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 September 30, 2015

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 *(State or other jurisdiction of incorporation or organization)*	**95-2888568** *(IRS Employer Identification No.)*
18111 Von Karman Avenue, Suite 700, Irvine, California *(Address of principal executive offices)*	**92612** *(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 October 20, 2015 was 60,862,500 shares.

QUALITY SYSTEMS, INC.

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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)

	September 30, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,647	$ 118,993
Restricted cash and cash equivalents	3,982	2,419
Marketable securities	12,130	11,592
Accounts receivable, net	98,393	107,669
Inventories	649	622
Income taxes receivable	5,077	3,147
Deferred income taxes, net	24,074	24,080
Other current assets	12,955	11,535
Total current assets	255,907	280,057
Equipment and improvements, net	22,537	20,807
Capitalized software costs, net	42,155	40,397
Intangibles, net	24,088	27,689
Goodwill	73,571	73,571
Other assets	17,884	18,000
Total assets	$ 436,142	$ 460,521
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,965	$ 10,018
Deferred revenue	57,683	66,343
Accrued compensation and related benefits	16,321	24,051
Income taxes payable	61	10,048
Dividends payable	10,722	10,700
Other current liabilities	37,593	33,924
Total current liabilities	133,345	155,084
Deferred revenue, net of current	1,163	1,349
Deferred compensation	6,325	5,750
Other noncurrent liabilities	7,812	14,798
Total liabilities	148,645	176,981
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common Stock		
$0.01 par value; authorized 100,000 shares; issued and outstanding 60,863 and 60,303 shares at September 30, 2015 and March 31, 2015, respectively	609	603
Additional paid-in capital	209,638	198,650
Accumulated other comprehensive loss	(481)	(192)
Retained earnings	77,731	84,479
Total shareholders' equity	287,497	283,540
Total liabilities and shareholders' equity	$ 436,142	$ 460,521

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Software license and hardware	$ 19,687	$ 19,316	$ 35,876	$ 39,077
Software related subscription services	12,437	9,687	24,683	19,402
Total software, hardware and related	32,124	29,003	60,559	58,479
Support and maintenance	42,176	42,135	85,889	82,940
Revenue cycle management and related services	20,793	17,432	41,036	34,125
Electronic data interchange and data services	20,581	18,906	40,770	37,225
Professional services	9,695	13,043	19,279	25,644
Total revenues	125,369	120,519	247,533	238,413
Cost of revenue:				
Software license and hardware	6,578	7,475	13,619	15,031
Software related subscription services	5,963	5,384	11,921	9,835
Total software, hardware and related	12,541	12,859	25,540	24,866
Support and maintenance	8,394	6,785	16,337	13,699
Revenue cycle management and related services	14,680	13,202	29,192	25,908
Electronic data interchange and data services	12,539	12,015	24,865	24,014
Professional services	8,444	11,912	16,641	24,476
Total cost of revenue	56,598	56,773	112,575	112,963
Gross profit	68,771	63,746	134,958	125,450
Operating expenses:				
Selling, general and administrative	37,396	38,681	76,567	75,411
Research and development costs	17,981	16,898	35,066	33,134
Amortization of acquired intangible assets	898	908	1,795	1,891
Total operating expenses	56,275	56,487	113,428	110,436
Income from operations	12,496	7,259	21,530	15,014
Interest income, net	41	69	343	123
Other expense, net	(54)	(26)	(104)	(17)
Income before provision for income taxes	12,483	7,302	21,769	15,120
Provision for income taxes	4,168	2,552	7,092	5,207
Net income	$ 8,315	$ 4,750	$ 14,677	$ 9,913
Other comprehensive income:				
Foreign currency translation (net of tax)	(212)	(68)	(284)	(76)
Unrealized gain (loss) on marketable securities (net of tax)	(1)	34	(5)	27
Comprehensive income	$ 8,102	$ 4,716	$ 14,388	$ 9,864
Net income per share:				
Basic	$ 0.14	$ 0.08	$ 0.24	$ 0.16
Diluted	$ 0.14	$ 0.08	$ 0.24	$ 0.16
Weighted-average shares outstanding:				
Basic	60,461	60,247	60,387	60,238
Diluted	61,194	60,788	61,129	60,782
Dividends declared per common share	$ 0.175	$ 0.175	$ 0.35	$ 0.35

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

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

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2014
Cash flows from operating activities:		
Net income	$ 14,677	$ 9,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,449	4,402
Amortization of capitalized software costs	4,929	7,117
Amortization of other intangibles	3,601	3,608
Loss on disposal of equipment and improvements	81	12
Provision for bad debts	963	(891)
Provision for inventory obsolescence	92	62
Share-based compensation	1,585	1,657
Deferred income taxes	468	31
Change in fair value of contingent consideration	822	1,004
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable	8,313	8,762
Inventories	(119)	27
Accounts payable	699	774
Deferred revenue	(8,846)	(1,824)
Accrued compensation and related benefits	(7,730)	(4)
Income taxes	(12,449)	4,399
Deferred compensation	575	503
Other assets and liabilities	1,776	3,189
Net cash provided by operating activities	13,886	42,741
Cash flows from investing activities:		
Additions to capitalized software costs	(6,687)	(6,369)
Additions to equipment and improvements	(6,012)	(4,503)
Proceeds from sales and maturities of marketable securities	3,810	6,431
Purchases of marketable securities	(4,419)	(4,349)
Net cash used in investing activities	(13,308)	(8,790)
Cash flows from financing activities:		
Proceeds (net share settlements) from issuance of shares under employee plans	479	(55)
Dividends paid	(21,403)	(21,375)
Payment of contingent consideration related to acquisitions	—	(686)
Net cash used in financing activities	(20,924)	(22,116)
Net increase (decrease) in cash and cash equivalents	(20,346)	11,835
Cash and cash equivalents at beginning of period	118,993	103,145
Cash and cash equivalents at end of period	$ 98,647	$ 114,980

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

	Six Months Ended September 30,	
	2015	2014
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes, net of refunds	$ 18,818	$ 507
Common stock issued for Mirth share-based contingent consideration	$ 9,273	$ —
Non-cash investing and financing activities:		
Dividends declared but not paid	$ 10,722	$ 10,697
Unpaid additions to equipment and improvements	$ 248	$ 303

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

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 consist of NextGen Healthcare Information Systems, LLC (“NextGen”), NextGen RCM Services, LLC, QSI Management, LLC, Quality Systems India Healthcare Private Limited (“QSIH”), ViaTrack Systems, LLC (“ViaTrack”), Matrix Management Solutions, LLC, Mirth LLC and Mirth Limited (“Mirth”), and Gennius, Inc. ("Gennius") (collectively, the “Company”). Each of the terms “we,” “us,” or “our” as used herein refers collectively to the Company, unless otherwise stated. All intercompany accounts and transactions have been eliminated.

Basis of Presentation. The accompanying unaudited consolidated financial statements as of September 30, 2015 and for the three and six months ended September 30, 2015 and 2014 have been prepared in accordance with the requirements of Quarterly Report on Form 10-Q and Article 10 of the Securities and Exchange Commission 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 our Annual Report on Form 10-K for the fiscal year ended March 31, 2015. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments which are necessary for a fair statement 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.

Beginning in the first quarter of fiscal 2016, we presented certain components of revenue within the consolidated statements of comprehensive income in a format intended to group like-kind products and services and disaggregate the other services category of revenue, which has continued to comprise a larger percentage of total revenue. More specifically, the primary changes to the presentation of revenue included:

- Revenue from software-as-a-service (SaaS), hosting services, and other software related subscriptions are now aggregated into a new software related subscription services category of revenue. Previously, revenue from software related subscriptions services was reported within the other services category of revenue.

- Revenue from annual software licenses that was also previously reported within the other services category of revenue is now reported within the software license and hardware category of revenue.

- Revenue from all other services, including implementation, training, and consulting, are now aggregated into a single professional services category of revenue that excludes software related subscription services and annual software licenses, as noted above.

Each of the corresponding components of cost of revenue has also been revised in a manner that is consistent with the new presentation of revenue described above.

For informational and comparability purposes, we have recast our previously reported consolidated statements of comprehensive income to provide historical information on a basis consistent with the new reporting format of revenue and cost of revenue. The reclassification of revenue and cost of revenue within the consolidated statements of comprehensive income has no impact on previously reported net income or earnings per share and no impact on the previously reported consolidated balance sheets, statements of stockholders' equity, and statements of cash flow.

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

Significant Accounting Policies**.** There have been no material changes to the significant accounting policies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

Share-Based Compensation. The following table shows total share-based compensation expense included in the consolidated statements of comprehensive income for the three and six months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Costs and expenses:				
Cost of revenue	$ 102	$ 92	$ 199	$ 178
Research and development costs	103	97	213	180
Selling, general and administrative	696	678	1,173	1,299
Total share-based compensation	901	867	1,585	1,657

The total income tax benefit related to share-based compensation was $276 and $249 for the three months ended September 30, 2015 and 2014, respectively. For the six months ended September 30, 2015 and 2014, total income tax benefit related to share-based compensation was $476 and $512, respectively.

Recent Accounting Standards. Recent accounting pronouncements requiring implementation in future periods are discussed below or in the notes, where applicable.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16")*, which eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 is effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. This guidance is effective for us for the quarter ending March 31, 2016. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory ("ASU 2015-11")*, which replaces the concept of subsequently measuring inventory at 'lower of cost or market' with that of 'lower of cost and net realizable value'. The guidance only applies to inventories for which cost is determined by methods other than last-in first-out (LIFO) and the retail inventory method (RIM). ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. This guidance is effective for us for fiscal year ending March 31, 2018. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Arrangement ("ASU 2015-05")*, which requires a customer to determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. We are currently evaluating the potential impact of implementation of this updated authoritative guidance on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15")*, which incorporates and expands upon certain principles that currently exist in U.S. auditing standards. ASU 2014-15 provides guidance regarding management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The new standard requires management to perform interim and annual evaluations and sets forth principles for considering the mitigating effect of management's plans. The standard mandates certain disclosures when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016, and all annual and interim periods thereafter. Early adoption is permitted. ASU 2014-15 is effective for us for fiscal year ending March 31, 2017. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB, along with the International Accounting Standards Board, issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers ("ASU 2014-09")*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards and GAAP. The core principle of this updated guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosure about revenue and provides improved guidance for multiple element arrangements. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, based on the July 2015 decision and issuance of Accounting Standards

Update No. 2015-14, *Deferral of Effective Date ("ASU 2015-14")* by the FASB to delay the effective date by one year. Companies are permitted to adopt this new guidance following either a full retrospective or modified retrospective approach. ASU 2014-09 is effective for us in the first quarter of fiscal 2019. We are currently evaluating the potential impact of implementation of this updated authoritative guidance on our consolidated financial statements.

We do not believe that any other recently issued, but not yet effective accounting standards, if adopted, would have a material impact on our consolidated financial statements.

2. Fair Value Measurements

The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2015 and March 31, 2015:

	Balance at September 30, 2015	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)	$ 98,647	$ 98,647	$ —	$ —
Restricted cash and cash equivalents	3,982	3,982	—	—
Marketable securities (2)	12,130	12,130	—	—
	$ 114,759	$ 114,759	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 7,698	$ —	$ —	$ 7,698
	$ 7,698	$ —	$ —	$ 7,698

	Balance at March 31, 2015	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)	$ 118,993	$ 118,993	$ —	$ —
Restricted cash and cash equivalents	2,419	2,419	—	—
Marketable securities (2)	11,592	11,592	—	—
	$ 133,004	$ 133,004	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 16,155	$ —	$ —	$ 16,155
	$ 16,155	$ —	$ —	$ 16,155

(1) Cash equivalents consist of money market funds.
(2) Marketable securities consist of available-for-sale money market instruments and fixed-income securities, including certificates of deposit, corporate bonds and notes, and municipal securities.

Our 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 fair value adjustments are reflected as a component of selling, general and administrative expense. Key assumptions include discount rates and probability-adjusted achievement of strategic targets that are not observable in the market. 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 estimated based on the probability of achieving certain business milestones.

The following table presents activity in our financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3), as of and for the six months ended September 30, 2015:

	Total Liabilities
Balance as of April 1, 2015	$ 16,155
Settlement of contingent consideration related to acquisitions (1)	(9,279)
Fair value adjustments	822
Balance as of September 30, 2015	$ 7,698

(1) Consists of $9,273 for the settlement of Mirth share-based contingent consideration and $6 related to payments of Sphere contingent consideration.

Non-Recurring Fair Value Measurements

We have 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 six months ended September 30, 2015, there were no adjustments to fair value of such assets.

3. Business Combinations

On March 11, 2015, we acquired Gennius, a provider of healthcare data analytics. The preliminary Gennius purchase price totaled $2,345. We accounted for the Gennius acquisition as a purchase business combination. The preliminary 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 values of acquired assets 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 and the relief from royalty method approach. Goodwill arising from the acquisition of Gennius was determined as the excess of the preliminary purchase price over the net acquisition date fair values of the acquired assets and the liabilities assumed, and is not deductible for tax purposes. The Gennius goodwill represents the expected future synergies resulting from the integration of the Gennius healthcare data analytics technology, which will enhance our current enterprise analytics competencies and broaden our business intelligence capabilities for addressing new value-based care requirements. Gennius operates under the NextGen Division.

