19.0 million, or $0.65 per share on both a basic and fully diluted basis. In comparison, we earned $12.1 million, or $0.42 per share on a basic and fully diluted basis for the three months ended June 30, 2010. The increase in net income for the three months ended June 30, 2011 was primarily attributed to the following:

- a 21.1% increase in consolidated revenue, including an increase in revenues of $12.0 million from our NextGen Division, $4.1 million from our Inpatient Solutions Division and $1.7 million from our Practice Solutions Division;
- a 19.1% increase in NextGen Division revenue, which accounted for 74.3% of consolidated revenue;
- an increase of recurring revenue, including RCM, maintenance and EDI revenue, which accounted for 55.2% of total consolidated revenue;
- offset by an increase in selling, general and administrative expenses and research and development costs.

Revenue. Revenue for the three months ended June 30, 2011 increased 21.1% to $100.4 million from $82.9 million for the three months ended June 30, 2010. NextGen Division revenue increased 19.1% to $74.6 million from $62.7 million in the three months ended June 30, 2010, QSI Dental Division revenue decreased 4.8% to $5.1 million from $5.4 million, Practice Solutions Division revenue increased 14.4% to $13.4 million from $11.7 million, and Inpatient Solutions Division revenue increased 130.8% during that same period to $7.3 million from $3.2 million.

System Sales. Revenue earned from Company-wide sales of systems for the three months ended June 30, 2011 increased 18.3% to $34.4 million from $29.1 million in the same prior year period.

Our increase in revenue from sales of systems was principally the result of a 9.2% increase in category revenue at our NextGen Division and a 244.9% increase at our Inpatient Solutions Division. NextGen Division sales in this category grew $2.4 million to $28.1 million during the three months ended June 30, 2011 from $25.8 million during the same prior year period while the Inpatient Solutions Division delivered a $2.7 million increase in category revenue to $3.8 million in the three months ended June 30, 2011 as compared to $1.1 million in the same prior year period. The increases were driven by higher sales of software to both new and existing clients at the NextGen Division and higher software and implementation revenue at the Inpatient Solutions Division.

The following table breaks down our reported system sales into software, hardware, third-party software, supplies and implementation and training services components on a consolidated and divisional basis for the three months ended June 30, 2011 and 2010 (in thousands):

	Software	Hardware, Third Party Software and Supplies	Implementation and Training Services	Total System Sales
Three Months Ended June 30, 2011				
QSI Dental Division	$ 896	$ 395	$ 420	$ 1,711
NextGen Division	23,172	1,317	3,653	28,142
Inpatient Solutions Division	2,310	153	1,325	3,788
Practice Solutions Division	668	—	74	742
Consolidated	$ 27,046	$ 1,865	$ 5,472	$ 34,383
Three Months Ended June 30, 2010				
QSI Dental Division	$ 874	$ 883	$ 236	$ 1,993
NextGen Division	18,715	3,212	3,841	25,768
Inpatient Solutions Division	895	24	179	1,098
Practice Solutions Division	153	—	52	205
Consolidated	$ 20,637	$ 4,119	$ 4,308	$ 29,064

NextGen Division software license revenue increased 23.8% in the three months ended June 30, 2011 versus the same period last year. The Division's software revenue accounted for 82.3% of divisional system sales revenue during the three months ended June 30, 2011 compared to 72.6% during the same period a year ago. Software license revenue continues to be an area of primary emphasis for the NextGen Division.

During the three months ended June 30, 2011, 4.7% of the NextGen Division's system sales revenue was represented by hardware and third-party software compared to 12.5% during same period a year ago. The number of clients who purchase hardware and third-party software and the dollar amount of hardware and third-party software revenue fluctuates each quarter depending on the needs of clients. The inclusion of hardware and third-party software in the Division's sales arrangements is typically at the request of our clients.

Implementation and training revenue related to system sales at the NextGen Division decreased 4.9% in the three months ended June 30, 2011 compared to the same prior year period. Implementation and training revenue related to system sales at the Inpatient Solutions Division increased $1.1 million, or 640.2%, in the three months ended June 30, 2011 as compared to the same prior year period. The amount of implementation and training services revenue is dependent on several factors, including timing of client implementations, the availability of qualified staff and the mix of services being rendered. The number of implementation and training staff increased during the three months ended June 30, 2011 versus the same prior year period in order to accommodate the increased amount of implementation services sold in conjunction with increased software sales. In order to achieve growth in this area, additional staffing increases and additional training facilities are anticipated, though actual future increases in revenue and staff will depend upon the availability of qualified staff, business mix and conditions and our ability to retain current staff members.

