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**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, 2011

or

**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

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

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

Non-accelerated filer

Small reporting company

*(Do not check if a smaller reporting company)*

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

The number of outstanding shares of the Registrant's common stock as of November 1, 2011 was 58,819,360 shares.

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QUALITY SYSTEMS, INC.  
TABLE OF CONTENTS  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

Item	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<a href="#">Item 1. Financial Statements (Unaudited)</a>	
<a href="#">Consolidated Balance Sheets as of September 30, 2011 and March 31, 2011</a>	3
<a href="#">Consolidated Statements of Income for the three and six months ended September 30, 2011 and 2010</a>	4
<a href="#">Consolidated Statements of Cash Flows for the six months ended September 30, 2011 and 2010</a>	5
<a href="#">Notes to Consolidated Financial Statements</a>	7
<a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	22
<a href="#">Item 3. Quantitative and Qualitative Disclosures about Market Risks</a>	42
<a href="#">Item 4. Controls and Procedures</a>	42
<b><u>PART II. OTHER INFORMATION</u></b>	
<a href="#">Item 1. Legal Proceedings</a>	43
<a href="#">Item 1A. Risk Factors</a>	43
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	43
<a href="#">Item 3. Defaults Upon Senior Securities</a>	43
<a href="#">Item 4. (Removed and Reserved)</a>	43
<a href="#">Item 5. Other Information</a>	43
<a href="#">Item 6. Exhibits</a>	44
<a href="#">Signatures</a>	45
<a href="#">EX-10.1</a>	
<a href="#">EX-31.1</a>	
<a href="#">EX-31.2</a>	
<a href="#">EX-32.1</a>	
<a href="#">EX-101 INSTANCE DOCUMENT</a>	
<a href="#">EX-101 SCHEMA DOCUMENT</a>	
<a href="#">EX-101 CALCULATION LINKBASE DOCUMENT</a>	
<a href="#">EX-101 LABELS LINKBASE DOCUMENT</a>	
<a href="#">EX-101 PRESENTATION LINKBASE DOCUMENT</a>	
<a href="#">EX-101 DEFINITION LINKBASE DOCUMENT</a>	

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2011	March 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 125,775	\$ 116,617
Restricted cash	2,848	3,787
Marketable securities	1,098	1,120
Accounts receivable, net	150,224	139,772
Inventories	2,791	1,933
Income taxes receivable	3,230	—
Deferred income taxes, net	10,466	10,397
Other current assets	<u>9,814</u>	<u>8,768</u>
Total current assets	306,246	282,394
Equipment and improvements, net	14,853	12,599
Capitalized software costs, net	17,395	15,150
Intangibles, net	22,541	16,890
Goodwill	51,156	46,721
Other assets	<u>4,535</u>	<u>4,932</u>
Total assets	<u>\$ 416,726</u>	<u>\$ 378,686</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,369	\$ 6,686
Deferred revenue	83,291	76,695
Accrued compensation and related benefits	9,793	10,247
Income taxes payable	—	3,530
Dividends payable	10,290	10,162
Other current liabilities	<u>18,178</u>	<u>29,316</u>
Total current liabilities	127,921	136,636
Deferred revenue, net of current	1,272	1,099
Deferred income taxes, net	11,384	11,384
Deferred compensation	2,756	2,488
Other noncurrent liabilities	<u>4,334</u>	<u>2,409</u>
Total liabilities	147,667	154,016
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock \$0.01 par value; authorized 100,000 shares; issued and outstanding 58,818 and 58,068 shares at September 30, 2011 and March 31, 2011, respectively	588	580
Additional paid-in capital	158,394	132,969
Retained earnings	<u>110,077</u>	<u>91,121</u>
Total shareholders' equity	<u>269,059</u>	<u>224,670</u>
Total liabilities and shareholders' equity	<u>\$ 416,726</u>	<u>\$ 378,686</u>

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

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

	Three Months Ended September 30, 2011	2010	Six Months Ended September 30, 2011	2010
<b>Revenues:</b>				
Software, hardware and supplies	\$ 31,860	\$ 20,375	\$ 60,771	\$ 45,131
Implementation and training services	6,094	4,499	11,566	8,807
System sales	37,954	24,874	72,337	53,938
Maintenance	35,214	27,529	66,716	53,065
Electronic data interchange services	11,985	10,142	24,077	19,906
Revenue cycle management and related services	11,142	11,175	23,023	21,947
Other services	11,339	7,737	21,923	15,528
Maintenance, EDI, RCM and other services	69,680	56,583	135,739	110,446
Total revenues	<u>107,634</u>	<u>81,457</u>	<u>208,076</u>	<u>164,384</u>
<b>Cost of revenue:</b>				
Software, hardware and supplies	4,187	4,696	8,801	10,908
Implementation and training services	5,050	3,475	9,125	6,465
Total cost of system sales	9,237	8,171	17,926	17,373
Maintenance	3,994	3,238	7,848	6,692
Electronic data interchange services	7,964	6,773	15,926	13,482
Revenue cycle management and related services	8,456	8,222	17,282	16,367
Other services	6,369	3,724	11,966	8,073
Total cost of maintenance, EDI, RCM and other services	26,783	21,957	53,022	44,614
Total cost of revenue	<u>36,020</u>	<u>30,128</u>	<u>70,948</u>	<u>61,987</u>
Gross profit	71,614	51,329	137,128	102,397
<b>Operating expenses:</b>				
Selling, general and administrative	32,169	24,829	61,555	51,067
Research and development costs	7,358	5,232	14,185	10,688
Amortization of acquired intangible assets	520	445	1,002	792
Total operating expenses	<u>40,047</u>	<u>30,506</u>	<u>76,742</u>	<u>62,547</u>
Income from operations	31,567	20,823	60,386	39,850
Interest income	75	129	157	189
Other income (expense), net	(144)	65	(182)	59
Income before provision for income taxes	31,498	21,017	60,361	40,098
Provision for income taxes	11,002	7,587	20,882	14,576
Net income	<u>\$ 20,496</u>	<u>\$ 13,430</u>	<u>\$ 39,479</u>	<u>\$ 25,522</u>
<b>Net income per share:</b>				
Basic	\$ 0.35	\$ 0.23	\$ 0.67	\$ 0.44
Diluted	\$ 0.35	\$ 0.23	\$ 0.67	\$ 0.44
<b>Weighted-average shares outstanding:</b>				
Basic	58,664	57,870	58,511	57,830
Diluted	59,005	58,156	58,902	58,132
Dividends declared per common share	\$ 0.175	\$ 0.150	\$ 0.350	\$ 0.300

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

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

	<u>Six Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 39,479	\$ 25,522
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	2,546	1,970
Amortization of capitalized software costs	3,888	3,453
Amortization of other intangibles	1,979	1,595
Provision for bad debts	2,859	1,986
Share-based compensation	1,661	1,864
Deferred income tax benefit	—	(397)
Tax benefit associated with stock options	2,261	319
Excess tax benefit from share-based compensation	(2,261)	(319)
Loss on disposal of equipment and improvements	23	—
<b>Changes in assets and liabilities, net of amounts acquired:</b>		
Accounts receivable	(12,437)	(7,034)
Inventories	(858)	(143)
Income taxes receivable	(3,230)	2,776
Other current assets	122	281
Other assets	397	(847)
Accounts payable	(347)	2,630
Deferred revenue	6,155	1,951
Accrued compensation and related benefits	(454)	(1,963)
Income taxes payable	(3,530)	—
Other current liabilities	(3,336)	2,806
Deferred compensation	268	295
Other noncurrent liabilities	1,925	(35)
Net cash provided by operating activities	<u>37,110</u>	<u>36,710</u>
<b>Cash flows from investing activities:</b>		
Additions to capitalized software costs	(6,133)	(5,706)
Additions to equipment and improvements	(4,672)	(2,266)
Proceeds from sale of marketable securities	—	7,700
Cash acquired from purchase of CQI	222	—
Purchase of CQI	(2,737)	—
Purchase of IntraNexus	(3,279)	—
Net cash used in investing activities	<u>(16,599)</u>	<u>(272)</u>
<b>Cash flows from financing activities:</b>		
Excess tax benefit from share-based compensation	2,261	319
Proceeds from exercise of stock options	6,781	2,821
Dividends paid	(20,395)	(17,337)
Net cash used in financing activities	<u>(11,353)</u>	<u>(14,197)</u>
Net increase in cash and cash equivalents	9,158	22,241
Cash and cash equivalents at beginning of period	<u>116,617</u>	<u>84,611</u>
Cash and cash equivalents at end of period	<u>\$ 125,775</u>	<u>\$ 106,852</u>

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

	<u>Six Months Ended September 30,</u> <u>2011</u>	<u>2010</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for income taxes, net of refunds	<u>\$ 25,380</u>	<u>11,882</u>
<b>Non-cash investing and financing activities:</b>		
Unrealized loss on marketable securities, net of tax	<u>\$ (22)</u>	<u>\$ —</u>
Common stock issued at fair value for Opus earnout settlement	<u>\$ 11,888</u>	<u>\$ —</u>
Effective July 26, 2011, the Company acquired CQI in a transaction summarized as follows:		
Fair value of net assets acquired	\$ 9,086	
Cash paid	(2,737)	
Common stock issued at fair value	(2,864)	
Purchase price holdback	(600)	
Fair value of contingent consideration	(2,346)	
Liabilities assumed	<u>\$ 539</u>	
Effective April 29, 2011, the Company acquired IntraNexus in a transaction summarized as follows:		
Fair value of net assets acquired	\$ 4,524	
Cash paid	(3,279)	
Purchase price holdback	(125)	
Fair value of contingent consideration	(800)	
Liabilities assumed	<u>\$ 320</u>	

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

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

**1. Summary of Significant Accounting Policies**

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

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

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

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

On July 27, 2011, the Company’s Board of Directors approved a two-for-one stock split (the “stock split”) of the Company’s outstanding shares of common stock. Shareholders of record at the close of business on October 6, 2011 received one additional share for every outstanding share held on the record date. The additional shares were distributed on October 26, 2011. All share and per share data provided herein gives effect to this stock split, applied retroactively.