The total preliminary purchase price for the Gennius acquisition is summarized as follows:

	Gennius
Total preliminary cash purchase price	$ 2,345

The following table summarizes the preliminary purchase price allocation for the Gennius acquisition:

	Gennius
Fair value of the net tangible assets acquired and liabilities assumed:	
Other assets	$ 4
Deferred revenues	(37)
Other liabilities	(189)
Total net tangible assets acquired and liabilities assumed	(222)
Fair value of identifiable intangible assets acquired:	
Software technology	1,800
Goodwill	767
Total identifiable intangible assets acquired	2,567
Total preliminary purchase price	$ 2,345

The pro forma effects of the Gennius acquisition would not have been material to our results of operations and are therefore not presented.

4. Goodwill

We test goodwill for impairment annually during our first fiscal quarter, referred to as the annual test date. We 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. During the three months ended September 30, 2015, we have not identified any events or circumstances that would require an interim goodwill impairment test.

We do not amortize goodwill as it has been determined to have an indefinite useful life.

Goodwill by reporting unit consists of the following:

	March 31, 2015	September 30, 2015
NextGen Division	$ 33,992	$ 33,992
RCM Services Division	32,290	32,290
QSI Dental Division (1)	7,289	7,289
Total goodwill	$ 73,571	$ 73,571

(1) QSI Dental Division goodwill is presented on a basis consistent with that of our management reporting structures. However, for the purposes of assessing goodwill for impairment annually and as otherwise may be required, the QSI Dental Division goodwill is allocated to the reporting units that derive cash flows from the products associated with the acquired goodwill. For all periods presented in this report, the allocation resulted in substantially all of the QSI Dental Division goodwill being ascribed to the NextGen Division.

5. Intangible Assets

Our definite-lived intangible assets, other than capitalized software development costs, are summarized as follows:

	September 30, 2015			
	Customer Relationships	Trade Name and Contracts	Software Technology	Total
Gross carrying amount	$ 22,050	$ 3,368	$ 25,310	$ 50,728
Accumulated amortization	(16,508)	(2,431)	(7,701)	(26,640)
Net intangible assets	$ 5,542	$ 937	$ 17,609	$ 24,088

	March 31, 2015			
	Customer Relationships	Trade Name and Contracts	Software Technology	Total
Gross carrying amount	$ 22,050	$ 3,368	$ 25,310	$ 50,728
Accumulated amortization	(14,986)	(2,159)	(5,894)	(23,039)
Net intangible assets	$ 7,064	$ 1,209	$ 19,416	$ 27,689

Amortization expense related to customer relationships and trade name and contracts that is included as operating expenses in the consolidated statements of comprehensive income was $897 and $908 for the three months ended September 30, 2015 and 2014, respectively. Amortization expense related to software technology that is included in cost of revenue for software license and hardware was $904 and $859 for the three months ended September 30, 2015 and 2014, respectively.

Amortization expense related to customer relationships and trade name and contracts that is included as operating expenses in the consolidated statements of comprehensive income was $1,794 and $1,906 for the six months ended September 30, 2015 and 2014, respectively. Amortization expense related to software technology that is included in cost of revenue for software license and hardware was $1,807 and $1,702 for the six months ended September 30, 2015 and 2014, respectively.

The following table represents the remaining estimated amortization of definite-lived intangible assets as of September 30, 2015:

For the year ended March 31,	
2016 (remaining six months)	$ 3,602
2017	6,733
2018	4,481
2019	3,697
2020	3,352
2021 and beyond	2,223
Total	$ 24,088

6. Capitalized Software Costs

Our capitalized software costs are summarized as follows:

	September 30, 2015	March 31, 2015
Gross carrying amount	$ 120,642	$ 113,955
Accumulated amortization	(78,487)	(73,558)
Net capitalized software costs	$ 42,155	$ 40,397

Amortization expense related to capitalized software costs was $2,490 and $3,515 for the three months ended September 30, 2015 and 2014, respectively.

Amortization expense related to capitalized software costs was $4,929 and $7,117 for the six months ended September 30, 2015 and 2014, respectively.

The following table presents the remaining estimated amortization of capitalized software costs as of September 30, 2015. The estimated amortization is comprised of (i) amortization of released products and (ii) the expected amortization for products that are not yet available for sale based on their estimated economic lives and projected general release dates.

For the year ended March 31,	
2016 (remaining six months)	$ 5,000
2017	9,600
2018	6,600
2019	6,200
2020	5,900
2021 and beyond	8,855
Total	$ 42,155

7. Composition of Certain Financial Statement Captions

Accounts receivable include amounts invoiced but not yet rendered at each period end. Undelivered products and services are included as a component of the deferred revenue balance on the accompanying consolidated balance sheets.

	September 30, 2015	March 31, 2015
Accounts receivable, gross	$ 108,782	$ 119,807
Sales return reserve	(7,383)	(8,835)
Allowance for doubtful accounts	(3,006)	(3,303)
Accounts receivable, net	$ 98,393	$ 107,669

Inventories are summarized as follows:

	September 30, 2015	March 31, 2015
Computer systems and components	$ 649	$ 622

Equipment and improvements are summarized as follows:

	September 30, 2015	March 31, 2015
Computer equipment	$ 45,399	$ 42,668
Furniture and fixtures	9,280	10,408
Leasehold improvements	10,479	9,767
	65,158	62,843
Accumulated depreciation and amortization	(42,621)	(42,036)
Equipment and improvements, net	$ 22,537	$ 20,807

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

	September 30, 2015	March 31, 2015
Professional services	$ 25,105	$ 30,340
Software license, hardware and other	14,420	17,638
Support and maintenance	12,267	15,077
Software related subscription services	5,891	3,288
Deferred revenue	$ 57,683	$ 66,343
Deferred revenue, net of current	$ 1,163	$ 1,349

Accrued compensation and related benefits are summarized as follows:

	September 30, 2015	March 31, 2015
Payroll, bonus and commission	$ 6,114	$ 13,505
Vacation	10,207	10,546
Accrued compensation and related benefits	$ 16,321	$ 24,051

Other current and non-current liabilities are summarized as follows:

	September 30, 2015	March 31, 2015
Contingent consideration and other liabilities related to acquisitions	$ 7,956	$ 9,124
Accrued legal expense	6,384	3,527
Customer credit balances and deposits	4,397	4,760
Care services liabilities	3,993	2,381
Self insurance reserve	2,532	2,290
Accrued EDI expense	2,168	2,322
Accrued consulting	2,456	2,603
Accrued royalties	1,590	2,063
Other accrued expenses	6,117	4,854
Other current liabilities	$ 37,593	$ 33,924
Contingent consideration and other liabilities related to acquisitions	$ —	$ 7,581
Deferred rent	3,906	3,122
Uncertain tax position and related liabilities	3,906	4,095
Other non-current liabilities	$ 7,812	$ 14,798

8. Income Taxes

The provision for income taxes for the three months ended September 30, 2015 and 2014 was approximately $4,168 and $2,552, respectively. The effective tax rates were 33.4% and 34.9% for the three months ended September 30, 2015 and 2014, respectively. The effective rate for the three months ended September 30, 2015 decreased as compared to the same prior year period primarily due to a favorable impact of the qualifying production activity deduction in the three months ended September 30, 2015, offset by discrete adjustments included in the current period related to federal and state research and development credits impacting the prior year.

The provision for income taxes for the six months ended September 30, 2015 and 2014 was approximately $7,092 and $5,207, respectively. The effective tax rates were 32.6% and 34.4% for the six months ended September 30, 2015 and 2014, respectively. The effective rate for the six months ended September 30, 2015 decreased as compared to the same prior year period due to a favorable impact of the qualifying production activity deduction in the six months ended September 30, 2015, offset by discrete adjustments included in the current period related to federal and state research and development credits impacting the prior year.

The deferred tax assets and liabilities have been shown net in the accompanying consolidated balance sheets based on the long-term or short-term nature of the items that give rise to the deferred amount. We expect to receive the full benefit of the deferred tax assets recorded with the exception of a specific state tax credit for which we have recorded a valuation allowance.

Uncertain tax positions

As of September 30, 2015, we had recorded a liability of $3,836 for unrecognized tax benefits related to various federal, state and local income tax matters. If recognized, this amount would reduce our effective tax rate. The tax liability for the six months ended September 30, 2015 increased from the same prior year period by $3,108 due to changes in reserves for state and local income tax benefit related to prior year tax positions.

We are no longer subject to U.S. federal income tax examinations for tax years before 2012. With few exceptions, we are no longer subject to state income tax examinations for tax years before 2011. We do 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

The dual presentation of “basic” and “diluted” earnings per share (“EPS”) is provided below. Shares discussed below are in thousands.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 8,315	$ 4,750	$ 14,677	$ 9,913
Basic net income per share:				
Weighted-average shares outstanding — Basic	60,461	60,247	60,387	60,238
Basic net income per common share	$ 0.14	$ 0.08	$ 0.24	$ 0.16
Net income	$ 8,315	$ 4,750	$ 14,677	$ 9,913
Diluted net income per share:				
Weighted-average shares outstanding — Basic	60,461	60,247	60,387	60,238
Effect of potentially dilutive securities	733	541	742	544
Weighted-average shares outstanding — Diluted	61,194	60,788	61,129	60,782
Diluted net income per common share	$ 0.14	$ 0.08	$ 0.24	$ 0.16

The computation of diluted net income per share does not include 1,990 and 1,878 options to acquire shares of common stock for the three and six months ended September 30, 2015, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

The computation of diluted net income per share does not include 1,737 and 1,615 options to acquire shares of common stock for the three and six months ended September 30, 2014, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

10. Share-Based Awards

Employee Stock Option and Incentive Plans

In October 2005, our shareholders approved a stock option and incentive plan (the “2005 Plan”) under which 4,800,000 shares of common stock were reserved for the issuance of awards, including 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 our employees and directors may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted certain share-based awards. In the case of option awards granted under the 2005 Plan, the exercise price of each option is determined based on the date of grant and expire no later than 10 years from the date of grant. Awards granted pursuant to the 2005 Plan are subject to the vesting schedule or performance metrics set forth in the agreements pursuant to which they are granted. Upon a change of control of our Company, as such term is defined in the 2005 Plan, awards under the 2005 Plan will fully vest under certain circumstances. The 2005 Plan expired on May 25, 2015. As of September 30, 2015, there were 1,819,676 outstanding options and 26,279 outstanding shares of restricted stock, restricted stock units and performance based restricted stock under the 2005 Plan.

In August 2015, our shareholders approved a stock option and incentive plan (the “2015 Plan”) under which 11,500,000 shares of common stock were reserved for the issuance of awards, including incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards, performance stock awards and other share-based awards. The 2015 Plan provides that our employees and directors may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted certain share-based awards. In the case of option awards granted under the 2015 Plan, the exercise price of each option is determined based on the date of grant and expire no later than 10 years from the date of grant. Awards granted pursuant to the 2015 Plan are subject to the vesting schedule or performance metrics set forth in the agreements pursuant to which they are granted. Upon a change of control of our Company, as such term is defined in the 2015 Plan, awards under the 2015 Plan will fully vest under certain circumstances. As of September 30, 2015, there were 150,000 outstanding options, 90,826 outstanding shares of restricted stock awards and 11,289,135 shares available for future grant under the 2015 Plan.

A summary of stock option transactions during the six months ended September 30, 2015 follows:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, April 1, 2015	1,636,176	$ 24.82	5.5	
Granted	564,000	15.55	7.7	
Exercised	(300)	15.99	6.7	$ —
Forfeited/Canceled	(230,200)	23.41	5.0	
Outstanding, September 30, 2015	1,969,676	$ 22.35	5.8	$ —
Vested and expected to vest, September 30, 2015	1,841,630	$ 22.63	5.7	$ —
Exercisable, September 30, 2015	760,606	$ 28.86	4.3	$ —

We utilize the Black-Scholes valuation model for estimating the fair value of share-based compensation with the following assumptions:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Expected term	3.9 years	4.8 years	3.8 - 3.9 years	4.8 years
Expected volatility	38.9%	36.4%	38.3% - 38.9%	36.4% - 36.6%
Expected dividends	5.3%	4.4%	4.1% - 5.3%	4.3% - 4.4%
Risk-free rate	1.3%	1.7%	1.3% - 1.6%	1.7%

The weighted-average grant date fair value of stock options granted during the six months ended September 30, 2015 and 2014 was $3.36 and $3.50 per share, respectively.

During the six months ended September 30, 2015, a total of 564,000 options to purchase shares of common stock were granted under the 2005 and 2015 Plans at an exercise price equal to the market price of our common stock on the date of grant. A summary of stock options granted under the 2005 and 2015 Plans during fiscal years 2016 and 2015 is as follows:

Option Grant Date	Number of Shares	Exercise Price	Vesting Terms (1)	Expires
August 17, 2015	150,000	$ 12.80	Five years	August 17, 2023
May 22, 2015	414,000	$ 16.64	Five years	May 22, 2023
Fiscal year 2016 option grants	564,000			
March 11, 2015	10,000	$ 15.84	Five years	March 11, 2023
September 2, 2014	20,000	$ 15.63	Five years	September 2, 2022
June 3, 2014	439,650	$ 15.99	Five years	June 3, 2022
Fiscal year 2015 option grants	469,650			

(1) Options vest in equal annual installments on each grant anniversary date commencing one year following the date of grant with the exception of the August 17, 2015 grant which vests in five equal annual installments beginning on July 1, 2016.