For the QSI Dental Division, total system sales decreased $0.3 million, or 14.2%, to $1.7 million in the three months ended June 30, 2011 as compared to $2.0 million in the same prior year period. Systems sales in the same prior year period included a larger amount of hardware compared to the current year period.

For the Practice Solutions Division, total system sales increased $0.5 million, or 262.4%, to $0.7 million in the three months ended June 30, 2011 as compared to the same prior year period. Systems sales revenue within the Practice Solutions Division is composed of sales to existing RCM clients only and can fluctuate given the size of the current client base of the Practice Solutions Division.

Maintenance, EDI, RCM and Other Services. For the three months ended June 30, 2011, Company-wide revenue from maintenance, EDI, RCM and other services grew 22.6% to $66.1 million from $53.9 million in the same prior year period. The increase is primarily due to an increase in maintenance, EDI and other services revenue from the NextGen Division and RCM revenue from the Practice Solutions Division.

Total NextGen Division maintenance revenue for the three months ended June 30, 2011 grew 22.4% to $26.5 million from $21.6 million for the same prior year period while NextGen Division EDI revenue grew 27.3% to $10.9 million compared to $8.5 million in the same prior year period. Other services revenue for the NextGen Division, which consists primarily of third-party annual software license renewals, follow-on training hours, consulting services and hosting services, increased 35.5% to $9.1 million in the three months ended June 30, 2011 from $6.7 million in the same prior year period. Other services revenue benefited from a strong increase in consulting revenue and follow-on training services revenue to existing NextGen Division customers.

QSI Dental Division maintenance, EDI and other services revenue for the three months ended June 30, 2011 and 2010 was $3.4 million. For the three months ended June 30, 2011, RCM revenue grew $1.1 million, or 10.3%, to $11.9 million compared to $10.8 million in the same prior year period primarily as a result of increases in RCM revenue to new and existing clients. For the Inpatient Solutions Division, maintenance and other services revenue for the three months ended June 30, 2011 increased 70.0% as compared to the same prior year period primarily because divisional maintenance revenue increased $1.1 million to $3.1 million from $2.0 million in the same prior year period.

The following table details maintenance, EDI, RCM and other services revenue by category on a consolidated and divisional basis for the three months ended June 30, 2011 and 2010 (in thousands):

	Maintenance	EDI	RCM	Other	Total
Three Months Ended June 30, 2011					
QSI Dental Division	$ 1,849	$ 1,221	$ —	$ 315	$ 3,385
NextGen Division	26,504	10,871	—	9,107	46,482
Inpatient Solutions Division	3,109	—	—	393	3,502
Practice Solutions Division	40	—	11,881	769	12,690
Consolidated	$ 31,502	$ 12,092	$ 11,881	$ 10,584	$ 66,059
Three Months Ended June 30, 2010					
QSI Dental Division	$ 1,837	$ 1,224	$ —	$ 298	$ 3,359
NextGen Division	21,645	8,540	—	6,719	36,904
Inpatient Solutions Division	2,016	—	—	44	2,060
Practice Solutions Division	38	—	10,772	730	11,540
Consolidated	$ 25,536	$ 9,764	$ 10,772	$ 7,791	$ 53,863

Maintenance revenue for the NextGen Division increased by $4.9 million for the three months ended June 30, 2011 as compared to the same prior year period. The growth in maintenance revenue is a result of a $4.0 million increase related to net additional licenses from new clients and existing clients and approximately $0.9 million related to a price increase that became effective during the quarter ended September 30, 2010.

The NextGen Division's EDI revenue growth has come from new clients and from further penetration of the Division's existing client base while the growth in RCM revenue has come from new clients that have been acquired from cross selling opportunities with the NextGen Division client base. We intend to continue to promote maintenance, EDI and RCM services to both new and existing clients. Growth in other services revenue is primarily due to increases in third-party annual software licenses, follow on training services, consulting services and hosting services revenue.

Cost of Revenue. Cost of revenue for the three months ended June 30, 2011 increased 9.6% to $34.9 million from $31.9 million in the same prior year period and the cost of revenue as a percentage of revenue decreased to 34.8% from 38.4% primarily due to a lower amount of hardware included in systems sales as compared to the same prior year period as well as higher margins achieved from EDI revenue in the current year period.