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

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

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

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

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



## Table of Contents

been recognized if the fees were being recognized using the residual method. Fees which are considered fixed or determinable at the inception of the Company's arrangements must include the following characteristics:

- § The fee must be negotiated at the outset of an arrangement and generally be based on the specific volume of products to be delivered without being subject to change based on variable pricing mechanisms such as the number of units copied or distributed or the expected number of users.
- § Payment terms must not be considered extended. If a significant portion of the fee is due more than 12 months after delivery or after the expiration of the license, the fee is presumed not fixed or determinable.

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

The Company ensures that the following criteria have been met prior to recognition of revenue:

- § the price is fixed or determinable;
- § the customer is obligated to pay and there are no contingencies surrounding the obligation or the payment;
- § the customer's obligation would not change in the event of theft or damage to the product;
- § the customer has economic substance;
- § the amount of returns can be reasonably estimated; and
- § the Company does not have significant obligations for future performance in order to bring about resale of the product by the customer.

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

Revenue related to sales arrangements that include hosting or the right to use software stored on the Company's hardware is recognized in accordance to the same revenue recognition criteria discussed above only if the customer has the contractual right to take possession of the software without incurring a significant penalty and it is feasible for the customer to either host the software themselves or through another third-party. Otherwise, the arrangement is accounted for as a service contract in which the entire arrangement is deferred and recognized during the period that the hosting services are being performed.

From time to time, the Company offers future purchase discounts on its products and services as part of its sales arrangements. Such discounts that are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, that are incremental to the range of discounts typically given in comparable transactions, and that are significant, are treated as an additional element of the contract to be deferred. Amounts deferred related to future purchase options are not recognized until either the customer exercises the discount offer or the offer expires.

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

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

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

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

An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. As of September 30, 2011, the Company has not identified any events or circumstances that would require an interim goodwill impairment test. See Note 4.

## [Table of Contents](#)

**Share-Based Compensation.** The following table shows total share-based compensation expense included in the consolidated statements of income for three and six months ended September 30, 2011 and 2010:

	<u>Three Months Ended September 30,</u>		<u>Six Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Costs and expenses:				
Cost of revenue	\$ 70	\$ 69	\$ 119	\$ 137
Research and development costs	44	44	77	72
Selling, general and administrative	591	686	1,465	1,655
Total share-based compensation	705	799	1,661	1,864
Amounts capitalized in software development costs	—	(1)	—	(2)
Amounts charged against earnings, before income tax benefit	\$ 705	\$ 798	\$ 1,661	\$ 1,862
Related income tax benefit	(260)	(315)	(618)	(663)
Decrease in net income	\$ 445	\$ 483	\$ 1,043	\$ 1,199

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

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

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

In September 2011, the FASB issued new accounting guidance intended to simplify goodwill impairment testing. Companies will be allowed to first perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is optional and effective for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company is evaluating the option of adding a qualitative assessment to its goodwill impairment test.

[Table of Contents](#)**2. Fair Value Measurements**

The following tables sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2011 and March 31, 2011:

	Balance at September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>ASSETS</b>				
Cash and cash equivalents (1)	\$ 125,775	\$ 125,775	\$ —	\$ —
Restricted cash	2,848	2,848	—	—
Marketable securities (2)	1,098	1,098	—	—
	<u>\$ 129,721</u>	<u>\$ 129,721</u>	<u>\$ —</u>	<u>\$ —</u>
<b>LIABILITIES</b>				
Contingent consideration related to acquisitions	\$ 3,771	\$ —	\$ —	\$ 3,771
	<u>\$ 3,771</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,771</u>
	Balance at March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>ASSETS</b>				
Cash and cash equivalents (1)	\$ 116,617	\$ 116,617	\$ —	\$ —
Restricted cash	3,787	3,787	—	—
Marketable securities (2)	1,120	1,120	—	—
	<u>\$ 121,524</u>	<u>\$ 121,524</u>	<u>\$ —</u>	<u>\$ —</u>
<b>LIABILITIES</b>				
Contingent consideration related to acquisitions	\$ 13,658	\$ —	\$ 12,743	\$ 915
	<u>\$ 13,658</u>	<u>\$ —</u>	<u>\$ 12,743</u>	<u>\$ 915</u>

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

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

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

## Table of Contents

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

	Total Liabilities
Balance at April 1, 2011	\$ 915
Acquisition (Note 3)	3,146
Earnout payments	(290)
Fair Value Adjustments	—
Balance at September 30, 2011	<u>\$ 3,771</u>

### ***Non-Recurring Fair Value Measurements***

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

### **3. Business Combinations**

On July 26, 2011, the Company acquired CQI, a provider of hospital systems for surgery management. The CQI purchase price totaled \$8,546, including contingent consideration payable over a two year period with a fair value of \$2,346, which was estimated based on management's forecast of expected revenues, but in no event shall exceed \$3,000.

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

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

The total purchase price for IntraNexus and CQI is summarized as follows:

	<u>IntraNexus</u>	<u>CQI</u>
Cash paid	\$ 3,279	\$ 2,737
Purchase price holdback	125	600
Common stock issued at fair value	—	2,863
Contingent consideration	<u>800</u>	<u>2,346</u>
Total purchase price	<u>\$ 4,204</u>	<u>\$ 8,546</u>

## [Table of Contents](#)

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

	<u>IntraNexus</u>	<u>CQI</u>
Fair value of the net tangible assets acquired and liabilities assumed:		
Cash and cash equivalents	\$ —	\$ 222
Current assets (including accounts receivable of \$464 and \$409 for IntraNexus and CQI, respectively)	691	410
Accounts payable and accrued liabilities	(226)	(19)
Equipment and improvements and other long-term assets	—	221
Deferred revenues	(94)	(520)
<b>Total net tangible assets acquired and liabilities assumed</b>	<b>371</b>	<b>314</b>
Fair value of identifiable intangible assets acquired:		
Customer relationships	1,100	600
Software technology	830	5,100
Goodwill (including assembled workforce of \$120 for IntraNexus)	1,903	2,532
<b>Total identifiable intangible assets acquired</b>	<b>3,833</b>	<b>8,232</b>
<b>Total purchase price</b>	<b>\$ 4,204</b>	<b>\$ 8,546</b>

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

#### 4. Goodwill

The Company does not amortize goodwill as the goodwill has been determined to have an indefinite useful life.

Goodwill consists of the following:

	March 31, 2011	Acquisitions	September 30, 2011
NextGen Division			
NextGen Healthcare Information Systems, Inc.	\$ 1,840	\$ —	\$ 1,840
<b>Total NextGen Division goodwill</b>	<b>1,840</b>	<b>—</b>	<b>1,840</b>
Inpatient Solutions Division			
CQI Solutions, Inc.	—	2,532	2,532
IntraNexus, Inc.	—	1,903	1,903
Opus Healthcare Solutions, Inc.	13,537	—	13,537
NextGen Inpatient Solutions, LLC	1,020	—	1,020
<b>Total Inpatient Solutions Division goodwill</b>	<b>14,557</b>	<b>4,435</b>	<b>18,992</b>
Practice Solutions Division			
Practice Management Partners, Inc.	19,485	—	19,485
Healthcare Strategic Initiatives	10,839	—	10,839
<b>Total Practice Solutions Division goodwill</b>	<b>30,324</b>	<b>—</b>	<b>30,324</b>
<b>Total goodwill</b>	<b>\$ 46,721</b>	<b>\$ 4,435</b>	<b>\$ 51,156</b>

**5. Intangible Assets**

In connection with the CQI acquisition, the Company recorded \$5,700 of intangible assets related to customer relationships and software technology. The Company is amortizing the customer relationships over 5 years and the software technology over 7 years.

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

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

	September 30, 2011			
	Customer Relationships	Trade Name	Software Technology	Total
Gross carrying amount	\$ 11,906	\$ 637	\$ 18,049	\$ 30,592
Accumulated amortization	(4,801)	(509)	(2,741)	(8,051)
<b>Net intangible assets</b>	<b>\$ 7,105</b>	<b>\$ 128</b>	<b>\$ 15,308</b>	<b>\$ 22,541</b>

  

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

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

	September 30, 2011			
	Customer Relationships	Trade Name	Software Technology	Total
Balance as of April 1, 2011	\$ 6,327	\$ 208	\$ 10,355	\$ 16,890
Acquisition	1,700	—	5,930	7,630
Amortization (1)	(922)	(80)	(977)	(1,979)
<b>Balance as of September 30, 2011</b>	<b>\$ 7,105</b>	<b>\$ 128</b>	<b>\$ 15,308</b>	<b>\$ 22,541</b>

  

	September 30, 2010			
	Customer Relationships	Trade Name	Software Technology	Total
Balance as of April 1, 2010	\$ 7,849	\$ 368	\$ 11,928	\$ 20,145
Amortization (1)	(712)	(80)	(803)	(1,595)
<b>Balance as of September 30, 2010</b>	<b>\$ 7,137</b>	<b>\$ 288</b>	<b>\$ 11,125</b>	<b>\$ 18,550</b>

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

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

For the year ended March 31, 2012 (remaining six months)	\$ 2,298
2013	4,460
2014	4,331
2015	3,289
2016 and beyond	8,163
<b>Total</b>	<b>\$ 22,541</b>

[Table of Contents](#)

## 6. Capitalized Software Costs

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

	September 30, 2011	March 31, 2011
Gross carrying amount	\$ 58,256	\$ 52,123
Accumulated amortization	<u>(40,861)</u>	<u>(36,973)</u>
Net capitalized software costs	<u>\$ 17,395</u>	<u>\$ 15,150</u>

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

	2011	2010
Balance as of April 1	\$ 15,150	\$ 11,546
Capitalized	6,133	5,706
Amortization	<u>(3,888)</u>	<u>(3,453)</u>
Balance as of September 30	<u>\$ 17,395</u>	<u>\$ 13,799</u>

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

For the year ended March 31, 2012 (remaining six months)	\$ 4,317
2013	7,313
2014	4,749
2015	<u>1,016</u>
Total	<u>\$ 17,395</u>