Employee Share Purchase Plan

On August 11, 2014, our shareholders approved an Employee Share Purchase Plan (the “Purchase Plan”) under which 4,000,000 shares of common stock were reserved for future grant. The Purchase Plan allows eligible employees to purchase shares through payroll deductions of up to 15% of total base salary at a price equal to 90% of the lower of the fair market values of the shares as of the beginning or the end of the corresponding offering period. Any shares purchased under the Purchase Plan are subject to a six-month holding period. Employees are limited to purchasing no more than 1,500 shares on any single purchase date and no more than $25,000 in total fair market value of shares during any one calendar year. As of September 30, 2015, we have issued 74,125 shares under the Purchase Plan and 3,925,875 shares are available for future issuance. The amount of share-based compensation expense recorded for this plan was not significant for the three and six months ended September 30, 2015.

Performance-Based Awards

On May 14, 2015, the Compensation Committee approved our fiscal year 2016 Executive Compensation Program (the "Program") for our named executive officers for fiscal year 2016, on May 20, 2015, our Compensation Committee approved the Program for our Interim Chief Financial Officer, and on June 3, 2015, our Compensation Committee approved the Program for our Chief Executive Officer (effective July 1, 2015). Under the incentive portion of the Program, the executive officers are eligible to receive cash bonuses based on meeting certain target increases in revenue and non-GAAP earnings per share for fiscal year 2016 and certain equity incentive awards, including a potential award of up to an aggregate of 320,000 restricted performance shares of our common stock vesting over a three year period based on the achievement of target average daily share prices for the thirty calendar day period ending April 30th of each of the subsequent three fiscal years. In addition, under the Program, a target pool of up to 400,000 options is available for new hires, promotions, and for certain high-performing, non-executive employees based on achievement in performance targets.

Share-based compensation expense associated with the restricted performance shares with market conditions under the Program is based on the grant date fair value measured at the underlying closing share price on the date of grant using a Monte Carlo-based valuation model.

Share-based compensation expense associated with the target pool of options under our equity incentive programs are initially based on the number of options expected to vest after assessing the probability that the performance criteria will be met. Cumulative adjustments are recorded quarterly to reflect subsequent changes in the estimated outcome of performance-related conditions. We utilize the Black-Scholes option valuation model with the assumptions in the table below to calculate the share-based compensation expense related to the options.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Expected term	3.9 years	4.8 years	3.9 years	4.8 years
Expected volatility	38.3%	36.4%	37.7% - 38.3%	36.4% - 36.5%
Expected dividends	5.5%	5.0%	4.1% - 5.5%	4.3% - 5.0%
Risk-free rate	1.1%	1.8%	1.1% - 1.6%	1.6% - 1.8%

Share-based compensation expense recorded for our performance-based awards was $112 for the three months ended September 30, 2015 and $108 for the three months ended September 30, 2014

Share-based compensation expense recorded for our performance-based awards was $147 for the six months ended September 30, 2015 and $211 for the six months ended September 30, 2014.

Non-vested stock option award activity, including employee stock options and performance-based awards, during the six months ended September 30, 2015 is summarized as follows:

	Non-Vested Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding, April 1, 2015	1,068,290	$ 5.81
Granted	564,000	3.36
Vested	(273,400)	6.35
Forfeited/Canceled	(149,820)	5.51
Outstanding, September 30, 2015	1,209,070	$ 4.48

As of September 30, 2015, $4,420 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 3.7 years. This amount does not include the cost of new options that may be granted in future periods or any changes in our forfeiture percentage. The total fair value of options vested during the six months ended September 30, 2015 and 2014 was $1,735 and $1,524, respectively.

Director Awards

On May 20, 2015, the Board of Directors approved our 2016 Director Compensation Program, pursuant to which each non-employee director is to be granted shares of restricted stock upon election or re-election to the Board of Directors. The shares of restricted stock will be granted promptly following shareholder approval and registration of our 2015 Equity Incentive Plan. The shares of restricted stock will be issued according to a standard form of restricted stock award agreement and pursuant to our 2015 Equity Incentive Plan, will carry a restriction requiring that the restricted stock vest in two equal installments over two consecutive years with the vesting dates being the next two meeting dates of our annual shareholders' meeting following election or re-election to the Board of Directors.

Share-based compensation expense related to restricted stock was $217 for the three months ended September 30, 2015 and $218 for the three months ended September 30, 2014

Share-based compensation expense related to restricted stock was $415 for the six months ended September 30, 2015 and $392 for the six months ended September 30, 2014.

Restricted stock activity for the six months ended September 30, 2015 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding, April 1, 2015	78,205	$ 17.94
Granted	90,826	12.80
Vested	(50,426)	19.98
Canceled	(1,500)	17.95
Outstanding, September 30, 2015	117,105	$ 13.86

The weighted-average grant date fair value for the restricted stock was estimated using the market price of the common stock on the date of grant. The fair value of the restricted stock is amortized on a straight-line basis over the vesting period.

As of September 30, 2015, $1,480 of total unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted-average period of 1.8 years. This amount does not include the cost of new restricted stock that may be granted in future periods.

11. Concentration of Credit Risk

We had cash deposits at U.S. banks and financial institutions which exceeded federally insured limits at September 30, 2015. We are exposed to credit loss for amounts in excess of insured limits in the event of non-performance by the institutions; however, we do not anticipate non-performance by these institutions.

12. Commitments, Guarantees and Contingencies

Commitments and Guarantees

Our software license agreements include a performance guarantee that our software products will substantially operate as described in the applicable program documentation for a period of 365 days after delivery. To date, we have not incurred any significant costs associated with our performance guarantee or other related warranties and do 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, we have not incurred any significant costs associated with these warranties and do not expect to incur significant warranty costs in the future. Therefore, no accrual has been made for potential costs associated with these warranties.

We have historically offered short-term rights of return in certain sales arrangements. If we are 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 we are 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 we have already tested and confirmed to consistently meet using our existing software without any modifications or enhancements. To date, we have not incurred any costs associated with this guarantee and do not expect to incur significant costs in the future. Therefore, no accrual has been made for potential costs associated with this guarantee.

Our standard sales agreements contain an indemnification provision pursuant to which we 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 our software. As we have not incurred any significant costs to defend lawsuits or settle claims related to these indemnification agreements, we believe that our estimated exposure on these agreements is currently minimal. Accordingly, we have no liabilities recorded for these indemnification obligations.

Hussein Litigation

On October 7, 2013, a complaint was filed against our Company and certain of our officers and directors in the Superior Court of the State of California for the County of Orange, captioned Ahmed D. Hussein v. Sheldon Razin, Steven Plochocki, Quality Systems, Inc. and Does 1-10, inclusive, No. 30-2013-00679600-CU-NP-CJC, by Ahmed Hussein, a former director and significant shareholder of our Company. We filed a demurrer to the complaint, which the court granted on April 10, 2014. An amended complaint was filed on April 25, 2014. The amended complaint generally alleges fraud and deceit, constructive fraud, negligent misrepresentation and breach of fiduciary duty in connection with statements made to our shareholders regarding our financial condition and projected future performance. The amended complaint seeks actual damages, exemplary and punitive damages and costs. We filed a demurrer to the amended complaint. On July 29, 2014, the court sustained the demurrer with respect to the breach of fiduciary duty claim, and overruled the demurrer with respect to the fraud and deceit claims. On August 28, 2014, we filed an answer and cross-complaint. On June 26, 2015, we filed a motion for summary judgment, which the court granted on September 16, 2015, dismissing all claims against us. On September 23, 2015, plaintiff filed an application for reconsideration of the Court's summary judgment order. The hearing on the application for reconsideration is set for October 29, 2015. We believe that the plaintiff’s claims are without merit and continue to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Federal Securities Class Action

On November 19, 2013, a putative class action complaint was filed on behalf of the shareholders of our Company other than the defendants against us and certain of our officers and directors in the United States District Court for the Central District of California by one of our shareholders. After the court appointed lead plaintiffs and lead counsel for this action, and recaptioned the action In re Quality Systems, Inc. Securities Litigation, No. 8L13-cv-01818-CJC(JPRx), lead plaintiffs filed an amended complaint on April 7, 2014. The amended complaint, which is substantially similar to the litigation described above under the caption “Hussein Litigation,” generally alleges that statements made to our shareholders regarding our financial condition and projected future performance were false and misleading in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the individual defendants are liable for such statements because they are controlling persons under Section 20(a) of the Exchange Act. The complaint seeks compensatory damages, court costs and attorneys' fees. We filed a motion to dismiss the amended complaint on June 20, 2014, which the court granted on October 20, 2014, dismissing the complaint with prejudice. Plaintiffs filed a motion for reconsideration of the Court's order, which the court denied on January 5, 2015. On January 30, 2015, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit, captioned In re Quality Systems, Inc. Securities Litigation, No. 15-55173. Plaintiffs filed their opening brief and we answered. Oral argument is not yet scheduled. We believe that the plaintiffs' claims are without merit and continue to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Shareholder Derivative Litigation

On January 24, 2014, a complaint was filed against our Company and certain of our officers and current and former directors in the United States District Court for the Central District of California, captioned Timothy J. Foss, derivatively on behalf of himself and all others similarly situated, vs. Craig A. Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenzweig and Quality Systems, Inc., No. SACV14-00110-DOC-JPPx, by Timothy J. Foss, a shareholder of ours. The complaint arises from the same allegations described above under the captions “Hussein Litigation” and “Federal Securities Class Action” and generally alleges breach of fiduciary duties, abuse of control and gross mismanagement by our directors, in addition to unjust enrichment and insider selling by individual directors. The complaint seeks compensatory damages, restitution and disgorgement of all profits, court costs, attorneys’ fees and implementation of enhanced corporate governance procedures. The parties have agreed to stay this litigation until the United States Court of Appeals for the Ninth Circuit issues a ruling on the pending appeal described above under the caption “Federal Securities Class Action”. We believe that the plaintiff’s claims are without merit and intend to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

13. Operating Segment Information

Our Company has four reportable segments that are evaluated regularly by our chief decision making group (consisting of our Chief Executive Officer, Interim Chief Financial Officer and Chief Operating Officer) in deciding how to allocate resources and in assessing performance.

Operating segment data is as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
NextGen Division	$ 94,975	$ 93,148	$ 186,590	$ 184,861
RCM Services Division	22,532	18,551	44,993	36,312
QSI Dental Division	4,681	4,657	9,100	8,899
Hospital Solutions Division	3,181	4,163	6,850	8,341
Consolidated revenue	$ 125,369	$ 120,519	$ 247,533	$ 238,413
Income (loss) from operations:				
NextGen Division	$ 47,640	$ 44,713	$ 92,498	$ 89,058
RCM Services Division	4,079	2,657	8,496	4,902
QSI Dental Division	1,636	1,416	2,586	2,336
Hospital Solutions Division	221	(831)	1,176	(2,522)
Corporate and unallocated	(41,080)	(40,696)	(83,226)	(78,760)
Consolidated operating income	$ 12,496	$ 7,259	$ 21,530	$ 15,014

The major components of the Corporate and unallocated amounts are summarized in the table below:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Research and development costs	$ 17,981	$ 16,898	$ 35,066	$ 33,134
Amortization of capitalized software costs	2,490	3,515	4,929	7,117
Marketing expense	2,923	2,882	6,738	6,111
Other Corporate and overhead costs	17,686	17,401	36,493	32,398
Total Corporate and unallocated	41,080	40,696	83,226	78,760

Assets by segment are not tracked or used by our chief decision making group to allocate resources or to assess performance, and thus not included in the table above.

The amounts classified as Corporate and unallocated consist primarily of corporate general and administrative costs, non-recurring acquisition and transaction-related costs, recurring post-acquisition amortization of certain acquired intangible assets and amortization of capitalized software costs, as well as costs of other centrally managed overhead and shared-services functions, including accounting and finance, human resources, marketing, legal, and research and development, that are not controlled by segment level leadership. Although the segments may derive direct benefits as a result of such costs, our chief decision making group evaluates performance based upon stand-alone segment operating income, which excludes these Corporate and unallocated amounts.

Effective April 1, 2015, as part of our ongoing efforts to refine the measurement of our segment data to better reflect an organizational structure whereby certain expenses managed by functional area leadership are no longer classified within the operating segments but rather as a component of Corporate and unallocated, we no longer classify certain costs within the information services and credit granting and collections functional areas, such as bad debt expense and other information services related general and administrative costs, within the operating segments. Such classification is consistent with the disaggregated financial information used by our chief decision making group. We have retroactively reclassified the prior year operating income in the table above to present all segment information on a comparable basis.

14. Subsequent Events

On October 21, 2015, our Board of Directors approved a quarterly cash dividend of $0.175 per share on our outstanding shares of common stock, payable to shareholders of record as of December 11, 2015 with an expected distribution date on or about January 4, 2016.