The following table details revenue and cost of revenue on a consolidated and divisional basis for the three months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,			
	2011	%	2010	%
QSI Dental Division				
Revenue	$ 5,096	100.0%	$ 5,352	100.0%
Cost of revenue	2,256	44.3%	2,392	44.7%
Gross profit	$ 2,840	55.7%	$ 2,960	55.3%
NextGen Division				
Revenue	$ 74,624	100.0%	$ 62,671	100.0%
Cost of revenue	21,466	28.8%	20,212	32.3%
Gross profit	$ 53,158	71.2%	$ 42,459	67.7%
Inpatient Solutions Division				
Revenue	$ 7,290	100.0%	$ 3,159	100.0%
Cost of revenue	1,648	22.6%	852	27.0%
Gross profit	$ 5,642	77.4%	$ 2,307	73.0%
Practice Solutions Division				
Revenue	$ 13,432	100.0%	$ 11,745	100.0%
Cost of revenue	9,138	68.0%	8,403	71.5%
Gross profit	$ 4,294	32.0%	$ 3,342	28.5%
Unallocated cost of revenue (1)	$ 420	N/A	$ —	N/A
Consolidated				
Revenue	$ 100,442	100.0%	$ 82,927	100.0%
Cost of revenue	34,928	34.8%	31,859	38.4%
Gross profit	$ 65,514	65.2%	$ 51,068	61.6%

(1) Relates to the amortization of software technology intangible assets acquired from the purchases of IntraNexus, Opus and NextGen IS.

Gross profit margins at the QSI Dental Division for the three months ended June 30, 2011 increased slightly to 55.7% from 55.3% for the same prior year period. Gross profit margins at the NextGen Division for three months ended June 30, 2011 increased to 71.2% compared to 67.7% for the same prior year period due to strong software sales and an increase in maintenance revenue, which yields higher margins than other services, along with improvements in EDI margins. Gross margin in the Inpatient Solutions Division increased to 77.4% for the three months ended June 30, 2011 as compared to 73.0% for the same prior year period due to growth in higher margin software and maintenance revenue. Gross margin in the Practice Solutions Division increased to 32.0% for the three months ended June 30, 2011 as compared to 28.5% for the same prior year period due to growth in higher margin software revenue.

The following table details the individual components of cost of revenue and gross profit as a percentage of total revenue on a consolidated and divisional basis for the three months ended June 30, 2011 and 2010:

	Hardware, Third Party Software	Payroll and Related Benefits	EDI	Other	Total Cost of Revenue	Gross Profit
Three Months Ended June 30, 2011						
QSI Dental Division	7.6%	19.5%	9.3%	7.9%	44.3%	55.7%
NextGen Division	1.5%	12.1%	8.5%	6.7%	28.8%	71.2%
Inpatient Solutions Division	2.9%	14.8%	0.0%	4.9%	22.6%	77.4%
Practice Solutions Division	0.0%	43.3%	1.8%	22.9%	68.0%	32.0%
Consolidated	1.7%	16.8%	7.0%	9.3%	34.8%	65.2%
Three Months Ended June 30, 2010						
QSI Dental Division	11.6%	14.4%	12.5%	6.2%	44.7%	55.3%
NextGen Division	4.3%	12.6%	8.8%	6.6%	32.3%	67.7%
Inpatient Solutions Division	1.1%	24.6%	0.0%	1.3%	27.0%	73.0%
Practice Solutions Division	0.0%	44.4%	0.0%	27.1%	71.5%	28.5%
Consolidated	4.2%	18.1%	7.8%	8.3%	38.4%	61.6%

During the three months ended June 30, 2011, hardware and third-party software constituted a higher portion of cost of revenue compared to the same prior year period in the NextGen Division. The number of clients who purchase hardware and third-party software and the dollar amount of hardware and third-party software purchased fluctuates each quarter depending on the needs of our clients.

Our payroll and benefits expense associated with delivering our products and services decreased to 16.8% of consolidated revenue in the three months ended June 30, 2011 compared to 18.1% during the same period last year. The absolute level of consolidated payroll and benefit expenses grew from $15.1 million in the three months ended June 30, 2010 to $16.9 million in the three months ended June 30, 2011, an increase of 12.2%, or approximately $1.8 million. Of the $1.8 million increase, approximately $0.6 million of the increase is related to the Practice Solutions Division as RCM is a service business, which inherently has higher percentage of payroll costs as a percentage of revenue. Increases of $0.7 million in the NextGen Division, $0.3 million for the Inpatient Solutions Division and $0.2 million in the QSI Dental Division for the three months ended June 30, 2011 are primarily due to headcount additions and increased payroll and benefits expense associated with delivering products and services. The amount of share-based compensation expense included in cost of revenue was not significant for three months ended June 30, 2011 and 2010.