## 7. Composition of Certain Financial Statement Captions

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

	September 30, 2011	March 31, 2011
Accounts receivable, excluding undelivered software, maintenance and services	\$ 101,789	\$ 90,487
Undelivered software, maintenance and implementation services billed in advance, included in deferred revenue	56,360	56,002
Accounts receivable, gross	158,149	146,489
Allowance for doubtful accounts	<u>(7,925)</u>	<u>(6,717)</u>
Accounts receivable, net	<u>\$ 150,224</u>	<u>\$ 139,772</u>

Inventories are summarized as follows:

	September 30, 2011	March 31, 2011
Computer systems and components, net	\$ 2,783	\$ 1,925
Miscellaneous parts and supplies	<u>8</u>	<u>8</u>
Inventories	<u>\$ 2,791</u>	<u>\$ 1,933</u>

## Table of Contents

Equipment and improvements are summarized as follows:

	September 30, 2011	March 31, 2011
Computer equipment	\$ 22,611	\$ 23,567
Furniture and fixtures	5,773	5,861
Leasehold improvements	4,152	4,434
	32,536	33,862
Accumulated depreciation and amortization	<u>(17,683)</u>	<u>(21,263)</u>
Equipment and improvements, net	<u>\$ 14,853</u>	<u>\$ 12,599</u>

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

	September 30, 2011	March 31, 2011
Maintenance	\$ 12,665	\$ 11,108
Implementation services	57,334	52,197
Annual license services	10,410	10,127
Undelivered software and other	2,882	3,263
Deferred revenue	<u>\$ 83,291</u>	<u>\$ 76,695</u>
Deferred revenue, net of current	<u>\$ 1,272</u>	<u>\$ 1,099</u>

Accrued compensation and related benefits are summarized as follows:

	September 30, 2011	March 31, 2011
Payroll, bonus and commission	\$ 3,718	\$ 5,014
Vacation	6,075	5,233
Accrued compensation and related benefits	<u>\$ 9,793</u>	<u>\$ 10,247</u>

Other current liabilities are summarized as follows:

	September 30, 2011	March 31, 2011
Care services liabilities	\$ 2,848	\$ 3,787
Contingent consideration related to acquisitions	2,577	13,658
Accrued EDI expense	2,348	2,801
Users Group Meeting (UGM) accrual	1,729	449
Professional services	1,677	155
Accrued travel	961	1,026
Self insurance reserve	690	475
Sales tax payable	682	589
Customer deposits	640	962
Outside commission payable	587	599
Deferred rent	557	437
Accrued royalties	477	1,752
Other accrued expenses	2,405	2,626
Other current liabilities	<u>\$ 18,178</u>	<u>\$ 29,316</u>



## 8. Income Tax

The provision for income taxes for the three months ended September 30, 2011 and 2010 was approximately \$11.0 million and \$7.6 million, respectively. The effective tax rates were 34.9% and 36.1% for the three months ended September 30, 2011 and 2010, respectively. The effective tax rate decreased as compared to the same prior year period primarily due to increased benefits from the qualified activities deduction, research and development credits, which were not included in the provision for the same prior year period but included in the provision for the current year, increased deductions related to incentive stock options that were exercised in the current quarter and fluctuations in the state effective tax rate.

The provision for income taxes for the six months ended September 30, 2011 and 2010 was approximately \$20,882 and \$14,576, respectively. The effective tax rates for the six months ended September 30, 2011 and 2010 were 34.6% and 36.4%, respectively. The provision for income taxes for the six months ended September 30, 2011 differs from the combined statutory rates primarily due to the impact of varying state income tax rates, tax-exempt interest income, and the qualified production activities deduction. The effective rate for the six months ended September 30, 2011 decreased as compared to the same prior year period primarily due to increased benefits from the qualified production activities deduction, research and development credits, which were not included in the provision for the same prior year period but included in the provision in the current year.

### Uncertain tax positions

As of September 30, 2011, the Company has provided a liability of \$484 for unrecognized tax benefits related to various federal and state income tax matters. If recognized, \$484 would impact the Company's effective tax rate. The reserve for the six months ended September 30, 2011 decreased from the same prior year period by \$176 due to the expiration of the statute of limitations of prior year tax positions of acquired companies.

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

## 9. Earnings per Share

The Company provides dual presentation of "basic" and "diluted" earnings per share ("EPS").

	<u>Three Months Ended September 30,</u>		<u>Six Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income	\$ 20,496	\$ 13,430	\$ 39,479	\$ 25,522
Basic net income per share:				
Weighted-average shares outstanding — Basic	<u>58,664</u>	<u>57,870</u>	<u>58,511</u>	<u>57,830</u>
Basic net income per common share	<u>\$ 0.35</u>	<u>\$ 0.23</u>	<u>\$ 0.67</u>	<u>\$ 0.44</u>
Net income	\$ 20,496	\$ 13,430	\$ 39,479	\$ 25,522
Diluted net income per share:				
Weighted-average shares outstanding — Basic	58,664	57,870	58,511	57,830
Effect of potentially dilutive securities	<u>341</u>	<u>286</u>	<u>391</u>	<u>302</u>
Weighted-average shares outstanding — Diluted	<u>59,005</u>	<u>58,156</u>	<u>58,902</u>	<u>58,132</u>
Diluted net income per common share	<u>\$ 0.35</u>	<u>\$ 0.23</u>	<u>\$ 0.67</u>	<u>\$ 0.44</u>

The computation of diluted net income per share does not include 455 and 307 options to acquire shares of common stock for the three and six months ended September 30, 2011, 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 568 and 537 options to acquire shares of common stock for the three and six months ended September 30, 2010, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

## 10. Share-Based Awards

All share and per share data provided within this footnote is adjusted for the effect of the stock split, as discussed in Note 1.

### Employee Stock Option Plans

In September 1998, the Company's shareholders approved a stock option plan (the "1998 Plan") under which 8,000,000 shares of common stock were reserved for the issuance of options. The 1998 Plan provides that employees, directors and consultants of the Company may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted options to purchase shares of common stock. The exercise price of each option granted was determined by the Board of Directors at the date of grant, and options under the 1998 Plan expire no later than ten years from the grant date. Options granted will generally become exercisable in accordance with the terms of the agreement pursuant to which they were granted. Certain option grants to directors became exercisable three months from the date of grant. Upon an acquisition of the Company by merger or asset sale, each outstanding option may be subject to accelerated vesting under certain circumstances. The 1998 Plan terminated on December 31, 2007. As of September 30, 2011, there were 223,714 outstanding options related to this Plan.

In October 2005, the Company's shareholders approved a stock option and incentive plan (the "2005 Plan") under which 4,800,000 shares of common stock were reserved for the issuance of awards, including stock options, incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance shares, performance units (including performance options) and other share-based awards. The 2005 Plan provides that employees, directors and consultants of the Company may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted awards to acquire shares of common stock. The exercise price of each option award shall be determined by the Board of Directors at the date of grant in accordance with the terms of the 2005 Plan, and under the 2005 Plan awards expire no later than ten years from the grant date. Options granted will generally become exercisable in accordance with the terms of the agreement pursuant to which they were granted. Upon an acquisition of the Company by merger or asset sale, each outstanding option may be subject to accelerated vesting under certain circumstances. The 2005 Plan terminates on May 25, 2015, unless terminated earlier by the Board of Directors. As of September 30, 2011, there were 1,126,748 outstanding options and 3,233,660 shares available for future grant related to this Plan.

A summary of stock option transactions during the six months ended September 30, 2011 is as follows:

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, April 1, 2011	1,397,556	\$ 22.20	3.9	
Granted	459,400	43.04	7.7	
Exercised	(364,014)	18.63	1.5	\$ 10,874
Forfeited/Canceled	(142,480)	37.77	7.0	
Outstanding, September 30, 2011	<u>1,350,462</u>	\$ 28.61	5.0	\$ 26,864
Vested and expected to vest, September 30, 2011	<u>1,306,602</u>	\$ 28.52	4.9	\$ 26,107
Exercisable, September 30, 2011	<u>412,636</u>	\$ 18.78	2.2	\$ 12,263

The Company utilizes the Black-Scholes valuation model for estimating the fair value of share-based compensation with the following assumptions:

	Six Months Ended September 30, 2011	Six Months Ended September 30, 2010
Expected life	4.3 years	4.2 years
Expected volatility	41.2%	44.3% - 44.7%
Expected dividends	1.6%	2.1% - 2.2%
Risk-free rate	1.8%	1.6% - 2.1%

The weighted average grant date fair value of stock options granted during the six months ended September 30, 2011 and 2010 was \$13.32 and \$9.11 per share, respectively.

## Table of Contents

The Company issues new shares to satisfy option exercises. Based on historical experience of option cancellations, the Company has estimated an annualized forfeiture rate of 3.8% and 2.4% for employee options for the six months ended September 30, 2011 and 2010, respectively, and 0.0% for director options for the six months ended September 30, 2011 and 2010. Forfeiture rates will be adjusted over the requisite service period when actual forfeitures differ, or are expected to differ, from the estimate.

During the six months ended September 30, 2011, a total of 459,400 options to purchase shares of common stock were granted under the 2005 Plan at an exercise price equal to the market price of the Company's common stock on the date of grant. A summary of stock options granted under the 2005 Plan during fiscal years 2012 and 2011 is as follows:

<u>Option Grant Date</u>	<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Vesting Terms (1)</u>	<u>Expires</u>
May 31, 2011	<u>459,400</u>	\$ 43.04	Five years	May 31, 2019
Fiscal year 2012 option grants	<u>459,400</u>			
November 29, 2010	20,000	\$ 32.16	Five years	November 29, 2018
August 3, 2010	10,000	\$ 27.62	Five years	August 3, 2018
June 4, 2010	50,000	\$ 28.15	Five years	June 4, 2018
June 2, 2010	<u>30,000</u>	\$ 29.31	Five years	June 2, 2018
Fiscal year 2011 option grants	<u>110,000</u>			

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

### **Performance-Based Awards**

On May 25, 2011, the Board of Directors approved its fiscal year 2012 equity incentive program for certain employees to be awarded options to purchase the Company's common stock. The maximum number of options available under the equity incentive program plan is 600,000, of which 300,000 are reserved for the Company's named executive officers and 300,000 for non-executive employees of the Company. Under the program, executives are eligible to receive options based on meeting certain target increases in earnings per share performance and revenue growth during fiscal year 2012. Under the program, the non-executive employees are eligible to receive options based on satisfying certain management established criteria and recommendations of senior management. The options shall be issued pursuant to one of the Company's shareholder approved option plans, have an exercise price equal to the closing price of the Company's shares on the date of grant, a term of eight years and vesting in five equal annual installments commencing one year following the date of grant.