On October 22, 2015, we sold the Hospital Solutions Division to QuadraMed Affinity Corporation, which is part of the Harris Operating Group of Constellation Software Inc. Financial terms of the transaction were not significant.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this Quarterly Report on Form 10-Q, other than statements that are purely historical, are forward-looking statements. Words such as "anticipate," "expect," "intend," "plan," "believe," "seek," "estimate," "will," "should," "would," "could," "may," and similar expressions also identify forward-looking statements. These forward-looking statements include, without limitation, discussions of our product development plans, business strategies, future operations, financial condition and prospects, developments in and the impacts of government regulation and legislation, including, without limitation, The American Recovery and Reinvestment Act ("ARRA") and The Patient Protection and Affordable Care Act, and market factors influencing our results. Our expectations, beliefs, objectives, intentions and strategies regarding our future results are not guarantees of future performance and are subject to risks and uncertainties, both foreseen and unforeseen, that could cause actual results to differ materially from results contemplated in our forward-looking statements. These risks and uncertainties include, but are 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, 2015 ("Annual Report"), as supplemented by additional risk factors, if any, in our interim filings on our Quarterly Reports on Form 10-Q, as well as in our other public disclosures and filings with the Securities and Exchange Commission ("SEC"). Because of these risk factors, as well as other variables affecting our financial condition and results of operations, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. We assume no obligation to update any forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Quarterly Report on Form 10-Q.

This management's discussion and analysis of financial condition and results of operations ("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 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, its operating segments, a summary of our recent acquisition transactions and the products and services we offer.

- *Overview of Results of Operations and Results of Operations by Divisions.* These sections provide our analysis and outlook for the significant line items on our consolidated statements of comprehensive income, as well as other information that we deem meaningful to understand our results of operations on both a consolidated basis and divisional 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 (each, a "Division") which are comprised of: (i) the NextGen Division, (ii) the RCM Services Division, (iii) the QSI Dental Division and (iv) the Hospital Solutions Division. We also have a captive entity in India called Quality Systems India Healthcare Private Limited (“QSIH”). 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”), accountable care organizations, 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 customers with the ability to redesign patient care and other workflow processes while improving productivity through the 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. Our scalable interoperability and population health offerings help to improve care collaboration, quality and safety. Enabled by our interoperability and enterprise analytics solutions, data-driven patient population healthcare management decisions can assist in creating more desirable operational, clinical, and financial outcomes that substantiate the value of patient-centered and accountable care models.

The turbulence in the worldwide economy has impacted almost all industries. While healthcare is not immune to economic cycles, we believe it is more heavily influenced by U.S.-based regulatory and national health projects than by the cycles of our economy. The impact of the current economic conditions on our existing and prospective customers has been mixed. Various factors have had, and are anticipated to continue to have, a meaningful impact on the U.S. healthcare industry. Particularly, the healthcare industry has been significantly impacted by the Obama Administration's broad healthcare reform efforts, including the Health Information Technology for Economic and Clinical Health ("HITECH") portion of the American Recovery and Reinvestment Act ("ARRA") and the Patient Protection and Affordable Care Act ("PPACA") that provides significant incentives to health care organizations for "Meaningful Use" adoption and interoperable electronic health record solutions, the mandate requiring individuals to obtain insurance, the individual state responses to the government-requested Medicaid expansion, the creation and operation of insurance exchanges, and the increasing focus of private businesses on moving their employee health benefit offerings to a more wellness-based health platform.

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 HITECH portion of 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. We also believe that healthcare reform, including the repeal of the sustainable growth rate (SGR) formula in April 2015 as part of the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), and a movement towards a value-based, pay for performance model and quality initiative efforts will also stimulate demand for robust electronic health record solutions as well as new healthcare information technology solutions from bundled billing capabilities to patient engagement and population health management.

While we expect to benefit from the increasing demands for greater efficiency as well as government support for increased adoption of electronic health records systems, the market for physician based electronic health records software is becoming increasingly saturated while physician group practices are rapidly being consolidated by hospital, insurance payers and other entities. Hospital software providers are leveraging their position with their hospital customers to gain market share with hospital owned physician practices. Insurance providers and large physician groups are also consolidating physician offices creating additional opportunity for ambulatory software providers like us. Our strategy is to focus on addressing the growing needs of accountable care organizations around interoperability, patient engagements, population health and collaborative care management, and data analytics.

We believe that our core strength lies in the central role our software products and services play in the delivery of healthcare by the primary physician in an ambulatory setting. We intend to remain at the forefront of upcoming new regulatory requirements including ICD-10 and meaningful use requirements for stimulus payments. We believe that the expanded requirements for continued eligibility for incentive payments under meaningful use rules will result in an expanded replacement market for electronic health records software. We intend to continue the development and enhancement of our software solutions to support healthcare reform, such as the recently enacted MACRA, which promotes the transition from fee-for-service to value-based, pay-for-performance, and patient-centric care and quality initiatives such as accountable care organizations. Key elements of our future software development will be to expand our interoperability capabilities enhancing the competitiveness of our software offerings, make our products more intuitive and easy to use, and to enhance our ability to deliver our software over the cloud with the latest technology.

We also want to continue investments in our infrastructure, including but not limited to maintaining and expanding sales, marketing and product development activities in order to improve patient care and reduce healthcare costs, providing industry-leading, integrated clinical and administrative healthcare data systems, services and expertise to clinical, medical, technology, and healthcare business professionals while continuing our strong commitment of superb service in support of our customer satisfaction programs. These investments in our infrastructure will continue while maintaining reasonable expense discipline. We strive to add new customers and expand our relationship with existing customers through delivery of add-on and complementary products and services and believe that our customer base that is using our software on a daily basis is a strategic asset. We intend to leverage this strategic asset by expanding our product and service offerings towards this customer base.

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, accounts receivable reserves, software development costs, contingent consideration liabilities, goodwill, and intangible assets) 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 Part II, 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 2015.

Company Overview

Quality Systems, Inc. was incorporated in California in 1974. Our principal offices are located at 18111 Von Karman Ave., Suite 700, Irvine, California, 92612. We operate on a fiscal year ending on March 31.

Our Company was founded with an early focus on providing information systems to dental group practices. This focus area would later become the QSI Dental Division. In the mid-1980s, we capitalized on the increasing focus on medical cost containment and further expanded our information processing systems to serve the ambulatory market. In the mid-1990s, we made two acquisitions that accelerated our penetration of the ambulatory market and formed the basis for the NextGen Division. In the last few years, we acquired several companies, including Sphere Health Systems, Inc. ("Sphere"), Opus Healthcare Solutions, LLC ("Opus"), IntraNexus, Inc ("IntraNexus"), CQI Solutions, Inc. ("CQI"), ViaTrack Systems, LLC ("ViaTrack"), Matrix Management Solutions, LLC ("Matrix"), and The Poseidon Group ("Poseidon"), as part of our strategy to enhance our EDI and RCM services capabilities as well as expand into the small and specialty hospital market. More recently, we acquired Mirth Corporation ("Mirth") and Gennius, Inc ("Gennius"), both of which operate under the NextGen Division. Mirth enhances our current enterprise interoperability initiatives and broadens our accountable and collaborative care, population health, disease management and clinical data exchange offerings. Gennius is expected to enhance our current enterprise healthcare data analytics competencies while broadening business intelligence capabilities for addressing new value-based care requirements. Today, we serve the ambulatory, RCM services, dental and hospital markets through each of our four business Divisions.

A growing number of customers are simultaneously utilizing software or services from more than one of our Divisions. In an effort to further enhance our ability to cross sell products and services between Divisions, we are in the process of further integrating our ambulatory and hospital products to provide a more robust and comprehensive platform to offer our customers. To achieve greater efficiency and integration within our operations, we have consolidated our divisional sales, marketing, information services, and software development responsibilities into single company-wide roles. The Divisions also share the resources of our “corporate office,” which includes a variety of accounting and other administrative functions. We continue to evaluate the organizational structure of the Company with the objective of achieving greater synergies and further integration of our products and services, including software implementation and customer support functions.

The NextGen Division, QSI Dental Division and Hospital Solutions Division develop and market software that is designed to automate and streamline a number of the administrative functions required for operating a medical, dental, or hospital practice, such as patient scheduling and billing. Since practice management software systems have already been implemented by the vast majority of both the medical and dental practices, we actively compete in a replacement market by leveraging the benefits of our interoperable electronic health records software. With the addition of Gennius and Mirth, our combined solutions enrich the already strong collaborative, connected care support and set the stage for data synchronization and enterprise analytics, interoperability growth and expansion of our current accountable and collaborative care, population health, disease management and clinical data exchange offering. These Divisions also develop and market software that automates patient records in physician practices, community health centers and hospital settings. In this patient records area of our business, we are typically competing to replace paper-based patient record alternatives as opposed to replacing previously purchased systems. The Hospital Solutions Division develops and markets financial management and billing software products, which perform administrative functions required for operating small and specialty hospitals as well as clinical offerings such as multi-disciplinary clinical documentation and computerized physician order entry. The RCM Services Division provides technology solutions and outsourcing services to cover the full spectrum of healthcare providers' RCM needs, with a primary focus on outsourced billing and collection services.

QSIH, located in Bangalore, India, functions as our India-based captive entity to offshore technology application development and business processing services. Our employee base in Bangalore has grown to over 400 employees with a primary focus on software development activities.

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

The following table reflects our reported segment revenue breakdown by Division and segment revenue growth (decline) as compared to the same prior year period for the three and six months ended September 30, 2015 and 2014:

	Segment Revenue Breakdown			
	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
NextGen Division	75.8%	77.2%	75.3%	77.6%
RCM Services Division	18.0%	15.4%	18.2%	15.2%
QSI Dental Division	3.7%	3.9%	3.7%	3.7%
Hospital Solutions Division	2.5%	3.5%	2.8%	3.5%
Consolidated	100.0%	100.0%	100.0%	100.0%

	Segment Revenue Growth (Decline)			
	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
NextGen Division	2.0 %	10.0 %	0.9 %	11.2 %
RCM Services Division	21.5 %	10.8 %	23.9 %	6.4 %
QSI Dental Division	0.5 %	(5.0)%	2.3 %	(11.5)%
Hospital Solutions Division	(23.6)%	(12.1)%	(17.9)%	(18.2)%
Consolidated	4.0 %	8.5 %	3.8 %	8.1 %

NextGen Division. The NextGen Division, with headquarters in Horsham, Pennsylvania and significant locations in Atlanta, Georgia and Costa Mesa, California, 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 interoperability solutions.

The NextGen® ambulatory product suite features an integrated and interoperable solution that streamlines the business of running a practice as well as patient care with standardized, real-time clinical and administrative workflows within a physician’s practice. Major ambulatory product lines include NextGen® EHR ("Electronic Health Record"), NextGen® PM ("Practice Management"), NextGen® Population Health (including NextGen® Care), NextGen® Analytics, NextGen® Patient Portal ("NextMD.com"), NextGen® Document Management, NextGen® ePrescribing, NextGen® Mobile, and NextGen® NextPen. The interoperability solutions consist of NextGen® EHR Connect, NextGen® Health Information Exchange ("HIE"), and NextGen® Share. The NextGen Division also offers hosting services, NextGuard data protection services, professional consulting services, such as strategic governance models and operational transformation, technical consulting services, such as data conversions or interface development, and physician consulting services. 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.

On September 9, 2013, we acquired Mirth, a global leader in health information technology that helps customers achieve interoperability. Operating results associated with Mirth products and services are included in the NextGen Division. The acquisition of Mirth enhances our current enterprise interoperability initiatives and broadens our accountable and collaborative care, population health, disease management and clinical data exchange offerings. Mirth offers a wide variety of products and services utilized by both users of Mirth open code technology as well as a large base of domestic and international paying customers. Product offerings available from Mirth include Mirth Connect, Mirth Results, Mirth Match, Mirth Mail, Mirth Appliance, and Mirth Care Enterprise. As a direct result of the Mirth acquisition, we introduced NextGen® Share to our customer base in November 2013. As our first offering that integrates technologies from both NextGen Healthcare and Mirth, NextGen® Share provides the ability to securely and easily share patient charts and other data with other practices using NextGen Internet based software.

On March 11, 2015, we acquired Gennius, a provider of healthcare data analytics. Gennius's operations are managed under the NextGen Division. The acquisition of Gennius is expected to enhance our current enterprise analytics competencies while broadening business intelligence capabilities for addressing new value-based care requirements.

RCM Services Division. The RCM Services Division, with locations in St. Louis, Missouri, North Canton, Ohio, South Jordan, Utah and Hunt Valley, Maryland, provides technology solutions and consulting services to cover the full spectrum of healthcare providers'

RCM needs, from patient access through claims denials, with a primary focus on billing and collection services in order to optimize customers' revenue cycle results, improve cash flow, and decrease accounts receivable days. The RCM Services Division combines a Web-delivered Software as a Service ("SaaS") model and the NextGen® PM software platform to execute its service offerings, which include billing and collections, claims submissions and reconciliation, coding services, electronic remittance and payment posting, accounts receivable management, patient customer service, advance analytics, charge entry and capture, enrollment credentialing, and software setup, hosting and support.

QSI Dental Division. The QSI Dental Division, co-located with our corporate headquarters in Irvine, California, focuses on developing, marketing and supporting software suites sold to dental group organizations located throughout the United States. The QSI Dental Division sells additional licenses to its legacy products as existing customers expand their operations and also sells its practice management and clinical software solutions to new and existing customers primarily as a cloud-based SaaS model, known as QSIDental Web ("QDW"). QDW is marketed primarily to multi-location dental group practices in which the QSI Dental Division has historically been a dominant player. When sold under a SaaS model, QDW offers a lower cost of ownership as it is a cloud-based solution that provides users with access to vital data from any web-enabled device. Further, QSI Dental sells its electronic dental charting software in conjunction with NextGen® PM and EHR, which is marketed as NextGen® EDR (“Electronic Dental Record”) to federally qualified health centers (“FQHC”) and other safety-net clinics, as further defined below.