Other expense, which primarily consists of third-party annual license, hosting costs and outsourcing costs, increased to 9.3% of total revenue during the three months ended June 30, 2011 as compared to 8.3% for the same period a year ago. Contributing to this increase was higher costs relating to hosting and annual licenses revenues that are included in other services in the NextGen Division and Inpatient Solutions Division.

As a result of the foregoing events and activities, the gross profit percentage for the Company increased to 65.2% for the three months ended June 30, 2011 versus 61.6% for the same prior year period.

We anticipate continued additions to headcount in all of our Divisions in areas related to delivering products and services in future periods, but due to the uncertainties in the timing of our sales arrangements, our sales mix, the acquisition and training of qualified personnel and other issues, we cannot accurately predict if related headcount expense as a percentage of revenue will increase or decrease in the future.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended June 30, 2011 increased 12.0% to $29.4 million as compared to $26.2 million for the same prior year period. The increase in these expenses resulted primarily from:

- $2.3 million increase in salaries and related benefit expenses primarily as a result of headcount additions;
- $1.6 million increase in sales commissions primarily related to the NextGen Division; partially offset by
- $0.7 million net decrease in other selling and administrative expenses.

Share-based compensation expense was approximately $0.9 million and $1.0 million for the three months ended June 30, 2011and 2010, respectively, and is included in the aforementioned amounts. Selling, general and administrative expenses as a percentage of revenue decreased from 31.6% in the three months ended June 30, 2010 to 29.3% in the three months ended June 30, 2011.

We do not anticipate significant increases in expenditures for trade shows, advertising and the employment of additional sales and administrative staff at the NextGen Division until additional revenue growth is achieved. We anticipate future increases in corporate expenditures being made in a wide range of areas including professional services and investment in a companywide enterprise resource planning ("ERP") system. While we expect selling, general and administrative expenses to increase on an absolute basis, we cannot accurately predict the impact these additional expenditures will have on selling, general and administrative expenses as a percentage of revenue.

Research and Development Costs. Research and development costs for the three months ended June 30, 2011 and 2010 were $6.8 million and $5.5 million, respectively. The increases in research and development expenses were due in part to increased investment in the NextGen Division product line. Additions to capitalized software costs offset increases in research and development costs. For the three months ended June 30, 2011 and 2010, our additions to capitalized software were at $2.5 million as we continue to enhance our software to meet the Meaningful Use definitions under the ARRA as well as further integrate both ambulatory and inpatient products. Research and development costs as a percentage of revenue increased to 6.8% in the three months ended June 30, 2011 from 6.6% for the same prior year period. Research and development expenses are expected to continue at or above current dollar levels as the Company is developing a new integrated inpatient and outpatient, web-based software platform. Share-based compensation expense included in research and development costs was not significant for three months ended June 30, 2011 and 2010.

Amortization of Acquired Intangible Assets. Amortization in operating expense related to acquired intangible assets for the three months ended June 30, 2011 and 2010 were $0.5 million and $0.3 million, respectively.

Interest and Other Income. Total interest and other income for the three months ended June 30, 2011 and 2010 were $0.1 million. Interest and other income consist primarily of dividends and interest earned on our investments.

Our investment policy is determined by our Board of Directors. We currently maintain our cash in very liquid short term assets including tax exempt and taxable money market funds and short-term U.S. Treasury securities with maturities of 90 days or less at the time of purchase. Our Board of Directors continues to review alternate uses for our cash including, but not limited to, payment of a special dividend, initiation of a stock buyback program, an expansion of our investment policy to include investments with longer maturities of greater than 90 days, and other items. Additionally, it is possible that we will utilize some or all of our cash to fund acquisitions or other similar business activities. Any or all of these programs could significantly impact our investment income in future periods.

Provision for Income Taxes. The provision for income taxes for the three months ended June 30, 2011 and 2010 were $9.9 million and $7.0 million, respectively. The effective tax rates were 34.2% and 36.6% for the three months ended June 30, 2011 and 2010, respectively. The effective rate for the three months ended June 30, 2011 decreased as compared to the same prior year period primarily due to increased benefits from the qualified production activities deduction, research and development credits, which were not included in the provision for the same prior year period but included in the provision for the current year period, increased deductions related to incentive stock options that were exercised in the current quarter and fluctuations in the state effective tax rate.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for the three months ended June 30, 2011 and 2010 (dollar amounts in thousands):

	Three Months Ended June 30,	
	2011	2010
Cash and cash equivalents	$124,054	$93,208
Net increase in cash and cash equivalents	$ 7,437	$ 8,597
Net income	$ 18,983	$12,092
Net cash provided by operating activities	$ 21,533	$19,366
Number of days of sales outstanding	135	123

Cash Flows from Operating Activities

Cash provided by operations has historically been our primary source of cash and has primarily been driven by our net income plus adjustments to add back non-cash expenses, including depreciation, amortization of intangibles and capitalized software costs, provisions for bad debts and inventory obsolescence, share-based compensation and deferred taxes.