Compensation expense associated with the performance based awards under the Company's equity incentive plans are initially based on the number of options expected to vest after assessing the probability that certain performance criteria will be met. Cumulative adjustments are recorded quarterly to reflect subsequent changes in the estimated outcome of performance-related conditions. The Company utilized the Black-Scholes option valuation model and recorded stock compensation expense related to the performance based awards of approximately \$345 and \$128 during the six months ended September 30, 2011 and 2010, respectively, using the assumptions below.

	<u>Six Months Ended September 30, 2011</u>	<u>Six Months Ended September 30, 2010</u>
Expected life	4.3 years	4.2 years
Expected volatility	41.2% - 42.2%	44.4%
Expected dividends	1.4% - 1.6%	2.1%
Risk-free rate	1.0% - 1.8%	1.8%

## [Table of Contents](#)

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

	Non-Vested Number of Shares	Weighted- Average Grant-Date Fair Value per Share
Outstanding, April 1, 2011	803,036	\$ 8.08
Granted	459,400	13.32
Vested	(182,130)	6.10
Forfeited/Canceled	(142,480)	11.81
Outstanding, September 30, 2011	<u>937,826</u>	\$ 10.47

As of September 30, 2011, \$8,401 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 3.4 years. This amount does not include the cost of new options that may be granted in future periods or any changes in the Company's forfeiture percentage. The total fair value of options vested during the six months ended September 30, 2011 and 2010 was \$1,111 and \$1,508, respectively.

### **Restricted Stock Units**

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

As of September 30, 2011, 56,960 restricted stock units have been awarded under this Plan from inception to date and approximately \$246 and \$220 of compensation expense related to these restricted stock units was recorded during the six months ended September 30, 2011 and 2010, respectively. Restricted stock units activity for the six months ended September 30, 2011 is summarized as follows:

	Number of Shares	Weighted- Average Grant-Date Fair Value per Share
Outstanding, April 1, 2011	22,896	\$ 27.09
Granted	22,668	39.75
Vested	(14,896)	27.19
Outstanding, September 30, 2011	<u>30,668</u>	\$ 36.41

As of September 30, 2011, \$1,023 of total unrecognized compensation costs related to restricted stock units is expected to be recognized over a weighted-average period of 2.2 years. This amount does not include the cost of new restricted stock units that may be granted in future periods.

### **11. Concentration of Credit Risk**

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

## 12. Commitments, Guarantees and Contingencies

### *Commitments and Guarantees*

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

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

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

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

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

### *Litigation*

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

### 13. Operating Segment Information

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

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

Operating segment data is as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenue:</b>				
QSI Dental Division	\$ 4,512	\$ 4,646	\$ 9,607	\$ 9,998
NextGen Division	82,489	60,945	157,114	123,616
Inpatient Solutions Division	8,453	3,813	15,744	6,972
Practice Solutions Division	<u>12,180</u>	<u>12,053</u>	<u>25,611</u>	<u>23,798</u>
Consolidated revenue	<u>\$ 107,634</u>	<u>\$ 81,457</u>	<u>\$ 208,076</u>	<u>\$ 164,384</u>
<b>Operating income:</b>				
QSI Dental Division	\$ 620	\$ 967	\$ 1,898	\$ 2,558
NextGen Division	34,310	22,603	63,635	45,157
Inpatient Solutions Division	2,451	1,342	5,513	1,577
Practice Solutions Division	1,098	1,277	3,139	1,464
Unallocated corporate expense (1)	<u>(6,912)</u>	<u>(5,366)</u>	<u>(13,799)</u>	<u>(10,906)</u>
Consolidated operating income	<u>\$ 31,567</u>	<u>\$ 20,823</u>	<u>\$ 60,386</u>	<u>\$ 39,850</u>

- (1) Unallocated corporate expense includes eliminations relating to QSIH revenues and related expenses included in the results of the operating segments. For the six months ended September 30, 2011 and 2010, eliminations were not significant.

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

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

### 14. Subsequent Events

On October 26, 2011, the Board of Directors approved a quarterly cash dividend of \$0.175 per share on the Company's outstanding shares of common stock, payable to shareholders of record as of December 20, 2011 with an expected distribution date on or about January 5, 2012.

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

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

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

Our MD&A is organized as follows:

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

## Management Overview

Quality Systems, Inc. and its wholly-owned subsidiaries operate as four business divisions and are comprised of: (i) the QSI Dental Division, (ii) the NextGen Division, (iii) the Inpatient Solutions Division and (iv) the Practice Solutions Division. In fiscal, 2011, we opened a captive entity in India named 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”), ambulatory care centers, community health centers and medical and dental schools along with comprehensive systems implementation, maintenance and support and add on complementary services such as revenue cycle management (“RCM”) and electronic data interchange (“EDI”). Our systems and services provide our clients with the ability to redesign patient care and other workflow processes while improving productivity through facilitation of managed access to patient information. Utilizing our proprietary software in combination with third-party hardware and software solutions, our products enable the integration of a variety of administrative and clinical information operations.

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

Our strategy is, at present, to focus on providing software and services to the medical and dental community both in an ambulatory and inpatient setting. The key elements of this strategy are to continue development and enhancement of select software solutions in target markets, to continue to bring further integration between the Company’s ambulatory and inpatient products, to continue investments in our infrastructure including but not limited to product development, sales, marketing, implementation and support, to continue efforts to make infrastructure investments within an overall context of maintaining reasonable expense discipline, to add new clients through maintaining and expanding sales, marketing and product development activities and to expand our relationship with existing clients through delivery of add-on and complementary products and services and continuing our gold-standard commitment of service in support of our client satisfaction programs. We believe that our growing customer base which is using our software on a daily basis constitutes a strategic asset. We intend to expand our product and service offerings towards our customer base in order to leverage this strategic asset.

## Critical Accounting Policies and Estimates

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

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



**Company Overview**

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

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

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

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

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

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

	Segment Revenue Breakdown Six Months Ended September 30,		Segment Revenue Growth Six Months Ended September 30,	
	2011	2010	2011	2010
QSI Dental Division	4.6%	6.1%	(3.9)%	23.3%
NextGen Division	75.5%	75.2%	27.1%	13.7%
Inpatient Solutions Division (1)	7.6%	4.2%	125.8%	N/A
Practice Solutions Division	12.3%	14.5%	7.6%	10.8%
<b>Consolidated</b>	<b>100.0%</b>	<b>100.0%</b>	<b>26.6%</b>	<b>18.8%</b>

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

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

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

The QSI Dental Division participates jointly with the NextGen Division in providing software and services to Federally Qualified Health Centers (“FQHCs”). FQHCs are community based organizations funded by the Federal government, which provide medical and dental services to underprivileged and underserved communities. The Patient Protection and Affordable Care Act, which was signed into law in March 2010,

## [Table of Contents](#)

legislated \$11 billion over a multiyear time period for the FQHCs program, creating unprecedented opportunities for FQHCs growth and the formation of new FQHCs.

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

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

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

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

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

On July 26, 2011, we acquired CQI Solutions, Inc. (“CQI”), a provider of hospital systems for surgery management. On April 29, 2011, we acquired IntraNexus, Inc. (“IntraNexus”), a provider of Web-based integrated clinical and hospital information systems. On February 10, 2010, we acquired Opus Healthcare Solutions, Inc. (“Opus”), a provider of Web-based clinical solutions to hospital systems and integrated health networks nationwide. And on August 12, 2009, we acquired NextGen Inpatient Solutions, LLC (“NextGen IS” f/k/a Sphere), a provider of financial information systems to the small hospital inpatient market. These acquisitions are part of our strategy to expand into the small hospital market and to add new clients by taking advantage of cross-selling opportunities between the ambulatory and inpatient markets. The acquired companies are established developers of software and services for the inpatient market and operate under the Company’s Inpatient Solutions Division.

## Overview of Our Results

- § Consolidated revenue increased 26.6% and income from operations grew by 51.5% in the six months ended September 30, 2011 as compared to the same prior year period. Revenue was positively impacted by growth in system sales as well as maintenance and EDI revenue, which grew 34.1%, 25.7% and 21.0%, respectively.
- § The increase in income from operations was partially offset by: (a) higher selling, general and administrative expenses, which was primarily a result of increased headcount expenses and selling-related expenses at the NextGen Division, (b) increased research and development costs and (c) higher corporate-related expenses.
- § We have benefited and hope to continue to benefit from the increased demands on healthcare providers for greater efficiency and lower costs, financial incentives from the ARRA to physicians who adopt electronic health records, as well as increased adoption rates for electronic health records and other technology in the healthcare arena.
- § While we expect to benefit from the increasing demands for greater efficiency as well as government support for increased adoption of electronic health records, the current economic environment, combined with unpredictability of the federal government's plans to promote increased adoption of electronic medical records, makes the near term achievement of such benefits and, ultimately, their impact on system sales, uncertain.