The QSI Dental Division participates jointly with the NextGen Division in providing software and services to safety-net clinics like FQHCs and other safety-net health centers, including public health centers, community health centers, free clinics, as well as rural and tribal health centers. FQHCs and other safety-net clinics are community-based organizations that are 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, reserved $11 billion over a multi-year period for FQHCs, creating unprecedented opportunities for FQHCs growth and the formation of new FQHCs. When combined and used in tandem, NextGen® EHR, NextGen® EDR, and NextGen® PM are capable of providing an integrated patient record, which is a unique product in this marketplace that is accessible by both physicians and dentists. In May 2013, NextGen® EDR version 4.3 was ONC-ATCB certified by the Certification Commission for Health Information ("CCHIT®") as a complete EHR and demonstrated compliance with all clinical quality measures for eligible providers.

The QSI Dental Division's legacy practice management software suite, known as Clinical Product Suite (“CPS”), uses a UNIX® operating system and can be fully integrated with the customer server-based practice management software offered by each of our Divisions. When integrated and delivered with the NextGen® PM solution, CPS is re-branded as NextGen® EDR and 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, that are integrated as part of the electronic patient record. The QSI Dental Division also develops, markets, and provides EDI services to dental practices, including electronic submission of claims to insurance providers as well as automated patient statements.

Hospital Solutions Division. The Hospital Solutions Division, with its primary location in Austin, Texas, provides integrated clinical, financial and connectivity solutions for rural, community and specialty hospitals. The Hospital Solutions Division also develops and markets an equivalent revenue cycle management and clinical information systems software products for the small and specialty hospital market, which perform the administrative functions required for operating hospitals.

The Hospital Solutions product is a single-source, interoperable suite that helps rural, critical access hospitals improve care, operations, and financial results across both inpatient and ambulatory settings, which provides a robust connected suite of clinical, financial, enterprise scheduling, surgery management, emergency, lab, pharmacy, HIE, EDI, and Patient Portal solutions that work together for improved patient and financial outcomes. Products include NextGen® Inpatient Clinicals, NextGen® Inpatient Financials, NextGen® Emergency Department, NextGen® Hospital Scheduling, NextGen® Surgical Management, and NextGen® Lab.

Overview of Our Results

- Consolidated revenue increased 3.8%, or $9.1 million, in the six months ended September 30, 2015 as compared to the same prior year period. The change is primarily the result of a 27.2% increase in software related subscription services revenues and a 20.3% increase in RCM and related services revenues, partially offset by an 8.2% decrease in software license and hardware revenue and a 24.8% decrease in professional services revenue. The increase in subscription services revenue reflects growth in interoperability subscriptions as well as subscriptions related to our NextGen® Patient Portal product offering. The increase in RCM and related services revenue is the result of new customer additions and organic growth. The decline in software license and hardware revenue reflects the increasingly saturated markets in which our core software products are sold, and the decline in professional services revenue is due to lower implementation and training revenue resulting from the recent decline in system sales and lower consulting services revenue due to reduced demand from customers.
- Consolidated gross profit as a percentage of revenue increased to 54.5% for the six months ended September 30, 2015 compared to 52.6% in the prior year period primarily due to improved profitability from RCM and related services, EDI and data services, and professional services, resulting from more effective cost management.

- Consolidated operating income increased 43.4%, or $6.5 million, in the six months ended September 30, 2015 as compared to the same prior year period. The increase is mostly due to a 7.6%, or $9.5 million, increase in gross profit resulting from the increase in total revenues and improvements in profitability noted above, which was offset by an increase of 5.8% in research and development costs attributed to higher headcount and related payroll costs and an increase of 1.5% in selling, general and administrative expense related primarily to higher shareholder litigation expense and higher bad debt expense (the same prior year period included a net bad debt credit).

NextGen Division

- NextGen Division revenue increased by 0.9% in the six months ended September 30, 2015, as compared to the same prior year period. Divisional software related subscription services revenue increased by 26.3%, EDI and data services revenue increased by 9.2%, and support and maintenance increased by 4.4%, which was offset by a decrease of 8.4% in software license and hardware revenue and a decrease of 28.2% in professional services revenue. As noted above, the increase in subscription services revenue reflects growth in interoperability subscriptions as well as subscriptions related to our NextGen® Patient Portal product offering while the decrease in software license and hardware revenue and professional services revenue reflects the increasingly saturated markets in which our core software products and services are sold.

- NextGen Division operating income (excluding Corporate and unallocated amounts) increased by 3.9% in the six months ended September 30, 2015, as compared to the same prior year period due mostly to a 10.6% decrease in overall operating expenses, including lower sales commissions associated with a decline in new system sales and a decrease in other personnel related costs resulting from improved operational efficiency.

- Our goals for the NextGen Division 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, expanding our software and service offerings supporting pay-for-performance initiatives around accountable care organizations, bringing greater ease of use and intuitiveness to our software products, expanding our interoperability and enterprise analytics capabilities, integrating our hospital and ambulatory software products and further development and enhancements of our portfolio of specialty focused templates within our electronic health records software. We intend to remain at the forefront of upcoming new regulatory requirements, including ICD-10 and meaningful use requirements for stimulus payments. We believe that the expanded requirements for continued eligibility for incentive payments under meaningful use rules will result in an expanded replacement market for electronic health records software. We also intend to continue selling additional software and services to existing customers, expanding penetration of connectivity and other services to new and existing customers, and capitalizing on growth and cross selling opportunities within the RCM Services Division. Our acquisitions of Mirth and Gennius improve our competitiveness in the markets and provide new customers and expanded markets for the NextGen Division and also support our strategy to focus on accountable care organizations around interoperability, patient engagements, population health and collaborative care management, and enterprise analytics. We believe we are well-positioned within the evolving healthcare market to deliver products and services that address the growing importance of quality collaborative care and shift from fee-for-service to value-based, pay-for-performance care.

- The NextGen Division’s growth is attributed to a strong brand name and reputation within the marketplace for healthcare information technology software and services and investments in sales and marketing activities, including new marketing campaigns, Internet advertising investments, tradeshow attendance and other expanded advertising and marketing expenditures.

RCM Services Division

- RCM Services Division revenue increased 23.9%, or $8.7 million, in the six months ended September 30, 2015. The RCM Services Division benefited mostly from new customer additions during the six months ended September 30, 2015 as well as organic growth achieved through cross selling RCM services to existing NextGen Division customers.

- Operating income increased 73.3%, or $3.6 million, in the six months ended September 30, 2015 as compared to the same prior year period primarily due to an increase in divisional gross profit, offset by higher operating expense related to higher sales commissions associated with the growth in revenue noted above.

- The Company believes that a significant opportunity exists to continue cross selling RCM services to existing customers. The portion of existing NextGen customers who are using the RCM Services Division's services is less than 10%. Management is actively pursuing efforts to achieve faster growth from expanded efforts to leverage the existing NextGen Division's sales force towards selling RCM services. We also believe that the increased complexity related to the billing and collections process, expected as a result of implementing ICD-10, will create additional opportunities for our RCM Services Division.

QSI Dental Division

- QSI Dental Division revenue increased 2.2%, or $0.2 million in the six months ended September 30, 2015 primarily due to a $0.2 million increase in software license and hardware revenue and a $0.2 million increase in software related subscription services, offset by slight decreases in support and maintenance, EDI and data services, and professional services.

- Divisional operating income (excluding Corporate and unallocated amounts) increased 10.7%, or $0.3 million, in the six months ended September 30, 2015 as compared to the same prior year period primarily due to the increase in divisional gross profit associated with the increase in higher-margin revenue noted above.
- 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 continue to invest in the new cloud-based QDW platform while aggressively marketing QDW to both new and existing customers.

Hospital Solutions Division

- Hospital Solutions Division revenue decreased 17.9% in the six months ended September 30, 2015. Revenue was primarily impacted by a 33.0% decrease in software, hardware and related revenue and a 48.0% decrease in professional services revenue. These decreases are primarily the result of reduced demand for implementation, training, and consulting services due to a decline in new software sales and because software license and hardware sales and software related subscriptions services revenue in the prior year period was favorably impacted by sales credits reserve adjustments.
- Divisional operating income (excluding Corporate and unallocated amounts) was $1.2 million for the six months ended September 30, 2015 as compared to a $2.5 million loss for the same prior year period. The improvement in operating results is due mostly to an increase in gross profit, driven largely by a $3.1 million reduction in cost of professional services revenue and a $0.5 million reduction in cost of support and maintenance, due to lower headcount and staffing levels within the division, combined with lower operating expense from lower sales commissions and lower facilities costs.

Corporate and unallocated amounts (costs not allocated to the operating segments)

- Research and development costs increased by 5.8% to $35.1 million for the six months ended September 30, 2015 as compared to $33.1 million for the same prior year period. We anticipate an increase in gross research and development expenditures due to growing rates of investment required to concurrently develop major new products while continuing to create significant new enhancements to our existing product lines, which we expect to result in higher net research and development expense. As summarized in the table below, the amount of software costs capitalized in proportion to the amount of total research and development expenditures, including both amounts expensed and capitalized, has decreased for the three months ended September 30, 2015 and remained fairly consistent for the six months ended September 30, 2015 compared to the same prior year periods:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Gross expenditures	$ 21,033	$ 20,365	$ 41,753	$ 39,503
Capitalized software costs	(3,052)	(3,467)	(6,687)	(6,369)
Research and development costs, as reported	$ 17,981	$ 16,898	$ 35,066	$ 33,134
Capitalized software costs as a percentage of gross expenditures	14.5%	17.0%	16.0%	16.1%

- Amortization of capitalized software costs decreased by 30.7% to $4.9 million for the six months ended September 30, 2015 as compared to $7.1 million for the same prior year period. The decrease in amortization of capitalized software costs is due to certain products being fully amortized. We expect that the upcoming general release of the next major version of our flagship software platform will result in higher rates of amortization relative to previously capitalized software development costs reflected in our recent historical operating results. Amortization of capitalized software costs are reflected as cost of revenue on our consolidated statements of comprehensive income. Refer to Note 6, “Capitalized Software Costs” of our notes to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for an estimate of future amortization of capitalized software costs.
- Other Corporate and overhead costs increased by $4.1 million to $36.5 million for the six months ended September 30, 2015 as compared to $32.4 million for the same prior year period primarily due to increases in headcount and related personnel costs, higher shareholder litigation expense, and higher bad debt expense. In addition, higher utilization of online advertising and media placement has resulted in a 10.3% increase in marketing expense to $6.7 million for the six months ended September 30, 2015 as compared to $6.1 million for the same prior year period.

Comparison of the Three Months Ended September 30, 2015 and September 30, 2014

Net Income. Our net income for the three months ended September 30, 2015 was $8.3 million, or $0.14 per share on both a basic and fully diluted basis. In comparison, we had net income of $4.8 million, or $0.08 per share on both a basic and fully diluted basis for the three months ended September 30, 2014. The $3.5 million increase in net income for the three months ended September 30, 2015 as compared to the same prior year period was primarily attributed to the following:

- an increase in consolidated gross profit of $5.0 million, or 7.9%, due to improved profitability from software license and hardware, software related subscription services, RCM and related services, and EDI and data services, offset by
- an increase of $1.6 million in the provision for income taxes, principally reflecting the increase in pretax income.

Revenues. Revenue for the three months ended September 30, 2015 increased 4.0% to $125.4 million from $120.5 million for the three months ended September 30, 2014. NextGen Division revenue increased 2.0% to $95.0 million compared to $93.1 million in the three months ended September 30, 2014; RCM Services Division revenue increased 21.5% to $22.5 million from $18.6 million; QSI Dental Division revenue remained consistent during that same period at $4.7 million; and Hospital Solutions Division revenue decreased 23.6% to $3.2 million from $4.2 million in the three months ended September 30, 2014.

Software, Hardware and Related**.** Revenue from consolidated software, hardware and related sales for the three months ended September 30, 2015 increased 10.8% to $32.1 million from $29.0 million in the same prior year period.

The following table summarizes software, hardware and related sales on a consolidated and divisional basis for the three months ended September 30, 2015 and 2014 (in thousands):

	Software License and Hardware	Software Related Subscription Services	Total Software, Hardware and Related
Three Months Ended September 30, 2015			
NextGen Division	$ 18,812	$ 11,191	$ 30,003
RCM Services Division	37	295	332
QSI Dental Division	734	403	1,137
Hospital Solutions Division	104	548	652
Consolidated	$ 19,687	$ 12,437	$ 32,124
Three Months Ended September 30, 2014			
NextGen Division	$ 18,756	$ 8,880	$ 27,636
RCM Services Division	101	11	112
QSI Dental Division	654	203	857
Hospital Solutions Division	(195)	593	398
Consolidated	$ 19,316	$ 9,687	$ 29,003

Software, hardware and related sales for the NextGen Division increased by $2.4 million due primarily to a $2.3 million, or 26.0%, increase in software related subscription services revenue resulting from growth in both our interoperability subscriptions and subscriptions related to our NextGen® Patient Portal product offering. Software license and hardware revenue remained consistent at $18.8 million for both the three months ended September 30, 2015 and 2014. The NextGen Division’s software license and hardware revenue accounted for 62.7% of divisional software, hardware and related revenue during the three months ended September 30, 2015 compared to 67.9% during the same period a year ago.

The RCM Services Division was not a significant contributor to consolidated software, hardware and related revenue for both the three months ended September 30, 2015 and 2014 as a result of the nature of the division's product and service offering.