The following table summarizes our consolidated statements of cash flows for the three months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,	
	2011	2010
Net income	$ 18,983	$ 12,092
Non-cash expenses	6,006	5,049
Change in deferred revenue	3,245	(214)
Change in accounts receivable	(9,651)	(4,924)
Change in other assets and liabilities	2,950	7,363
Net cash provided by operating activities	$ 21,533	$ 19,366

Net Income. As referenced in the above table, net income makes up the majority of our cash generated from operations for the three months ended June 30, 2011 and 2010. The NextGen Division's contribution to net income has increased each year due to that Division's operating income increasing more quickly than the Company as a whole.

Non-Cash Expenses. Non-cash expenses include depreciation, amortization of intangibles and capitalized software costs, provisions for bad debts, share-based compensation and deferred taxes. Total non-cash expenses were $6.0 million and $5.0 million three months ended June 30, 2011 and 2010, respectively.

The $1.0 million increase in non-cash expenses for the three months ended June 30, 2011 as compared to the same prior year period is primarily related to increases of approximately $0.3 million in depreciation, $0.3 million of amortization of capitalized software costs, $0.1 million of amortization of other intangibles, and $0.1 million in bad debt expense plus a $0.3 million decrease in deferred income tax benefit, offset by a $0.1 million decrease in share-based compensation.

Deferred Revenue. Cash from operations benefited from increases in deferred revenue primarily due to an increase in the volume of implementation and maintenance services invoiced by the NextGen Division which had not yet been rendered or recognized as revenue. Deferred revenue increased by approximately $3.2 million for the three months ended June 30, 2011 versus a decrease of $0.2 million in the same prior year period, resulting in a $3.4 million increase to cash from operations as compared to the same prior year period.

Accounts Receivable. Accounts receivable grew by approximately $9.7 million and $4.9 million for the three months ended June 30, 2011 and 2010, respectively. The increase in accounts receivable is due to the following factors:

- NextGen Division revenue grew 19.1% and 19.5% on a year-over-year basis for the three months ended June 30, 2011 and 2010, respectively;
- Inpatient Division revenue grew to $7.3 million for the three months ended June 30, 2011 as compared to $3.2 million for the same prior year period;
- Turnover of accounts receivable is generally slower in the NextGen Division and Inpatient Solutions Division due to the fact that the systems sales related revenue have longer payment terms, generally up to one year, which historically have accounted for a major portion of the Divisions' sales; and
- We experienced an increase in the volume of undelivered services billed in advance, which were unpaid as of the end of each period and included in accounts receivable. This resulted in an increase in both deferred revenue and accounts receivable of approximately $3.8 million for the three months ended June 30, 2011 and a decrease of approximately $0.8 million for the three months ended June 30, 2010.

The turnover of accounts receivable measured in terms of days sales outstanding ("DSO") increased from 123 days to 135 days during the three months ended June 30, 2011 as compared the same prior year period. The increase in DSO is primarily due to the factors mentioned.

If amounts included in both accounts receivable and deferred revenue were netted, the turnover of accounts receivable expressed as DSO would be 81 days as of June 30, 2011 and 80 days as of June 30, 2010. Provided turnover of accounts receivable, deferred revenue and profitability remain consistent with the 2011 fiscal year, we anticipate being able to continue generating cash from operations during fiscal year 2012 primarily from our net income.

Other Assets and Liabilities. Cash from operations benefited from changes in other assets and liabilities of $3.0 million and $7.4 million for the three months ended June 30, 2011 and 2010, respectively. For the three months ended June 30, 2011, the $3.0 million change in other assets and liabilities is the result of a $4.4 million increase in income taxes payable, offset by a $0.6 million decrease in accounts payable and a $0.8 million net decrease in all other liabilities. For the three months ended June 30, 2010, the $7.4 million change in other assets and liabilities is the result of a $2.9 million net increase in other assets, $3.8 million increase in income taxes payable and $1.2 million increase in accounts payable, offset by a $0.5 million net decrease in all other liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended June 30, 2011 and 2010 was $8.3 million and $3.4 million, respectively. The $4.9 million increase of net cash used in investing activities during the three months ended June 30, 2011 as compared to the same prior year period is primarily due to cash paid for the acquisition of IntraNexus of $3.4 million plus an increase of $1.5 million in net additions of equipment and improvements in the three months ended June 30, 2011 as compared to the same prior year period.