## NextGen Division

- § NextGen Division revenue increased 27.1% in the six months ended September 30, 2011 and divisional operating income (excluding unallocated corporate expenses) increased 40.9% as compared to the same prior year period.
- § Recurring revenue, which consists primarily of maintenance and EDI revenue, increased 24.5% to \$77.8 million and accounted for 49.5% of total NextGen Division revenue for the six months ended September 30, 2011. In the same period a year ago, recurring revenue of \$62.5 million represented 50.6% of total NextGen Division revenue.
- § During the six months ended September 30, 2011, we added staffing resources and increased our investment in research and development in anticipation of growth from the ARRA. Our goals include taking maximum advantage of benefits related to the ARRA and continuing to further enhance our existing products, including continued efforts to maintain our status as a qualified vendor under the ARRA, integrating our inpatient and ambulatory software products, developing new products for targeted markets, continuing to add new clients, selling additional software and services to existing clients, expanding penetration of connectivity and other services to new and existing clients, and capitalizing on growth and cross selling opportunities within the Practice Solutions Division and the Inpatient Solutions Division.
- § The NextGen Division's growth is attributed to a strong brand name and reputation within a growing marketplace for electronic health records and investments in sales and marketing activities, including new marketing campaigns, trade show attendance and other expanded advertising and marketing expenditures. We have also benefited from winning numerous industry awards for the NextGen Division's flagship NextGen<sup>ehr</sup> and NextGen<sup>pm</sup> software products and more recently in 2010 for its NextGen HIE product. Further, the increasing acceptance of electronic records technology in the healthcare industry continues to provide growth opportunities.

## QSI Dental Division

- § QSI Dental Division revenue decreased 3.9% in the six months ended September 30, 2011 and divisional operating income (excluding unallocated corporate expenses) decreased 25.8% as compared to the same prior year period. The decline is the result of a drop in system sales which is subject to variability from period to period.
- § The QSI Dental Division is well-positioned to sell to the FQHCs market and intends to continue leveraging the NextGen Division's sales force to sell its dental electronic medical records software to practices that provide both medical and dental services, such as FQHCs, which are receiving grants as part of the ARRA.
- § Our goal for the QSI Dental Division is to maximize profit performance given the constraints represented by a relatively weak purchasing environment in the dental group practice market while taking advantage of opportunities with the new NextDDS<sup>TM</sup> product.

## Practice Solutions Division

- § Practice Solutions Division revenue increased 7.6% in the six months ended September 30, 2011. Divisional operating income (excluding unallocated corporate expenses) increased to \$3.1 million in the six months ended September 30, 2011 as compared to \$1.5 for the same prior year period.
- § The Practice Solutions Division benefited from organic growth achieved through cross selling RCM services to existing NextGen Division clients and well as new clients added during the six months ended September 30, 2011. The division also benefited from the cross sale of software and services to its existing customers. Systems sales to existing Practice Solutions customers are credited to the division.
- § Operating income as a percentage of revenue increased to approximately 12.3% of revenue in the six months ended September 30, 2011 versus 6.2% of revenue in the same prior year period primarily as a result of higher RCM revenue as well as systems sales. The same prior year period also included higher expenses related to certain non-recurring integration related expenses related to integrating the two entities that make up the Division, transitioning and training of staff on the NextGen platform, initial set up and other costs related to achieving higher production volume from a new business.

## [Table of Contents](#)

### **Inpatient Solutions Division**

§ Inpatient Solutions Division revenue increased 125.8% in the six months ended September 30, 2011. Divisional operating income (excluding unallocated corporate expenses) increased to \$5.5 million for the six months ended September 30, 2011 as compared to \$1.6 for the same prior year period. This Division consists of four acquisitions, CQI, IntraNexus, Opus and NextGen IS, acquired in July 2011, April 2011, February 2010 and August 2009, respectively.

§ The Inpatient Solutions Division has benefited from being able to offer both financial and CCHIT® certified clinical software, which has been packaged together. The Division has also benefited from cross-sell opportunities with existing NextGen Division customers, including hospitals that are owned or affiliated with physician offices.

§ Operating income as a percentage of revenue increased to approximately 35.0% of revenue in the six months ended September 30, 2011 versus 22.6% of revenue in the same prior year period primarily as a result of a \$8.8 million increase in divisional revenue, including system sales, implementation and training services, and maintenance.

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

(Unaudited)	<u>Three Months Ended September 30,</u>		<u>Six Months Ended September 30,</u>	
	2011	2010	2011	2010
<b>Revenues:</b>				
Software, hardware and supplies	29.6%	25.0%	29.2%	27.5%
Implementation and training services	<u>5.7</u>	<u>5.5</u>	<u>5.6</u>	<u>5.4</u>
System sales	35.3	30.5	34.8	32.8
Maintenance	32.7	33.8	32.1	32.3
Electronic data interchange services	11.1	12.5	11.6	12.1
Revenue cycle management and related services	10.4	13.7	11.1	13.4
Other services	<u>10.5</u>	<u>9.5</u>	<u>10.5</u>	<u>9.4</u>
Maintenance, EDI, RCM and other services	<u>64.7</u>	<u>69.5</u>	<u>65.2</u>	<u>67.2</u>
Total revenues	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<b>Cost of revenue:</b>				
Software, hardware and supplies	3.9	5.8	4.2	6.6
Implementation and training services	<u>4.7</u>	<u>4.3</u>	<u>4.4</u>	<u>3.9</u>
Total cost of system sales	8.6	10.0	8.6	10.6
Maintenance	3.7	4.0	3.8	4.1
Electronic data interchange services	7.4	8.3	7.7	8.2
Revenue cycle management and related services	7.9	10.1	8.3	10.0
Other services	<u>5.9</u>	<u>4.6</u>	<u>5.8</u>	<u>4.9</u>
Total cost of maintenance, EDI, RCM and other service	24.9	27.0	25.5	27.1
Total cost of revenue	<u>33.5</u>	<u>37.0</u>	<u>34.1</u>	<u>37.7</u>
Gross profit	66.5	63.0	65.9	62.3
<b>Operating expenses:</b>				
Selling, general and administrative	29.9	30.5	29.6	31.1
Research and development costs	6.8	6.4	6.8	6.5
Amortization of acquired intangible assets	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total operating expenses	37.2	37.5	36.9	38.0
Income from operations	29.3	25.6	29.0	24.2
Interest income	0.1	0.2	0.1	0.1
Other income (expense), net	<u>(0.1)</u>	<u>0.1</u>	<u>(0.1)</u>	<u>0.0</u>
Income before provision for income taxes	29.3	25.9	29.0	24.4
Provision for income taxes	<u>10.2</u>	<u>9.3</u>	<u>10.0</u>	<u>8.9</u>
Net income	<u>19.0%</u>	<u>16.5%</u>	<u>19.0%</u>	<u>15.5%</u>

**Comparison of the Three Months Ended September 30, 2011 and September 30, 2010**

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

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

**Net Income.** The Company's net income for the three months ended September 30, 2011 was \$20.5 million, or \$0.35 per share on both a basic and fully diluted basis. In comparison, we earned \$13.4 million, or \$0.23 per share on a basic and fully diluted basis for the three months ended September 30, 2010. The increase in net income for the three months ended September 30, 2011 was primarily attributed to the following:

- a 32.1% increase in consolidated revenue, including an increase in revenues of \$21.5 million from our NextGen Division and \$4.6 million from our Inpatient Solutions Division;
- a 65.5% increase in software license revenue, which accounted for 79.3% of system sales;
- an increase in recurring revenue, including maintenance and EDI revenue, which grew 27.9% and 18.2%, respectively, compared to the prior year period; offset by
- an increase in selling, general and administrative expenses and research and development costs.

**Revenue.** Revenue for the three months ended September 30, 2011 increased 32.1% to \$107.6 million from \$81.5 million for the three months ended September 30, 2010. NextGen Division revenue increased 35.4% to \$82.5 million from \$60.9 million in the three months ended September 30, 2010, QSI Dental Division revenue decreased 2.9% to \$4.5 million from \$4.6 million, Practice Solutions Division revenue increased 1.0% to \$12.2 million from \$12.1 million, and Inpatient Solutions Division revenue increased 121.7% during that same period to \$8.5 million from \$3.8 million.

**System Sales.** Revenue earned from Company-wide sales of systems for the three months ended September 30, 2011 increased 52.6% to \$38.0 million from \$24.9 million in the same prior year period.

Our increase in revenue from sales of systems was principally the result of a 47.3% increase in category revenue at our NextGen Division and a 209.3% increase at our Inpatient Solutions Division. NextGen Division sales in this category grew \$10.5 million to \$32.6 million during the three months ended September 30, 2011 from \$22.2 million during the same prior year period while the Inpatient Solutions Division delivered a \$2.8 million increase in category revenue to \$4.2 million in the three months ended September 30, 2011 as compared to \$1.4 million in the same prior year period. The increases were driven by higher sales of software to both new and existing clients at the NextGen Division and higher software and implementation revenue at the Inpatient Solutions Division. Our acquisition of CQI in July 2011 positively impacted systems sales in the Inpatient Division

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

[Table of Contents](#)

	Software	Hardware, Third Party Software and Supplies	Implementation and Training Services	Total System Sales
<b>Three Months Ended September 30, 2011</b>				
QSI Dental Division	\$ 397	\$ 451	\$ 241	\$ 1,089
NextGen Division	27,056	982	4,590	32,628
Inpatient Solutions Division	2,621	340	1,217	4,178
Practice Solutions Division	13	—	46	59
Consolidated	<u>\$ 30,087</u>	<u>\$ 1,773</u>	<u>\$ 6,094</u>	<u>\$ 37,954</u>
<b>Three Months Ended September 30, 2010</b>				
QSI Dental Division	\$ 565	\$ 388	\$ 271	\$ 1,224
NextGen Division	16,560	1,711	3,887	22,158
Inpatient Solutions Division	1,011	88	252	1,351
Practice Solutions Division	45	7	89	141
Consolidated	<u>\$ 18,181</u>	<u>\$ 2,194</u>	<u>\$ 4,499</u>	<u>\$ 24,874</u>

NextGen Division software license revenue increased 63.4% in the three months ended September 30, 2011 versus the same period last year. The Division's software revenue accounted for 82.9% of divisional system sales revenue during the three months ended September 30, 2011 compared to 74.7% during the same period a year ago. Software license revenue continues to be an area of primary emphasis for the NextGen Division.