Total software, hardware and related sales for the QSI Dental Division increased 32.7%, or $0.3 million, in the three months ended September 30, 2015 versus the same period last year primarily due to a shift in customer preference from software licenses to software related subscription services, such as QDW, the Division's cloud-based software solution. QDW is sold primarily as a SaaS solution for which revenue is recognized over an extended period of time rather than upfront.

At the Hospital Solutions Division, software, hardware and related revenue increased 63.8%, or $0.3 million in the three months ended September 30, 2015 versus the same period last year primarily because revenue in the prior year period was negatively impacted by a higher amount of sales credits and related reserves for software sales.

We expect to benefit, over time, from growth in the replacement market, driven by an expected consolidation of electronic health records vendors. We also anticipate the creation of new opportunities in connection with the evolution of healthcare from a fee-for-services reimbursement model to a pay-for-performance model around the management of patient populations. Our acquisitions of

Gennius and Mirth provided us with new products and services around population health, collaborative care management, interoperability and enterprise analytics to address these market dynamics. While it remains difficult to assess the relative impact or the timing of positive and negative trends affecting the aforementioned market opportunities, we believe we are well positioned to remain a leader in serving the evolving market needs for healthcare information technology.

***Support and Maintenance, RCM, EDI and Professional Services*.** For the three months ended September 30, 2015, our consolidated revenue from support and maintenance, RCM and related services, EDI and data services increased by 0.1%, 19.3%, and 8.9%, respectively, compared the same prior year period. Consolidated professional services revenue decreased 25.7% during the three months ended September 30, 2015 compared to the same prior year period, in connection with softening demand for related system sales.

The following table summarizes support and maintenance, RCM and related services, EDI and data services and professional services revenue by category on a consolidated and divisional basis for the three months ended September 30, 2015 and 2014 (in thousands):

	Support and Maintenance	RCM and Related Services	EDI and Data Services	Professional Services
Three Months Ended September 30, 2015				
NextGen Division	$ 37,952	$ —	$ 18,827	$ 8,193
RCM Services Division	66	20,793	449	892
QSI Dental Division	1,966	—	1,287	291
Hospital Solutions Division	2,192	—	18	319
Consolidated	$ 42,176	$ 20,793	$ 20,581	$ 9,695
Three Months Ended September 30, 2014				
NextGen Division	$ 37,126	$ —	$ 17,429	$ 10,957
RCM Services Division	139	17,432	191	677
QSI Dental Division	2,162	—	1,256	382
Hospital Solutions Division	2,708	—	30	1,027
Consolidated	$ 42,135	$ 17,432	$ 18,906	$ 13,043

Support and maintenance revenue at the NextGen Division for the three months ended September 30, 2015 increased by 2.2% to $38.0 million from $37.1 million primarily due to additional revenues from both new and existing customers. NextGen Division EDI and data services revenue grew 8.0% to $18.8 million compared to $17.4 million in the same prior year period. The growth in NextGen EDI revenue has come from new customers and from further penetration of the division’s existing customer base. Professional services revenue for the NextGen Division, which consists primarily of implementation and training and consulting services, decreased 25.2% to $8.2 million in the three months ended September 30, 2015 from $11.0 million in the same prior year period due to the softening demand for related system sales, as noted above.

For the three months ended September 30, 2015, RCM and related services revenue increased to $20.8 million compared to $17.4 million in the same prior year period. The growth in RCM revenue is primarily attributable to organic growth achieved through cross selling RCM services to existing NextGen Division customers as well as the addition of new customers.

QSI Dental Division support and maintenance for the three months ended September 30, 2015 decreased by $0.2 million as compared to the same prior year period due primarily to a shift in customer preference to subscription-based software services as opposed to software licenses that require support and maintenance. Professional services revenue decreased by $0.1 million while EDI and data services revenue at the QSI Dental Division remained consistent at $1.3 million for the three months ended September 30, 2015 and as compared to the same prior year period.

For the Hospital Solutions Division, support and maintenance revenue decreased by $0.5 million, or 19.1%, and professional services revenue decreased by $0.7 million, or 68.9%, for the three months ended September 30, 2015 as compared to the same prior year period primarily because revenue in the prior year period was favorably impacted by sales credits reserve adjustments related to support and maintenance and professional services.

We intend to continue to promote support and maintenance, RCM and related services, and EDI and data services to both new and existing customers.

Cost of Revenue. Cost of revenue for the three months ended September 30, 2015 decreased to $56.6 million from $56.8 million in the same prior year period and the cost of revenue as a percentage of revenue decreased to 45.1% from 47.1%. The decrease in cost of revenue as a percentage of revenue reflects a $1.0 million, or 29.2%, decrease in amortization of capitalized software costs as compared to the same prior year period due to certain legacy software products becoming fully amortized.

The following table details revenue and cost of revenue on a consolidated and divisional basis for the three months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,			
	2015	%	2014	%
NextGen Division				
Revenue	$ 94,975	100.0%	$ 93,148	100.0%
Cost of revenue	33,313	35.1%	32,900	35.3%
Gross profit	$ 61,662	64.9%	$ 60,248	64.7%
RCM Services Division				
Revenue	$ 22,532	100.0%	$ 18,551	100.0%
Cost of revenue	15,372	68.2%	13,681	73.7%
Gross profit	$ 7,160	31.8%	$ 4,870	26.3%
QSI Dental Division				
Revenue	$ 4,681	100.0%	$ 4,657	100.0%
Cost of revenue	2,253	48.1%	2,387	51.3%
Gross profit	$ 2,428	51.9%	$ 2,270	48.7%
Hospital Solutions Division				
Revenue	$ 3,181	100.0%	$ 4,163	100.0%
Cost of revenue	2,266	71.2%	3,463	83.2%
Gross profit	$ 915	28.8%	$ 700	16.8%
Unallocated cost of revenue	$ 3,394	N/A	$ 4,342	N/A
Consolidated				
Revenue	$ 125,369	100.0%	$ 120,519	100.0%
Cost of revenue	56,598	45.1%	56,773	47.1%
Gross profit	$ 68,771	54.9%	$ 63,746	52.9%

Gross profit margin for the NextGen Division remained consistent at 64.9% for the three months ended September 30, 2015 as compared to 64.7% for the same prior year period. Gross profit margin for the RCM Services Division increased to 31.8% as compared to 26.3% for the same prior year period primarily as a result of higher cash collections from customers for which revenues are recognized on a cash collection basis and the related costs of revenue have been previously incurred. The gross profit margin for the Hospital Solutions Division of 28.8% for the three months ended September 30, 2015 benefited from a significant decline in cost of revenue due mostly to lower payroll and related benefits costs, in connection with reductions in headcount and staffing levels.

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 September 30, 2015 and 2014:

	Software License and Hardware	Software Related Subscription Services	Support and Maintenance	RCM and Related Services	EDI and Data Services	Professional Services	Total Cost of Revenue	Gross Profit
Three Months Ended September 30, 2015								
NextGen Division	3.0%	5.9%	6.4%	0.0%	11.9%	7.9%	35.1%	64.9%
RCM Services Division	0.0%	0.0%	0.1%	65.2%	1.5%	1.4%	68.2%	31.8%
QSI Dental Division	3.8%	2.0%	14.0%	0.0%	18.1%	10.2%	48.1%	51.9%
Hospital Solutions Division	5.5%	9.6%	50.6%	0.0%	0.2%	5.3%	71.2%	28.8%
Consolidated	5.2%	4.8%	6.7%	11.7%	10.0%	6.7%	45.1%	54.9%
Three Months Ended September 30, 2014								
NextGen Division	3.0%	5.2%	4.7%	0.0%	11.9%	10.5%	35.3%	64.7%
RCM Services Division	0.0%	0.0%	0.2%	71.2%	0.9%	1.4%	73.7%	26.3%
QSI Dental Division	6.6%	3.3%	14.2%	0.0%	16.0%	11.2%	51.3%	48.7%
Hospital Solutions Division	0.0%	8.6%	40.6%	0.0%	0.5%	33.5%	83.2%	16.8%
Consolidated	6.2%	4.5%	5.6%	11.0%	10.0%	9.8%	47.1%	52.9%

Cost of software license and hardware decreased to 5.2% of total revenue during the three months ended September 30, 2015 as compared to 6.2% for the same period a year ago, which is mainly the result of the full amortization of certain legacy software products, leading to a decrease in related amortization of capitalized software costs. The decline in cost of software license and hardware was offset by an increase in cost of support and maintenance, which increased to 6.7% of total revenue for the three months ended September 30, 2015 as compared to 5.6% for the same prior year period, attributable to headcount growth and higher related payroll and benefits expense associated with delivering our products and services at the NextGen Division.

Cost of RCM and related services also increased to 11.7% of total revenue for the three months ended September 30, 2015 as compared to 11.0% for the same prior year period due to higher outsourced labor costs required to meet the growth in demand for RCM and related services.

Cost of software related subscription services and EDI and data services as a percentage of total revenue for the three months ended September 30, 2015 remained consistent relative to the same period a year ago although the absolute level of payroll and benefit expenses associated with delivering our products and services has increased due to headcount additions required to support revenue growth.

We experienced a decline in cost of professional services, which decreased to 6.7% of total revenue during the three months ended September 30, 2015 as compared to 9.8% for the same period a year ago, due to lower headcount in the Hospital Solutions Division and improved cost and utilization management in the NextGen Division. On a consolidated basis, cost of professional services decreased by $3.5 million, of which $2.2 million of the decrease is related to the NextGen Division and $1.2 million relates to the Hospital Solutions Division.

As a result of the foregoing events and activities, our gross profit percentage increased to 54.9% for the three months ended September 30, 2015 versus 52.9% for the same prior year period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended September 30, 2015 decreased 3.3% to $37.4 million as compared to $38.7 million for the prior year period. The decrease in selling, general and administrative expenses consists primarily of:

- $1.1 million increase in legal expense related mostly to shareholder litigation defense; partially offset by
- $0.6 million decrease in consulting and outside services costs;
- $0.5 million decrease in sales commissions expense;
- $0.4 million decrease in facilities costs as the prior year period included non-recurring lease termination fees;
- $0.3 million decrease in travel expense;
- $0.2 million decrease in equipment and depreciation expense;
- $0.2 million decrease in software license and related maintenance expense; and

$0.2 million net decrease in other selling, general and administrative expenses.

Share-based compensation expense was approximately $0.7 million for both of the three months ended September 30, 2015 and 2014 and is included in the aforementioned amounts. Selling, general and administrative expenses as a percentage of revenue decreased from 32.1% in the three months ended September 30, 2014 to 29.8% in the three months ended September 30, 2015.

Research and Development Costs. Research and development costs for the three months ended September 30, 2015 and 2014 were $18.0 million and $16.9 million, respectively. Research and development costs as a percentage of revenue increased to 14.3% in the three months ended September 30, 2015 from 14.0% for the prior year period. The increase in research and development expenses is primarily due to the continued investment in enhancements to our specialty template development, preparation for ICD-10 requirements, new product development and other enhancements to our existing products.

The capitalization of software development costs results in a reduction to reported research and development costs. For the three months ended September 30, 2015 and 2014, our additions to capitalized software were $3.1 million and $3.5 million, respectively. For the three months ended September 30, 2015 and 2014, total gross research and development expenditures including both amounts expensed and capitalized was $21.1 million and $20.4 million, respectively. The $0.7 million increase in gross research and development expenditures is the result of higher personnel costs associated with growth in headcount, offset by lower consulting and outside services costs.

We intend to continue to invest heavily in research and development to enhance our software to meet the Meaningful Use definitions under the ARRA as well as further integrate both ambulatory and inpatient products and to develop a new integrated inpatient and outpatient, web-based software platform as well as continue to bring additional functionality and features to the medical community.

Amortization of Acquired Intangible Assets. Amortization included in operating expenses related to acquired intangible assets remained consistent at $0.9 million for the three months ended September 30, 2015 compared to the same prior year period.

Provision for Income Taxes. The provision for income taxes for the three months ended September 30, 2015 and 2014 was $4.2 million and $2.6 million, respectively. The effective tax rates were 33.4% and 34.9% for the three months ended September 30, 2015 and 2014, respectively. The effective rate for the three months ended September 30, 2015 decreased as compared to the same prior year period primarily due to a favorable impact of the qualifying production activity deduction in the three months ended September 30, 2015, offset by discrete adjustments included in the current period related to federal and state research and development credits impacting the prior year.

Comparison of the Six Months Ended September 30, 2015 and September 30, 2014

Net Income. Our net income for the six months ended September 30, 2015 was $14.7 million, or $0.24 on both a basic and fully diluted basis. In comparison, we earned $9.9 million, or $0.16 per share on both a basic and fully diluted basis for the six months ended September 30, 2014. The $4.8 million increase in net income for the six months ended September 30, 2015 as compared to the same prior year period was primarily attributed to the following:

- increase in consolidated gross profit of $9.5 million, or 7.6%, due to improved profitability from software related subscription services, RCM and related services, EDI and data services, and professional services, offset by
- a $3.0 million, or 2.7%, increase in total operating expenses compared to the same prior year period, which is primarily due to a $1.9 million, or 5.8%, increase in research and development expenses in the current period attributed to higher gross expenditures, including higher personnel related costs, and a $1.2 million, or 1.5%, increase in selling, general and administrative costs associated with higher shareholder litigation expense and higher bad debt expense (the same prior year period included a net bad debt credit), and
- an increase of $1.9 million in the provision for income taxes, principally reflecting the increase in pretax income.