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended June 30, 2011 and 2010 was $5.9 million and $7.4 million, respectively. During the three months ended June 30, 2011, we received proceeds of $3.4 million from the exercise of stock options and paid $10.2 million in dividends to shareholders compared to proceeds of $1.1 million from the exercise of stock options and payments of $8.7 million in dividends to shareholders during the same prior year period.

We recorded a reduction in our tax benefit from share-based compensation of $0.9 million and $0.2 million during the three months ended June 30, 2011 and 2010, respectively, related to excess tax deductions received from stock option exercises. The benefit was recorded as additional paid in capital.

Cash and Cash Equivalents and Marketable Securities

At June 30, 2011, we had cash and cash equivalents of $124.1 million. We intend to expend some of these funds for the development of products complementary to our existing product line as well as new versions of certain of our products. These developments are intended to take advantage of more powerful technologies and to increase the integration of our products. We also intend to expend some of these funds related to the implementation of a company-wide enterprise resource planning ("ERP") system. We believe the ERP will greatly enhance and streamline our operational processes and provide a common technology platform to support future growth opportunities. We anticipate capital expenditures will increase in fiscal year 2012 and will be funded from cash on hand and cash flows from operations.

In January 2007, our Board of Directors adopted a policy whereby we intend to pay a regular quarterly dividend of $0.25 per share on our outstanding common stock, subject to further Board review and approval and establishment of record and distribution dates by our Board of Directors prior to the declaration of each such quarterly dividend. Our Board of Directors increased the quarterly dividend to $0.30 per share in August 2008 and to $0.35 per share in January 2011. We anticipate that future quarterly dividends, if and when declared by our Board of Directors pursuant to this policy, would likely be distributable on or about the fifth day of each of the months of October, January, April and July.

On July 27, 2011, the Board of Directors approved a quarterly cash dividend of $0.35 per share on the Company's outstanding shares of common stock, payable to shareholders of record as of September 19, 2011 with an expected distribution date on or about October 5, 2011.

Our Board of Directors declared the following dividends during the periods presented:

Declaration Date	Record Date	Payment Date	Per Share Dividend
May 25, 2011	June 17, 2011	July 5, 2011	$ 0.35
Fiscal year 2012			$ 0.35
May 26, 2010	June 17, 2010	July 6, 2010	$ 0.30
July 28, 2010	September 17, 2010	October 5, 2010	0.30
October 25, 2010	December 17, 2010	January 5, 2011	0.30
January 26, 2011	March 17, 2011	April 5, 2011	0.35
Fiscal year 2011			$ 1.25
May 27, 2009	June 12, 2009	July 6, 2009	$ 0.30
July 23, 2009	September 25, 2009	October 5, 2009	0.30
October 28, 2009	December 23, 2009	January 5, 2010	0.30
January 27, 2010	March 23, 2010	April 5, 2010	0.30
Fiscal year 2010			$ 1.20

Management believes that its cash and cash equivalents on hand at June 30, 2011, together with its marketable securities and cash flows from operations, if any, will be sufficient to meet its working capital and capital expenditure requirements as well as any dividends to be paid in the ordinary course of business for the remainder of fiscal year 2012.

Contractual Obligations

The following table summarizes our significant contractual obligations, all of which relate to operating leases, at June 30, 2011 and the effect that such obligations are expected to have on our liquidity and cash in future periods:

Year ended March 31,	
2012 (remaining nine months)	$ 4,095
2013	5,723
2014	5,491
2015	5,008
2016 and beyond	5,697
	$ 26,014

Recent Accounting Pronouncements

Refer to Note 1, “Summary of Significant Accounting Policies,” of our notes to consolidated financial statements included elsewhere in this Report for a discussion of new accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We currently maintain our cash in very liquid short term assets including tax exempt and taxable money market funds and short-term U.S. Treasury securities with maturities of 90 days or less at the time of purchase.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934, as amended) as of June 30, 2011, the end of the period covered by the Quarterly Report (the “Evaluation Date”). They have concluded that, as of the Evaluation Date, these disclosure controls and procedures were effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis. The Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission (“SEC”). They have also concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2011, there were no changes in our “internal control over financial reporting” (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at that reasonable assurance level. However, the Company’s management can provide no assurance that our disclosure controls and procedures or our internal control over financial reporting can prevent all errors and all fraud under all circumstances. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or will be detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have experienced legal claims by parties asserting that we have infringed their intellectual property rights. We believe that these claims are without merit and intend to defend against them vigorously; however, we could incur substantial costs and diversion of management resources defending any infringement claim, even if we are ultimately successful in the defense of such matter. Litigation is inherently uncertain and always difficult to predict. We refer you to the discussion of infringement and litigation risks in our “Item 1A. Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