During the three months ended September 30, 2011, 3.0% of the NextGen Division's system sales revenue was represented by hardware and third-party software compared to 7.7% during same period a year ago. The number of clients who purchase hardware and third-party software and the dollar amount of hardware and third-party software revenue fluctuates each quarter depending on the needs of clients. The inclusion of hardware and third-party software in the Division's sales arrangements is typically at the request of our clients.

Implementation and training revenue related to system sales at the NextGen Division increased 18.1% in the three months ended September 30, 2011 compared to the same prior year period. Implementation and training revenue related to system sales at the Inpatient Solutions Division increased 382.9%, in the three months ended September 30, 2011 as compared to the same prior year period. The amount of implementation and training services revenue is dependent on several factors, including timing of client implementations, the availability of qualified staff and the mix of services being rendered. The number of implementation and training staff increased during the three months ended September 30, 2011 versus the same prior year period in order to accommodate the increased amount of implementation services sold in conjunction with increased software sales. In order to achieve growth in this area, additional staffing increases and additional training facilities are anticipated, though actual future increases in revenue and staff will depend upon the availability of qualified staff, business mix and conditions and our ability to retain current staff members.

For the QSI Dental Division, total system sales decreased \$0.1 million, or 11.0%, to \$1.1 million in the three months ended September 30, 2011 as compared to \$1.2 million in the same prior year period. Systems sales in the same prior year period included a larger amount of software compared to the current year period.

**Maintenance, EDI, RCM and Other Services.** For the three months ended September 30, 2011, Company-wide revenue from maintenance, EDI, RCM and other services grew 23.1% to \$69.7 million from \$56.6 million in the same prior year period. The increase is primarily due to an increase in maintenance, EDI and other services revenue from the NextGen and Inpatient Solutions Divisions.

Total NextGen Division maintenance revenue for the three months ended September 30, 2011 grew 26.2% to \$29.7 million from \$23.5 million for the same prior year period while NextGen Division EDI revenue grew 22.0% to \$10.8 million compared to \$8.9 million in the same prior year period. NextGen maintenance revenue for the quarter ended September 30, 2011 was positively impacted by the recognition of revenue from a customer, which had been previously deferred due to collectability concerns, and resulted in an incremental increase in maintenance revenue compared to prior periods. Other services revenue for the NextGen Division, which consists primarily of third-party annual software license renewals, follow-on training hours, consulting services and hosting services, increased 46.1% to \$9.4 million in the three months ended September 30, 2011 from \$6.4 million in the same prior year period. Other services revenue benefited from a strong increase in consulting revenue and follow-on training services revenue to existing NextGen Division customers.

## [Table of Contents](#)

QSI Dental Division maintenance, EDI and other services revenue for the three months ended September 30, 2011 and 2010 was unchanged at \$3.4 million. For the three months ended September 30, 2011, RCM revenue for the Practice Solutions Division was essentially unchanged at \$11.1 million compared to \$11.2 million in the same prior year period. RCM revenue was negatively impacted by delays in the implementation and ramp up of certain customers. For the Inpatient Solutions Division, maintenance and other services revenue for the three months ended September 30, 2011 increased 73.6% as compared to the same prior year period primarily because divisional maintenance revenue increased \$1.4 million to \$3.6 million from \$2.2 million in the same prior year period. Inpatient Solutions Division maintenance and other services revenue was positively impacted by new customers as well as contributions by the CQI and IntraNexus acquisitions.

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

	<u>Maintenance</u>	<u>EDI</u>	<u>RCM</u>	<u>Other</u>	<u>Total</u>
<b>Three Months Ended September 30, 2011</b>					
QSI Dental Division	\$ 1,918	\$ 1,189	\$ —	\$ 316	\$ 3,423
NextGen Division	29,653	10,796	—	9,412	49,861
Inpatient Solutions Division	3,619	—	—	656	4,275
Practice Solutions Division	24	—	11,142	955	12,121
Consolidated	<u>\$ 35,214</u>	<u>\$ 11,985</u>	<u>\$ 11,142</u>	<u>\$ 11,339</u>	<u>\$ 69,680</u>
<b>Three Months Ended September 30, 2010</b>					
QSI Dental Division	\$ 1,821	\$ 1,291	\$ —	\$ 310	\$ 3,422
NextGen Division	23,492	8,851	—	6,443	38,786
Inpatient Solutions Division	2,176	—	—	287	2,463
Practice Solutions Division	40	—	11,175	697	11,912
Consolidated	<u>\$ 27,529</u>	<u>\$ 10,142</u>	<u>\$ 11,175</u>	<u>\$ 7,737</u>	<u>\$ 56,583</u>

Maintenance revenue for the NextGen Division increased by \$6.2 million for the three months ended September 30, 2011 as compared to the same prior year period. The growth in maintenance revenue is a result of a \$3.9 million increase related to net additional licenses from new clients and existing clients, \$2.0 million in revenue recognized during the quarter which had previously been deferred due to a customer collectability issue, and approximately \$0.3 million related to a price increase that became effective during the quarter ended September 30, 2011.

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

**Cost of Revenue.** Cost of revenue for the three months ended September 30, 2011 increased 19.6% to \$36.0 million from \$30.1 million in the same prior year period and the cost of revenue as a percentage of revenue decreased to 33.5% from 37.0% primarily due to a lower amount of hardware included in systems sales as compared to the same prior year period as well as higher margins achieved from EDI revenue in the current year period.

## [Table of Contents](#)

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

	Three Months Ended September 30,			
	2011	%	2010	%
<b>QSI Dental Division</b>				
Revenue	\$ 4,512	100.0%	\$ 4,646	100.0%
Cost of revenue	<u>2,102</u>	<u>46.6%</u>	<u>2,255</u>	<u>48.5%</u>
Gross profit	<u>\$ 2,410</u>	<u>53.4%</u>	<u>\$ 2,391</u>	<u>51.5%</u>
<b>NextGen Division</b>				
Revenue	\$ 82,489	100.0%	\$ 60,944	100.0%
Cost of revenue	<u>22,240</u>	<u>27.0%</u>	<u>18,460</u>	<u>30.3%</u>
Gross profit	<u>\$ 60,249</u>	<u>73.0%</u>	<u>\$ 42,484</u>	<u>69.7%</u>
<b>Inpatient Solutions Division</b>				
Revenue	\$ 8,453	100.0%	\$ 3,814	100.0%
Cost of revenue	<u>2,360</u>	<u>27.9%</u>	<u>943</u>	<u>24.7%</u>
Gross profit	<u>\$ 6,093</u>	<u>72.1%</u>	<u>\$ 2,871</u>	<u>75.3%</u>
<b>Practice Solutions Division</b>				
Revenue	\$ 12,180	100.0%	\$ 12,053	100.0%
Cost of revenue	<u>8,760</u>	<u>71.9%</u>	<u>8,470</u>	<u>70.3%</u>
Gross profit	<u>\$ 3,420</u>	<u>28.1%</u>	<u>\$ 3,583</u>	<u>29.7%</u>
Unallocated cost of revenue	\$ 558	N/A	\$ —	N/A
<b>Consolidated</b>				
Revenue	\$ 107,634	100.0%	\$ 81,457	100.0%
Cost of revenue	<u>36,020</u>	<u>33.5%</u>	<u>30,128</u>	<u>37.0%</u>
Gross profit	<u>\$ 71,614</u>	<u>66.5%</u>	<u>\$ 51,329</u>	<u>63.0%</u>

Gross profit margins at the QSI Dental Division for the three months ended September 30, 2011 increased to 53.4% from 51.5% for the same prior year period. Gross profit margins at the NextGen Division for three months ended September 30, 2011 increased to 73.0% compared to 69.7% for the same prior year period due to strong software sales and an increase in maintenance revenue, which yields higher margins than other services, along with improvements in EDI margins. Gross margin in the Inpatient Solutions Division decreased to 72.1% for the three months ended September 30, 2011 as compared to 75.3% for the same prior year period due to growth in implementation and training revenue which carries lower profit margins compared to software. Implementation and training revenue in the Inpatient Solutions Division represented approximately 14.4% of total revenue compared to 6.6% in the year ago period. Gross margin in the Practice Solutions Division decreased to 28.1% for the three months ended September 30, 2011 as compared to 29.7% for the same prior year period due to a decline in higher margin software revenue.



## [Table of Contents](#)

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, 2011 and 2010:

	Hardware, Third Party Software	Payroll and Related Benefits	EDI	Other	Total Cost of Revenue	Gross Profit
<b>Three Months Ended September 30, 2011</b>						
QSI Dental Division	7.3%	22.4%	8.4%	8.5%	46.6%	53.4%
NextGen Division	1.0%	11.5%	7.7%	6.8%	27.0%	73.0%
Inpatient Solutions Division	3.6%	15.2%	0.0%	9.1%	27.9%	72.1%
Practice Solutions Division	0.0%	46.8%	2.0%	23.1%	71.9%	28.1%
Consolidated	<u>1.4%</u>	<u>16.3%</u>	<u>6.5%</u>	<u>9.3%</u>	<u>33.5%</u>	<u>66.5%</u>
<b>Three Months Ended September 30, 2010</b>						
QSI Dental Division	7.5%	19.1%	13.2%	8.7%	48.5%	51.5%
NextGen Division	2.5%	11.1%	8.7%	8.0%	30.3%	69.7%
Inpatient Solutions Division	3.6%	17.0%	0.0%	4.1%	24.7%	75.3%
Practice Solutions Division	0.1%	43.2%	0.0%	27.0%	70.3%	29.7%
Consolidated	<u>2.5%</u>	<u>16.6%</u>	<u>7.3%</u>	<u>10.6%</u>	<u>37.0%</u>	<u>63.0%</u>

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

Our payroll and benefits expense associated with delivering our products and services decreased to 16.3% of consolidated revenue in the three months ended September 30, 2011 compared to 16.6% during the same period last year. The absolute level of consolidated payroll and benefit expenses grew from \$13.5 million in the three months ended September 30, 2010 to \$17.5 million in the three months ended September 30, 2011, an increase of 29.5%, or approximately \$4.0 million. Of the \$4.0 million increase, approximately \$0.5 million of the increase is related to the Practice Solutions Division as RCM is a service business, which inherently has higher percentage of payroll costs as a percentage of revenue. Increases of \$2.8 million in the NextGen Division, \$0.6 million for the Inpatient Solutions Division and \$0.1 million in the QSI Dental Division for the three months ended September 30, 2011 are primarily due to headcount additions and increased payroll and benefits expense associated with delivering products and services. The amount of share-based compensation expense included in cost of revenue was not significant for the three months ended September 30, 2011 and 2010.