Revenue. Revenue for the six months ended September 30, 2015 increased 3.8% to $247.5 million from $238.4 million for the six months ended September 30, 2014. NextGen Division revenue increased 0.9% to $186.6 million from $184.9 million in the six months ended September 30, 2014, RCM Services Division revenue increased 23.9% to $45.0 million from $36.3 million, QSI Dental Division revenue increased 2.2% to $9.1 million from $8.9 million, and Hospital Solutions Division revenue decreased 17.9% to $6.8 million from $8.3 million in the same prior year period.

Software, Hardware and Related**.** Revenue from consolidated software, hardware and related sales for the six months ended September 30, 2015 decreased 3.6% to $60.6 million from $58.5 million in the same prior year period.

The following table summarizes software, hardware and related sales on a consolidated and divisional basis for the six months ended September 30, 2015 and 2014 (in thousands):

	Software License and Hardware	Software Related Subscription Services	Total Software, Hardware and Related
Six Months Ended September 30, 2015			
NextGen Division	$ 34,198	$ 22,285	$ 56,483
RCM Services Division	231	743	974
QSI Dental Division	1,337	601	1,938
Hospital Solutions Division	110	1,054	1,164
Consolidated	$ 35,876	$ 24,683	$ 60,559
Six Months Ended September 30, 2014			
NextGen Division	$ 37,334	$ 17,639	$ 54,973
RCM Services Division	202	20	222
QSI Dental Division	1,155	393	1,548
Hospital Solutions Division	386	1,350	1,736
Consolidated	$ 39,077	$ 19,402	$ 58,479

NextGen Division software, hardware and related sales increased by $1.5 million primarily due to a $4.6 million, or 26.3%, increase in software related subscription services during the six months ended September 30, 2015 versus the same period last year as a result of the growth in both our interoperability subscriptions and subscriptions related to our NextGen® Patient Portal product offering. The increase in software related subscription services was partially offset by a $3.1 million, or 8.4%, decrease in software license and hardware sales during the six months ended September 30, 2015 versus the same period last year, which is the result of lower sales to both new and existing customers and reflects the increasing levels of market saturation for core electronic health record and practice management solutions. The NextGen Division’s software license and hardware revenue accounted for 60.5% of divisional software, hardware and related revenue during the six months ended September 30, 2015 compared to 67.9% during the same period a year ago.

The RCM Services Division was not a significant contributor to consolidated software, hardware and related revenue for both the six months ended September 30, 2015 and 2014 as a result of the nature of the division's product and service offering.

Total software, hardware and related sales for the QSI Dental Division increased 25.2%, or $0.4 million, in the six months ended September 30, 2015 compared to the same period last year, driven mostly by a 52.9% growth in sales of software related subscription services. The growth in software related subscription services versus the same period last year is primarily due to a shift in customer preference from software licenses to software related subscription services, such as QDW, the Division's cloud-based software solution. QDW is sold primarily as a SaaS solution for which revenue is recognized over an extended period of time rather than upfront.

At the Hospital Solutions Division, total software, hardware and related sales decreased 33.0%, or $0.6 million, to $1.2 million in the six months ended September 30, 2015 as compared to $1.7 million in the same prior year period. This decrease is primarily the result of a higher volume of sales credits in the current period for both software license and hardware sales and software related subscriptions services.

***Support and Maintenance, RCM, EDI and Professional Services*.** For the six months ended September 30, 2015, our consolidated revenue from support and maintenance, RCM and related services and EDI and data services increased by 3.6%, 20.3%, and 9.5%, respectively compared to the same prior year period. Consolidated professional services revenue decreased 24.8% during the six months ended September 30, 2015 compared to the same prior year period in connection with lower demand for the related software licenses.

The following table summarizes support and maintenance, RCM and related services, EDI and data services and professional services revenue by category on a consolidated and divisional basis for the six months ended September 30, 2015 and 2014 (in thousands):

	Support and Maintenance	RCM and Related Services	EDI and Data Services	Professional Services
Six Months Ended September 30, 2015				
NextGen Division	$ 76,974	$ —	$ 37,389	$ 15,744
RCM Services Division	207	41,036	839	1,937
QSI Dental Division	3,919	—	2,501	742
Hospital Solutions Division	4,789	—	41	856
Consolidated	$ 85,889	$ 41,036	$ 40,770	$ 19,279
Six Months Ended September 30, 2014				
NextGen Division	$ 73,729	$ —	$ 34,229	$ 21,931
RCM Services Division	278	34,125	380	1,307
QSI Dental Division	4,043	—	2,546	763
Hospital Solutions Division	4,890	—	70	1,643
Consolidated	$ 82,940	$ 34,125	$ 37,225	$ 25,644

Support and maintenance revenue at the NextGen Division for the six months ended September 30, 2015 increased by 4.4% to $77.0 million from $73.7 million for the same prior year period primarily due to additional revenues from both new and existing customers. NextGen Division EDI and data services revenue grew 9.2% to $37.4 million compared to $34.2 million in the same prior year period. The growth in NextGen EDI revenue has come from new customers and from further penetration of the division's existing customer base. Professional services revenue for the NextGen Division, which consists primarily of implementation and training and consulting services, decreased 28.2% to $15.7 million in the six months ended September 30, 2015 from $21.9 million in the same prior year period as a result of the recent decline in related system sales.

For the six months ended September 30, 2015, RCM and related services revenue increased to $41.0 million compared to $34.1 million in the same prior year period. The growth in RCM revenue is primarily attributable to organic growth achieved through cross selling RCM services to existing NextGen Division customers as well as the addition of new customers.

QSI Dental Division support and maintenance revenue for the six months ended September 30, 2015 decreased by $0.1 million as compared to the same prior year period. EDI and data services revenue and professional services revenue at the QSI Dental Division remained consistent for the six months ended September 30, 2015 compared to the same prior year period.

For the Hospital Solutions Division, support and maintenance revenue for the six months ended September 30, 2015 decreased by $0.1 million, or 2.1%, as compared to the same prior year period. Professional services revenue decreased by $0.8 million, or 47.9%, as compared to the same prior year period due to lower demand for system sales and related implementation, training, and consulting services.

Cost of Revenue. Cost of revenue for the six months ended September 30, 2015 decreased by 0.3% to $112.6 million from $113.0 million in the same prior year period and the cost of revenue as a percentage of revenue decreased to 45.5% from 47.4%. The decrease in cost of revenue as a percentage of revenue reflects a $2.2 million, or 30.7%, decrease in amortization of capitalized software costs as compared to the same prior year period due to certain legacy software products becoming fully amortized.

The following table details revenue and cost of revenue on a consolidated and divisional basis for the six months ended September 30, 2015 and 2014 (in thousands):

	Six Months Ended September 30,			
	2015	%	2014	%
NextGen Division				
Revenue	$ 186,590	100.0%	$ 184,861	100.0%
Cost of revenue	66,369	35.6%	64,782	35.0%
Gross profit	$ 120,221	64.4%	$ 120,079	65.0%
RCM Services Division				
Revenue	$ 44,993	100.0%	$ 36,312	100.0%
Cost of revenue	30,525	67.8%	26,876	74.0%
Gross profit	$ 14,468	32.2%	$ 9,436	26.0%
QSI Dental Division				
Revenue	$ 9,100	100.0%	$ 8,899	100.0%
Cost of revenue	4,732	52.0%	4,703	52.8%
Gross profit	$ 4,368	48.0%	$ 4,196	47.2%
Hospital Solutions Division				
Revenue	$ 6,850	100.0%	$ 8,341	100.0%
Cost of revenue	4,213	61.5%	7,769	93.1%
Gross profit	$ 2,637	38.5%	$ 572	6.9%
Unallocated cost of revenue	$ 6,736	N/A	$ 8,833	N/A
Consolidated				
Revenue	$ 247,533	100.0%	$ 238,413	100.0%
Cost of revenue	112,575	45.5%	112,963	47.4%
Gross profit	$ 134,958	54.5%	$ 125,450	52.6%

Gross profit margin for the NextGen Division decreased to 64.4% for the six months ended September 30, 2015 compared to 65.0% for the same prior year period primarily due to a decrease in high-margin software license sales. Gross profit margin for the RCM Services Division increased to 32.2% as compared to 26.0% for the same prior year period primarily due to higher cash collections from customers for which revenues are recognized on a cash collection basis and the related costs of revenue have been previously incurred. The gross profit margin for the Hospital Solutions Division of 38.5% for the six months ended September 30, 2015 benefited from a significant decline in cost of revenue due mostly to lower payroll and related benefits costs, in connection with reductions in headcount.

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 six months ended September 30, 2015 and 2014:

	Software License and Hardware	Software Related Subscription Services	Support and Maintenance	RCM and Related Services	EDI and Data Services	Profess-ional Services	Total Cost of Revenue	Gross Profit
Six Months Ended September 30, 2015								
NextGen Division	3.4%	6.0%	6.4%	0.0%	12.1%	7.7%	35.6%	64.4%
RCM Services Division	0.0%	0.0%	0.1%	64.9%	1.5%	1.3%	67.8%	32.2%
QSI Dental Division	4.3%	2.1%	14.6%	0.0%	18.2%	12.8%	52.0%	48.0%
Hospital Solutions Division	2.6%	7.9%	45.2%	0.0%	0.2%	5.6%	61.5%	38.5%
Consolidated	5.5%	4.8%	6.6%	11.8%	10.0%	6.8%	45.5%	54.5%
Six Months Ended September 30, 2014								
NextGen Division	3.1%	4.8%	4.7%	0.0%	11.9%	10.5%	35.0%	65.0%
RCM Services Division	0.0%	0.0%	0.2%	71.3%	0.9%	1.6%	74.0%	26.0%
QSI Dental Division	5.4%	2.8%	15.0%	0.0%	17.5%	12.1%	52.8%	47.2%
Hospital Solutions Division	0.3%	8.1%	42.7%	0.0%	0.5%	41.5%	93.1%	6.9%
Consolidated	6.3%	4.1%	5.7%	10.9%	10.1%	10.3%	47.4%	52.6%

During the six months ended September 30, 2015, cost of software license and hardware decreased to 5.5% of revenue compared to 6.3% for the same prior year period, which is mainly the result of the full amortization of certain legacy software products, leading to a decrease in related amortization of capitalized software costs. The decline in cost of software license and hardware was offset by a increases in cost of software related subscription services and support and maintenance, which increased to 4.8% and 6.6%, respectively, for the six months ended September 30, 2015 as compared to 4.1% and 5.7%, respectively, for the same prior year period, attributable to headcount growth and higher related payroll and benefits expense associated with delivering our products and services at the NextGen Division.

Cost of RCM and related services as a percentage of total revenue increased to 11.8% for the six months ended September 30, 2015 compared to 10.9% during the same period a year ago due to higher outsourced labor costs required to meet the growth in demand for RCM and related services. Costs of EDI and data services remained consistent relative to the same period a year ago.

For the Hospital Solutions Division, gross profit as a percentage of total revenue increased significantly to 38.5% for the six months ended September 30, 2015 from 6.9% for the same prior year period primarily attributed to a significant decline in cost of professional services, which decreased to 5.6% of revenue during the six months ended September 30, 2015 compared to 41.5% for the same period a year ago, due to lower headcount and improved cost and utilization management. The NextGen Division also experienced a decline in cost of professional services to 7.7% of revenue during the six months ended September 30, 2015 compared to 10.5% for the same period a year ago also due to lower headcount and improved cost and utilization management. The absolute level of professional services costs decreased by $7.8 million, of which $4.9 million of the decrease is related to the NextGen Division and $3.1 million relates to the Hospital Solutions Division.

As a result of the foregoing events and activities, our gross profit percentage increased to 54.5% for the six months ended September 30, 2015 versus 52.6% for the same prior year period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the six months ended September 30, 2015 increased 1.5% to $76.6 million as compared to $75.4 million for the prior year period. The increase in selling, general and administrative expenses consists primarily of:

- $1.9 million increase in bad debt expense because the prior year period included a net bad debt benefit (i.e., a credit) to earnings, related to aggressive working capital management in that period;
- $1.5 million increase in legal expense related mostly to shareholder litigation defense; and
- $0.7 million increase in salaries and benefits due to higher headcount; partially offset by
- $0.8 million decrease in consulting and outside services costs;
- $0.5 million decrease in acquisition costs related mostly to post-acquisition fair value adjustments of Mirth share-based contingent consideration liabilities;
- $0.5 million decrease in facilities costs as the prior year period included non-recurring lease termination fees;
- $0.3 million decrease in software license and related maintenance expense;
- $0.3 million decrease in equipment and depreciation expense; and
- $0.5 million net decrease in other selling and administrative expenses.

Share-based compensation expense was approximately $1.2 million and $1.3 million for the six months ended September 30, 2015 and 2014, respectively, and is included in the aforementioned amounts. Selling, general and administrative expenses as a percentage of revenue decreased from 31.6% in the six months ended September 30, 2014 to 30.9% in the six months ended September 30, 2015.

Research and Development Costs. Research and development costs for the six months ended September 30, 2015 and 2014 were $35.1 million and $33.1 million, respectively. Research and development costs as a percentage of revenue increased to 14.2% in the six months ended September 30, 2015 from 13.9% for the prior year period. The increase in research and development expenses is primarily due to the continued investment in enhancements to our specialty template development, preparation for ICD-10 requirements, new product development and other enhancements to our existing products.