ITEM 1A. RISK FACTORS

There have been no material changes during the three months ended June 30, 2011 to the risk factors disclosed in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1*	Second Amendment to Office Lease, dated June 13, 2011, between the Company and Lakeshore Towers Limited Partnership Phase II.
31.1*	Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.LAB**	XBRL Taxonomy Extension Label
101.PRE**	XBRL Taxonomy Extension Presentation
101.DEF**	XBRL Taxonomy Extension Definition

* Filed herewith.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities and Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these section.

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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.

QUALITY SYSTEMS, INC.

Date: August 5, 2011	By: /s/ Steven T. Plochocki Steven T. Plochocki Chief Executive Officer (Principal Executive Officer)
Date: August 5, 2011	By: /s/ Paul A. Holt Paul A. Holt Chief Financial Officer (Principal Accounting Officer)

Exhibit 10.1

LAKESHORE TOWERS
SECOND AMENDMENT TO OFFICE LEASE

This Second Amendment to Office Lease (the **"Second Amendment"),** dated as of June 13 , 2011, is made by and between Lakeshore Towers Limited Partnership Phase II, a California limited partnership **("Landlord"),** and Quality Systems, Inc., a California corporation **("Tenant").**

RECITALS

A. Landlord and Tenant entered into that certain Lease dated as of September 18, 2007, as amended by that certain First Amendment to Office Lease dated July 8, 2010 (collectively, the **"Existing Lease")** covering those certain Premises situated in that certain office building located at 18111 Von Karman Avenue, Irvine, California, within the project commonly known as "Lakeshore Towers." as more particularly described in the Existing Lease.

B. Landlord and Tenant mutually desire to enter into this Second Amendment in order to amend the Existing Lease to, among other things, expand the Premises (the Existing Lease, as amended by this Second Amendment, the **"Lease").**

FOR VALUABLE CONSIDERATION, the receipt and adequacy of which is hereby acknowledged, Landlord and Tenant agree as follows:

1. **Defined Terms.** The meaning of certain defined terms in the Existing Lease shall be modified as follows:

1.1 Premises. Effective as of the Expansion Premises Commencement Date (as defined below), the term **"Premises"** shall include, in addition to the Sixth Floor Premises and Seventh Floor Premises, the Expansion Premises (as defined below).

1.2 Base Rent. Effective as of the Expansion Premises Commencement Date. **"Base Rent"** for the Expansion Premises shall be as follows:

	Annual Base Rent	Monthly Installment of Base Rent	Annual Rental Rate per Rentable Square Foot
July 1,2011 through June 30, 2012	$214,056.00	$17,838.00	$ 24.00
July 1,2012 through June 30, 2013	$220,477.68	$18,373.14	$ 24.72

Tenant shall pay to Landlord the first month's Base Rent in the amount of Seventeen Thousand Eight Hundred Thirty-Eight and no/100 Dollars ($17,838.00) for the Expansion Premises prior to July 1, 2011.

1.3 Lease Expiration Date. Effective as of the Expansion Premises Commencement Date, **"Lease Expiration Date"** for the Expansion Premises shall mean June 30, 2013.

1.4 Base Year. Effective as of the Expansion Premises Commencement Date, **"Base Year"** for the Expansion Premises shall mean calendar year 2011.

1.5 Lease Term. Effective as of the Expansion Premises Commencement Date, **"Lease Term"** for the Expansion Premises shall mean the period of July 1, 2011 through June 30, 2013.

1.6 Tenant's Share. Effective as of the Expansion Premises Commencement Date, **"Tenant's Share"** for the Expansion Premises shall mean three and eighty-two hundredths percent (3.82%). Such Tenant's Share is calculated on the basis of the 2009 Stephenson Calculation (as defined below).

2. **Tax Increase Protection.** The Tax Reassessment Protection Period shall not be applicable to the Expansion Premises.

3.**Expansion Premises.** Effective as of July 1, 2011 (the **"Expansion Premises Commencement Date").** Landlord hereby leases to Tenant and Tenant leases from Landlord approximately 8,919 rentable square feet (7,598 usable square feet) located on the Sixth Floor of the Building commonly known as Suite 650 (the **"Expansion Premises").** Except as otherwise provided herein, the Expansion Premises is leased to Tenant subject to all the terms, covenants and conditions set forth in the Lease.