Other expense, which primarily consists of third-party annual license, hosting costs and outsourcing costs, decreased to 9.3% of total revenue during the three months ended September 30, 2011 as compared to 10.6% for the same period a year ago. Other expenses declined as a percentage of revenue primarily due to a higher percentage of revenue from software licenses which do not carry a significant amount of other expenses.

As a result of the foregoing events and activities, the gross profit percentage for the Company increased to 66.5% for the three months ended September 30, 2011 versus 63.0% for the same prior year period.

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

## [Table of Contents](#)

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the three months ended September 30, 2011 increased 29.6% to \$32.2 million as compared to \$24.8 million for the same prior year period. The increase in these expenses resulted primarily from:

- \$3.1 million increase in salaries and related benefit expenses primarily as a result of headcount additions;
- \$0.9 million increase in sales commissions primarily related to the NextGen Division;
- \$0.7 million increase in bad debt expense;
- \$2.7 million net increase in other selling and administrative expenses.

Share-based compensation expense was approximately \$0.7 million for each of the three months ended September 30, 2011 and 2010, respectively, and is included in the aforementioned amounts. Selling, general and administrative expenses as a percentage of revenue decreased from 30.5% in the three months ended September 30, 2010 to 29.9% in the three months ended September 30, 2011.

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

**Research and Development Costs.** Research and development costs for the three months ended September 30, 2011 and 2010 were \$7.4 million and \$5.2 million, respectively. The increases in research and development expenses were due in part to increased investment in the NextGen and Inpatient Solutions Divisions product lines including our ongoing project to bring greater integration between our ambulatory and inpatient software products and solutions. Additions to capitalized software costs offset increases in research and development costs. For the three months ended September 30, 2011 and 2010, our additions to capitalized software were at \$3.6 million and \$3.2 million, respectively, as we continue to enhance our software to meet the Meaningful Use definitions under the ARRA as well as further integrate both ambulatory and inpatient products. Research and development costs as a percentage of revenue increased to 6.8% in the three months ended September 30, 2011 from 6.4% for the same prior year period. Research and development expenses are expected to continue at or above current dollar levels as the Company is developing a new integrated inpatient and outpatient, web-based software platform as well continuing to bring additional functionality and features to the medical community. Share-based compensation expense included in research and development costs was not significant for the three months ended September 30, 2011 and 2010.

**Amortization of Acquired Intangible Assets.** Amortization included in operating expenses related to acquired intangible assets for the three months ended September 30, 2011 and 2010 were \$0.5 million and \$0.4 million, respectively.

**Interest and Other Income.** Total interest and other expense for the three months ended September 30, 2011 was \$0.1 million of expense as compared to income of \$0.2 million for the three months ended September 30, 2010. Interest and other income consist primarily of dividends and interest earned on our investments offset by foreign currency losses associated with our India captive which began operating in January 2011.

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

**Provision for Income Taxes.** The provision for income taxes for the three months ended September 30, 2011 and 2010 were \$11.0 million and \$7.6 million, respectively. The effective tax rates were 34.9% and 36.1% for the three months ended September 30, 2011 and 2010, respectively. The effective rate for the three months ended September 30, 2011 decreased as compared to the same prior year period primarily due to increased benefits from the qualified production activities deduction, research and development credits, which were not included in the provision for the same prior year period but included in the provision for the current year period, increased deductions related to incentive stock options that were exercised in the current quarter and fluctuations in the state effective tax rate.

**Comparison of the Six Months Ended September 30, 2011 and September 30, 2010**

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

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

**Net Income.** The Company's net income for the six months ended September 30, 2011 was \$39.5 million, or \$0.67 per share on both a basic and fully diluted basis. In comparison, we earned \$25.5 million, or \$0.44 per share on a basic and fully diluted basis for the six months ended September 30, 2010. The increase in net income for the six months ended September 30, 2011 was primarily attributed to the following:

- a 26.6% increase in consolidated revenue, including an increase in revenues of \$33.5 million from our NextGen Division, \$8.8 million from our Inpatient Solutions Division and \$1.8 million from our Practice Solutions Division;
- a 47.2% increase in software license revenue, which accounted for 79.0% of total system sales;
- a 22.9% increase in recurring revenue, including RCM, maintenance and EDI revenue; offset by
- an increase in selling, general and administrative expenses and research and development costs.

**Revenue.** Revenue for the six months ended September 30, 2011 increased 26.6% to \$208.1 million from \$164.4 million for the six months ended September 30, 2010. NextGen Division revenue increased 27.1% to \$157.1 million from \$123.6 million in the six months ended September 30, 2010, QSI Dental Division revenue decreased 3.9% to \$9.6 million from \$10.0 million, Practice Solutions Division revenue increased 7.6% to \$25.6 million from \$23.8 million, and Inpatient Solutions Division revenue increased 125.8% to \$15.7 million from \$7.0 million in the same prior year period.

**System Sales.** Revenue earned from Company-wide sales of systems for the six months ended September 30, 2011 increased 34.1% to \$72.3 million from \$53.9 million in the same prior year period.

Our increase in revenue from sales of systems was principally the result of a 26.8% increase in category revenue at our NextGen Division and a 225.2% increase at our Inpatient Solutions Division. NextGen Division sales in this category grew \$12.8 million to \$60.8 million during the six months ended September 30, 2011 from \$47.9 million during the same prior year period while the Inpatient Solutions Division delivered a \$5.5 million increase in category revenue to \$8.0 million in the six months ended September 30, 2011 as compared to \$2.4 million in the same prior year period. The increases were driven by higher sales of software to both new and existing clients at the NextGen Division and higher software and implementation revenue at the Inpatient Solutions Division.

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

	Software	Hardware, Third Party Software and Supplies	Implementation and Training Services	Total System Sales
<b>Six Months Ended September 30, 2011</b>				
QSI Dental Division	\$ 1,293	\$ 846	\$ 660	\$ 2,799
NextGen Division	50,229	2,299	8,243	60,771
Inpatient Solutions Division	4,930	493	2,542	7,965
Practice Solutions Division	681	—	121	802
Consolidated	<u>\$ 57,133</u>	<u>\$ 3,638</u>	<u>\$ 11,566</u>	<u>\$ 72,337</u>
<b>Six Months Ended September 30, 2010</b>				
QSI Dental Division	\$ 1,439	\$ 1,271	\$ 507	\$ 3,217
NextGen Division	35,275	4,923	7,728	47,926
Inpatient Solutions Division	1,906	112	431	2,449
Practice Solutions Division	198	7	141	346
Consolidated	<u>\$ 38,818</u>	<u>\$ 6,313</u>	<u>\$ 8,807</u>	<u>\$ 53,938</u>

## [Table of Contents](#)

NextGen Division software license revenue increased 42.4% in the six months ended September 30, 2011 versus the same period last year. The Division's software revenue accounted for 82.7% of divisional system sales revenue during the six months ended September 30, 2011 compared to 73.6% during the same period a year ago. Software license revenue continues to be an area of primary emphasis for the NextGen Division.

During the six months ended September 30, 2011, 3.8% of the NextGen Division's system sales revenue was represented by hardware and third-party software compared to 10.3% during same period a year ago. The number of clients who purchase hardware and third-party software and the dollar amount of hardware and third-party software revenue fluctuates each quarter depending on the needs of clients. The inclusion of hardware and third-party software in the Division's sales arrangements is typically at the request of our clients.

Implementation and training revenue related to system sales at the NextGen Division increased 6.7% in the six months ended September 30, 2011 compared to the same prior year period. Implementation and training revenue related to system sales at the Inpatient Solutions Division increased 489.8%, in the six months ended September 30, 2011 as compared to the same prior year period. The amount of implementation and training services revenue is dependent on several factors, including timing of client implementations, the availability of qualified staff and the mix of services being rendered. The number of implementation and training staff increased during the six months ended September 30, 2011 versus the same prior year period in order to accommodate the increased amount of implementation services sold in conjunction with increased software sales. In order to achieve growth in this area, additional staffing increases and additional training facilities are anticipated, though actual future increases in revenue and staff will depend upon the availability of qualified staff, business mix and conditions and our ability to retain current staff members.

For the QSI Dental Division, total system sales decreased \$0.4 million, or 13.0%, to \$2.8 million in the six months ended September 30, 2011 as compared to \$3.2 million in the same prior year period. Systems sales in the same prior year period included a larger amount of hardware compared to the current year period.

For the Practice Solutions Division, total system sales increased \$0.5 million, or 131.8%, to \$0.8 million in the six months ended September 30, 2011 as compared to the same prior year period. Systems sales revenue within the Practice Solutions Division is composed of sales to existing RCM clients only and can fluctuate given the size of the current client base of the Practice Solutions Division.

**Maintenance, EDI, RCM and Other Services.** For the six months ended September 30, 2011, Company-wide revenue from maintenance, EDI, RCM and other services grew 22.9% to \$135.7 million from \$110.4 million in the same prior year period. The increase is primarily due to an increase in maintenance, EDI and other services revenue from the NextGen and Inpatient Solutions Divisions and RCM revenue from the Practice Solutions Division.

Total NextGen Division maintenance revenue for the six months ended September 30, 2011 grew 24.4% to \$56.2 million from \$45.1 million for the same prior year period while NextGen Division EDI revenue grew 24.6% to \$21.7 million compared to \$17.4 million in the same prior year period. Other services revenue for the NextGen Division, which consists primarily of third-party annual software license renewals, follow-on training hours, consulting services and hosting services, increased 40.7% to \$18.5 million in the six months ended September 30, 2011 from \$13.2 million in the same prior year period. Other services revenue benefited from a strong increase in consulting revenue and follow-on training services revenue to existing NextGen Division customers.