The capitalization of software development costs results in a reduction to reported research and development costs. For the six months ended September 30, 2015 and 2014, our additions to capitalized software were $6.7 million and $6.4 million, respectively. For the six months ended September 30, 2015 and 2014, total gross research and development expenditures including both amounts expensed and capitalized was $41.8 million and $39.5 million, respectively. The $2.3 million increase in gross research and development expenditures is the result of higher personnel costs associated with growth in headcount, offset by lower consulting costs.

Amortization of Acquired Intangible Assets. Amortization included in operating expenses related to acquired intangible assets decreased to $1.8 million for the six months ended September 30, 2015 from $1.9 million in the same prior year period.

Provision for Income Taxes. The provision for income taxes for the six months ended September 30, 2015 and 2014 was $7.1 million and $5.2 million, respectively. The effective tax rate was 32.6% and 34.4% for the six months ended September 30, 2015 and 2014, respectively. The effective rate for the six months ended September 30, 2015 decreased as compared to the same prior year period primarily due to a favorable impact of the qualifying production activity deduction in the six months ended September 30, 2015, offset by discrete adjustments included in the current period related to federal and state research and development credits impacting the prior year.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for the six months ended September 30, 2015 and 2014 (in thousands):

	Six Months Ended September 30,	
	2015	2014
Cash and cash equivalents and marketable securities	$ 110,777	$ 123,516
Net increase (decrease) in cash and cash equivalents and marketable securities	$ (19,808)	$ 9,715
Net income	$ 14,677	$ 9,913
Net cash provided by operating activities	$ 13,886	$ 42,741
Number of days of sales outstanding (1)	72	81

(1) Days sales outstanding is equal to accounts receivable divided by average daily revenue.

Cash Flows from Operating Activities

The following table summarizes our consolidated statements of cash flows for the six months ended September 30, 2015 and 2014 (in thousands):

	Six Months Ended September 30,	
	2015	2014
Net income	$ 14,677	$ 9,913
Non-cash expenses	16,990	17,002
Cash from net income (as adjusted)	31,667	26,915
Change in accounts receivable	8,313	8,762
Change in other assets and liabilities	(26,094)	7,064
Net cash provided by operating activities	$ 13,886	$ 42,741

For the six months ended September 30, 2015, cash provided by operating activities declined by $28.9 million to $13.9 million from $42.7 million for the same prior year period, which was caused by a $33.2 million decline attributed to changes in other assets and liabilities, partially offset by an increase of $4.8 million in cash flows due to higher net income in the current year. The reduction to cash flows due to changes in other assets and liabilities for the six months ended September 30, 2015 is mostly attributed to payments of accrued bonuses related to the fiscal 2015 incentive compensation plans, payments of income taxes during the period, a decline in professional services deferred revenue due to the softening demand for related system sales, as previously noted, and a decline in support and maintenance deferred revenue due to the timing of invoicing as compared to the rendering of such services. Although net cash provided by operating activities for the six months ended September 30, 2015 declined as compared to the same prior year period, cash provided by operating activities has historically been, and is expected to continue to be, our primary source of cash, driven by our net income and working capital management.

A key component of working capital management involves the collection of accounts receivable. Changes in accounts receivable provided $8.3 million and $8.8 million in net cash from operating activities for the six months ended September 30, 2015 and 2014, respectively. Further, the effectiveness of working capital management can be measured by days sales outstanding ("DSO") of accounts receivable. DSO decreased to 72 days during the six months ended September 30, 2015, as compared to 81 days during the same prior year period, reflecting continued improvement of our accounts receivable management.

Cash Flows from Investing Activities

Net cash used in investing activities for the six months ended September 30, 2015 and 2014 was approximately $13.3 million and $8.8 million, respectively. The $4.5 million increase in net cash used in investing activities is primarily due to a $0.3 million increase in additions to capitalized software costs, $1.5 million increase in cash used for additions to equipment and improvements, and $2.6 million decrease in proceeds from sales and maturities of marketable securities.

Cash Flows from Financing Activities

Net cash used in financing activities for the six months ended September 30, 2015 and 2014 was $20.9 million and $22.1 million, respectively. During the six months ended September 30, 2015, we paid $21.4 million in dividends to shareholders, the impact of which was offset by proceeds of $0.5 million from the issuance of shares under employee plans. In comparison, during the same prior year period, we also paid $21.4 million in dividends to shareholders and $0.7 million in contingent consideration related to prior acquisitions.

Cash and Cash Equivalents and Marketable Securities

At September 30, 2015, our combined cash and cash equivalents and marketable securities balance of $110.8 million reflects a decrease of $19.8 million from the comparable balance as of March 31, 2015. This decrease principally reflects cash payments made in the current fiscal year related to fiscal 2015 incentive compensation plans and income taxes owing from such year.

We may use a portion of our funds in connection with future acquisitions, although the specific timing and amount of funds to be used is not currently determinable. 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. Such expenditures will be funded from cash on hand and cash flows from operations.

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, certificates of deposit and short term municipal bonds with average maturities of 365 days or less at the time of purchase. Our Board of Directors continues to review alternate uses for our cash including an expansion of our investment policy and other items. Additionally, we may determine to 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.

Management believes that its cash, cash equivalents and marketable securities on hand at September 30, 2015, together with its cash flows from operations, 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 next twelve months.

Contractual Obligations

The following table summarizes our significant contractual obligations at September 30, 2015 and the effect that such obligations are expected to have on our liquidity and cash in future periods (in thousands):

		For the year ended March 31,					
Contractual Obligations	Total	2016 (remaining six months)	2017	2018	2019	2020	2021 and beyond
Operating lease obligations	$ 61,948	$ 3,582	$ 8,124	$ 8,444	$ 7,516	$ 6,540	$ 27,742
Contingent consideration and other acquisition related liabilities (excluding share-based payments)	$ 900	200	$ 700	$ —	—	—	—
Total	$ 62,848	$ 3,782	$ 8,824	$ 8,444	$ 7,516	$ 6,540	$ 27,742

The deferred compensation liability as of September 30, 2015 was $6.3 million, which is not included in the table above as the timing of future benefit payments to employees is not determinable.

The uncertain tax position liability as of September 30, 2015 was $3.8 million, which is not included in the table above as the timing of expected payments is not determinable.

Recent Accounting Pronouncements

Refer to Note 1, “Summary of Significant Accounting Policies,” of our notes to consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a discussion of new accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There is little to no market risk as we currently maintain our cash in very liquid short term assets including tax exempt and taxable money market funds, certificates of deposits and short term municipal bonds with average maturities of 365 days or less at the time of purchase.

Although we have international operations, the impact of foreign currency fluctuations has not been material to our financial position or operating results.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Interim Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934, as amended, the "Exchange Act") as of September 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q (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 Interim Chief Financial Officer have concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC. They have also concluded that the our 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 our management, including the Chief Executive Officer and Interim Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2015, 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Hussein Litigation

On October 7, 2013, a complaint was filed against our Company and certain of our officers and directors in the Superior Court of the State of California for the County of Orange, captioned Ahmed D. Hussein v. Sheldon Razin, Steven Plochocki, Quality Systems, Inc. and Does 1-10, inclusive, No. 30-2013-00679600-CU-NP-CJC, by Ahmed Hussein, a former director and significant shareholder of our Company. We filed a demurrer to the complaint, which the court granted on April 10, 2014. An amended complaint was filed on April 25, 2014. The amended complaint generally alleges fraud and deceit, constructive fraud, negligent misrepresentation and breach of fiduciary duty in connection with statements made to our shareholders regarding our financial condition and projected future performance. The amended complaint seeks actual damages, exemplary and punitive damages and costs. We filed a demurrer to the amended complaint. On July 29, 2014, the court sustained the demurrer with respect to the breach of fiduciary duty claim, and overruled the demurrer with respect to the fraud and deceit claims. On August 28, 2014, we filed an answer and cross-complaint. On June 26, 2015, we filed a motion for summary judgment, which the court granted on September 16, 2015, dismissing all claims against us. On September 23, 2015, plaintiff filed an application for reconsideration of the Court's summary judgment order. The hearing on the application for reconsideration is set for October 29, 2015. We believe that the plaintiff's claims are without merit and continue to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Federal Securities Class Action

On November 19, 2013, a putative class action complaint was filed on behalf of the shareholders of our Company other than the defendants against us and certain of our officers and directors in the United States District Court for the Central District of California by one of our shareholders. After the court appointed lead plaintiffs and lead counsel for this action, and recaptioned the action In re Quality Systems, Inc. Securities Litigation, No. 8L13-cv-01818-CJC(JPRx), lead plaintiffs filed an amended complaint on April 7, 2014. The amended complaint, which is substantially similar to the litigation described above under the caption "Hussein Litigation," generally alleges that statements made to our shareholders regarding our financial condition and projected future performance were false and misleading in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the individual defendants are liable for such statements because they are controlling persons under Section 20(a) of the Exchange Act. The complaint seeks compensatory damages, court costs and attorneys' fees. We filed a motion to dismiss the amended complaint on June 20, 2014, which the court granted on October 20, 2014, dismissing the complaint with prejudice. Plaintiffs filed a motion for reconsideration of the Court's order, which the court denied on January 5, 2015. On January 30, 2015, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit, captioned In re Quality Systems, Inc. Securities Litigation, No. 15-55173. Plaintiffs filed their opening brief and we answered. Oral argument is not yet scheduled. We believe that the plaintiffs' claims are without merit and continue to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Shareholder Derivative Litigation

On January 24, 2014, a complaint was filed against our Company and certain of our officers and current and former directors in the United States District Court for the Central District of California, captioned Timothy J. Foss, derivatively on behalf of himself and all others similarly situated, vs. Craig A. Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenzweig and Quality Systems, Inc., No. SACV14-00110-DOC-JPPx, by Timothy J. Foss, a shareholder of ours. The complaint arises from the same allegations described above under the captions "Hussein Litigation" and "Federal Securities Class Action" and generally alleges breach of fiduciary duties, abuse of control and gross mismanagement by our directors, in addition to unjust enrichment and insider selling by individual directors. The complaint seeks compensatory damages, restitution and disgorgement of all profits, court costs, attorneys' fees and implementation of enhanced corporate governance procedures. The parties have agreed to stay this litigation until the United States Court of Appeals for the Ninth Circuit issues a ruling on the pending appeal described above under the caption "Federal Securities Class Action". We believe that the plaintiff's claims are without merit and intend to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

In addition to the above, we have experienced legal claims by customers regarding product and contract disputes and from time to time, claims by other third parties asserting that we have infringed their intellectual property rights. We believe that these claims, including those filed by Mr. Hussein, the Deerfield Beach Police Pension Fund and the shareholder derivative action, are without merit and intend to defend against them vigorously; however, we could incur substantial costs and diversion of management resources even if we are ultimately successful in the defense of such claims. 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.

ITEM 1A. RISK FACTORS.

Our business is subject to many risks and uncertainties, which may materially and adversely affect our future business, prospects, financial condition and results of operations. These risk factors are disclosed in “Item 1A. Risk Factors” in our Annual Report and the risk factor set forth below, which supplements the risk factors previously disclosed.

We are outsourcing our internal audit function, which involves a number of risks that may adversely affect our business and results of operations. We are currently transitioning our internal audit function to a third-party provider. Although we believe that outsourcing this function will ultimately result in lower costs and increased efficiencies, this may not be the case immediately or ever. The transition process to an outsourced internal audit function is complex and time-consuming, which may result in a diversion of management’s time and attention away from business operations. This diversion could have an adverse effect on our business, results of operations and financial condition. In addition, outsourcing our internal audit function means we will be relying upon a third party to meet our needs. Because this third party may not be as responsive to our needs as we would be ourselves, we may increase the risk of disruption to our operations. If our third-party provider terminates its agreement with us and we are unable to replace it with another service provider, our operations may be interrupted. Even a temporary disruption in services could result in significant risk of noncompliance with our duties as a public company, which could have an adverse effect on our business. Moreover, there can be no assurance that a replacement service provider will provide its services at the same or a lower cost than the service provider it replaces. Our business and results of operations may be adversely affected if we experience operating problems and/or cost overruns during the outsourcing transition process or if our outsourced internal audit function does not function as expected or give rise to the expected benefits.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Exhibit Description	Filed Herewith
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.	X
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.	X
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.	X
101.INS*	XBRL Instance	
101.SCH*	XBRL Taxonomy Extension Schema	
101.CAL*	XBRL Taxonomy Extension Calculation	
101.DEF*	XBRL Taxonomy Extension Definition	
101.LAB*	XBRL Taxonomy Extension Label	
101.PRE*	XBRL Taxonomy Extension Presentation	

* 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.

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:	October 22, 2015	By:	/s/ John R. Frantz
			John R. Frantz
			Chief Executive Officer (Principal Executive Officer)
Date:	October 22, 2015	By:	/s/ John K. Stumpf
			John K. Stumpf
			Interim Chief Financial Officer (Principal Accounting Officer)

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, John R. Frantz, 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: October 22, 2015

By: /s/ John R. Frantz
John R. Frantz
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, John K. Stumpf, 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: October 22, 2015

By: /s/ John K. Stumpf
John K. Stumpf
Interim 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 September 30, 2015 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Interim 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.

Date: October 22, 2015	By: /s/ John R. Frantz
	John R. Frantz
	Chief Executive Officer (Principal Executive Officer)
Date: October 22, 2015	By: /s/ John K. Stumpf
	John K. Stumpf
	Interim 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.