The Expansion Premises is shown on page 1 of **Exhibit A** to this Second Amendment. The rentable square footage and usable square footage of the Expansion Premises was calculated pursuant to BOMA by Stephenson Systems on February 4, 2009 **("2009 Stephenson Calculation"),** and such calculations have been provided to Tenant. Landlord and Tenant accept the 2009 Stephenson Calculation of 8,919 rentable square feet and 7,598 usable square feet for the Expansion Premises and 233,760 rentable square feet for the Building as final.

4. **Term Extension Option.** The option to extend the Lease Term pursuant to Section 2.2 of the Existing Lease is not applicable to the Expansion Premises.

5. **Parking.** Effective as of the Expansion Premises Commencement Date, Tenant shall be entitled to rent up to thirty-three (33) unreserved parking spaces in the Parking Structure. Such thirty-three (33) parking spaces shall be available for use by Tenant so long as Tenant is also using the one hundred ninety(190) parking spaces (or one hundred fifty(150) spaces if Landlord must reduce parking spaces available to Tenant to provide 3.75 unreserved parking spaces to other tenants) as contemplated by Section 8 of the First Amendment.

The cost to Tenant of such thirty-three (33) parking spaces shall be Twenty-Five and no/100 Dollars ($25.00) per month per space payable at the same time as monthly installments of Base Rent are due.

6. **Tenant Improvements.** Tenant has inspected the Expansion Premises and accepts the Expansion Premises in its current "AS IS" condition. Landlord shall not construct improvements or make any refurbishments to the Expansion Premises. Tenant's right to make Alterations to the Expansion Premises shall be as provided in the Lease.

7.**Brokers.** Tenant warrants and represents that it has not dealt with any real estate broker, agent, sales person or finder in connection with this Lease or its negotiation except for Grubb & Ellis Company **("Tenant's Broker")** and Cushman & Wakefield of California, Inc. **("Landlord's Broker").** Tenant shall indemnify and hold Landlord, its agents and employees harmless from any costs, expense or liability (including costs of suit and reasonable attorneys' fees) for any compensation, commission or fees claimed by any other real estate broker, agent, sales person, finder or other entity claiming through Tenant in connection with this Lease or its negotiation. Landlord agrees to pay to Tenant's Broker a commission equal to Seventeen Thousand Three Hundred Eighty-One and 35/100 Dollars ($17,381.35). The commission payable to Tenant's Broker shall be due thirty (30) days following the execution and delivery of this Second Amendment by Landlord and Tenant so long as Tenant is not then in default under the Lease. Landlord shall pay a commission to Landlord's Broker pursuant to a separate agreement.

8. **Miscellaneous.**

8.1 Effect of Amendment. Except to the extent the Existing Lease has been modified by this Second Amendment, the remaining terms and conditions of the Existing Lease shall remain unmodified and in full force and effect.

8.2 Defined Terms. The defined terms used in this Second Amendment, as indicated by the first letter of a word being capitalized, shall have the same meaning in this Second Amendment as such terms have in the Existing Lease except as otherwise expressly provided in this Second Amendment.

9. **Execution.** This Second Amendment has been executed and shall be deemed effective as of the date first above written.

"Landlord":

LAKESHORE TOWERS BUILDING III
[Quality Systems, Inc.]

LAKESHORE TOWERS LIMITED
PARTNERSHIP PHASE II, a California limited
partnership

By: Skipper Realty Corporation,
a Delaware corporation
Title: Sole General Partner

By: /s/ Robert Jones
Name: Robert Jones
Title: Vice President

“Tenant”:

QUALITY SYSTEMS, INC.,
a California corporation

By: /s/ Paul Holt
Name: Paul Holt
Title: EVP and CFO

By: /s/ Steven Plochocki
Name: Steven Plochocki
Title: CFO

EXHIBIT A

EXPANSION PREMISES FLOOR PLAN

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER REQUIRED BY RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven T. Plochocki, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Quality Systems, 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(s) and I are 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(s) 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.

Date: August 5, 2011

By: /s/ Steven T. Plochocki
Steven T. Plochocki
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER REQUIRED BY RULE 13A-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul A. Holt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Quality Systems, 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(s) and I are 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(s) 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.

Date: August 5, 2011

By: /s/ Paul A. Holt
Paul A. Holt
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Quality Systems, Inc. (the “Company”) for the quarterly period ended June 30, 2011 (the “Report”), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: August 5, 2011

By: /s/ Steven T. Plochocki
Steven T. Plochocki
Chief Executive Officer (Principal Executive Officer)

Dated: August 5, 2011

By: /s/ Paul A. Holt
Paul A. Holt
Chief Financial Officer (Principal Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.