QSI Dental Division maintenance, EDI and other services revenue for the six months ended September 30, 2011 and 2010 was \$6.8 million. For the six months ended September 30, 2011, RCM revenue for the Practice Solutions Division grew \$1.1 million, or 4.9%, to \$23.0 million compared to \$21.9 million in the same prior year period primarily as a result of increases in RCM revenue to new and existing clients. For the Inpatient Solutions Division, maintenance and other services revenue for the six months ended September 30, 2011 increased 72.0% as compared to the same prior year period primarily because divisional maintenance revenue increased \$2.5 million to \$6.7 million from \$4.2 million in the same prior year period.

## [Table of Contents](#)

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

	<u>Maintenance</u>	<u>EDI</u>	<u>RCM</u>	<u>Other</u>	<u>Total</u>
<b>Six Months Ended September 30, 2011</b>					
QSI Dental Division	\$ 3,767	\$ 2,410	\$ —	\$ 631	\$ 6,808
NextGen Division	56,156	21,667	—	18,520	96,343
Inpatient Solutions Division	6,729	—	—	1,050	7,779
Practice Solutions Division	64	—	23,023	1,722	24,809
	<u>64</u>	<u>—</u>	<u>23,023</u>	<u>1,722</u>	<u>24,809</u>
Consolidated	<u>\$ 66,716</u>	<u>\$ 24,077</u>	<u>\$ 23,023</u>	<u>\$ 21,923</u>	<u>\$ 135,739</u>
<b>Six Months Ended September 30, 2010</b>					
QSI Dental Division	\$ 3,658	\$ 2,515	\$ —	\$ 608	\$ 6,781
NextGen Division	45,137	17,391	—	13,162	75,690
Inpatient Solutions Division	4,192	—	—	331	4,523
Practice Solutions Division	78	—	21,947	1,427	23,452
	<u>78</u>	<u>—</u>	<u>21,947</u>	<u>1,427</u>	<u>23,452</u>
Consolidated	<u>\$ 53,065</u>	<u>\$ 19,906</u>	<u>\$ 21,947</u>	<u>\$ 15,528</u>	<u>\$ 110,446</u>

Maintenance revenue for the NextGen Division increased by \$11.0 million for the six months ended September 30, 2011 as compared to the same prior year period. The growth in maintenance revenue is primarily a result of increases related to net additional licenses from new clients and existing clients as well as a price increase that became effective during the quarter ended September 30, 2011.

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

**Cost of Revenue.** Cost of revenue for the six months ended September 30, 2011 increased 14.5% to \$70.9 million from \$62.0 million in the same prior year period and the cost of revenue as a percentage of revenue decreased to 34.1% from 37.7% primarily due to a lower amount of hardware included in systems sales as compared to the same prior year period as well as higher margins achieved from EDI revenue in the current year period.

## [Table of Contents](#)

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

	Six Months Ended September 30,			
	2011	%	2010	%
<b>QSI Dental Division</b>				
Revenue	\$ 9,607	100.0%	\$ 9,998	100.0%
Cost of revenue	4,358	45.4%	4,647	46.5%
Gross profit	<u>\$ 5,249</u>	<u>54.6%</u>	<u>\$ 5,351</u>	<u>53.5%</u>
<b>NextGen Division</b>				
Revenue	\$ 157,114	100.0%	\$ 123,615	100.0%
Cost of revenue	43,706	27.8%	38,672	31.3%
Gross profit	<u>\$ 113,408</u>	<u>72.2%</u>	<u>\$ 84,943</u>	<u>68.7%</u>
<b>Inpatient Solutions Division</b>				
Revenue	\$ 15,744	100.0%	\$ 6,973	100.0%
Cost of revenue	4,008	25.5%	1,795	25.7%
Gross profit	<u>\$ 11,736</u>	<u>74.5%</u>	<u>\$ 5,178</u>	<u>74.3%</u>
<b>Practice Solutions Division</b>				
Revenue	\$ 25,611	100.0%	\$ 23,798	100.0%
Cost of revenue	17,898	69.9%	16,873	70.9%
Gross profit	<u>\$ 7,713</u>	<u>30.1%</u>	<u>\$ 6,925</u>	<u>29.1%</u>
Unallocated cost of revenue (1)	\$ 978	N/A	\$ —	N/A
<b>Consolidated</b>				
Revenue	\$ 208,076	100.0%	\$ 164,384	100.0%
Cost of revenue	70,948	34.1%	61,987	37.7%
Gross profit	<u>\$ 137,128</u>	<u>65.9%</u>	<u>\$ 102,397</u>	<u>62.3%</u>

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

Gross profit margins at the QSI Dental Division for the six months ended September 30, 2011 increased to 54.6% from 53.5% for the same prior year period. Gross profit margins at the NextGen Division for six months ended September 30, 2011 increased to 72.2% compared to 68.7% for the same prior year period due to strong software sales and an increase in maintenance revenue, which yields higher margins than other services, along with improvements in EDI margins. Gross margin in the Inpatient Solutions Division increased to 74.5% for the six months ended September 30, 2011 as compared to 74.3% for the same prior year period due to growth in higher margin software and maintenance revenue. Gross margin in the Practice Solutions Division increased to 30.1% for the six months ended September 30, 2011 as compared to 29.1% for the same prior year period due to growth in higher margin software revenue.

## Table of Contents

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, 2011 and 2010:

	Hardware, Third Party Software	Payroll and Related Benefits	EDI	Other	Total Cost of Revenue	Gross Profit
<b>Six Months Ended September 30, 2011</b>						
QSI Dental Division	7.5%	20.9%	8.9%	8.1%	45.4%	54.6%
NextGen Division	1.3%	11.8%	8.1%	6.6%	27.8%	72.2%
Inpatient Solutions Division	3.3%	15.0%	0.0%	7.2%	25.5%	74.5%
Practice Solutions Division	0.0%	44.9%	2.0%	23.0%	69.9%	30.1%
Consolidated	<u>1.5%</u>	<u>16.5%</u>	<u>6.7%</u>	<u>9.4%</u>	<u>34.1%</u>	<u>65.9%</u>
<b>Six Months Ended September 30, 2010</b>						
QSI Dental Division	9.7%	16.6%	12.8%	7.4%	46.5%	53.5%
NextGen Division	3.5%	12.2%	9.0%	6.6%	31.3%	68.7%
Inpatient Solutions Division	2.5%	20.4%	0.0%	2.8%	25.7%	74.3%
Practice Solutions Division	0.0%	43.8%	0.0%	27.1%	70.9%	29.1%
Consolidated	<u>3.4%</u>	<u>17.4%</u>	<u>7.5%</u>	<u>9.4%</u>	<u>37.7%</u>	<u>62.3%</u>

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

Our payroll and benefits expense associated with delivering our products and services decreased to 16.5% of consolidated revenue in the six months ended September 30, 2011 compared to 17.4% during the same period last year. The absolute level of consolidated payroll and benefit expenses grew from \$28.6 million in the six months ended September 30, 2010 to \$34.4 million in the six months ended September 30, 2011, an increase of 20.4%, or approximately \$5.8 million. Of the \$5.8 million increase, approximately \$1.1 million of the increase is related to the Practice Solutions Division as RCM is a service business, which inherently has higher percentage of payroll costs as a percentage of revenue. Increases of \$3.5 million in the NextGen Division, \$0.9 million for the Inpatient Solutions Division and \$0.3 million in the QSI Dental Division for the six months ended September 30, 2011 are primarily due to headcount additions and increased payroll and benefits expense associated with delivering products and services. The amount of share-based compensation expense included in cost of revenue was not significant for six months ended September 30, 2011 and 2010.

Other expense, which primarily consists of third-party annual license, hosting costs and outsourcing costs was unchanged at 9.4% of total revenue during the six months ended September 30, 2011 and 2010

As a result of the foregoing events and activities, the gross profit percentage for the Company increased to 65.9% for the six months ended September 30, 2011 versus 62.3% for the same prior year period.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the six months ended September 30, 2011 increased 20.5% to \$61.6 million as compared to \$51.1 million for the same prior year period. The increase in these expenses resulted primarily from:

- \$5.4 million increase in salaries and related benefit expenses primarily as a result of headcount additions and acquisitions;
- \$2.5 million increase in sales commissions primarily related to the NextGen Division;
- \$2.6 million net increase in other selling and administrative expenses.

Share-based compensation expense was approximately \$1.7 million for both the six months ended September 30, 2011 and 2010 and is included in the aforementioned amounts. Selling, general and administrative expenses as a percentage of revenue decreased from 31.1% in the six months ended September 30, 2010 to 29.6% in the six months ended September 30, 2011.

## [Table of Contents](#)

**Research and Development Costs.** Research and development costs for the six months ended September 30, 2011 and 2010 were \$14.2 million and \$10.7 million, respectively. The increases in research and development expenses were due in part to increased investment in the NextGen and Inpatient Solutions Division product lines. Additions to capitalized software costs offset increases in research and development costs. For the six months ended September 30, 2011 and 2010, our additions to capitalized software were at \$6.1 million and \$5.7 million, respectively, as we continue to enhance our software to meet the Meaningful Use definitions under the ARRA as well as further integrate both ambulatory and inpatient products. Research and development costs as a percentage of revenue increased to 6.8% in the six months ended September 30, 2011 from 6.5% for the same prior year period. Research and development expenses are expected to continue at or above current dollar levels as the Company is developing a new integrated inpatient and outpatient, web-based software platform. Share-based compensation expense included in research and development costs was not significant for the six months ended September 30, 2011 and 2010.

**Amortization of Acquired Intangible Assets.** Amortization included in operating expenses related to acquired intangible assets for the six months ended September 30, 2011 and 2010 were \$1.0 million and \$0.8 million, respectively.

**Interest and Other Income.** Total interest and other income for the six months ended September 30, 2011 was not significant as compared to \$0.2 million for the six months ended September 30, 2010. Interest and other income consist primarily of dividends and interest earned on our investments offset by foreign currency losses.

**Provision for Income Taxes.** The provision for income taxes for the six months ended September 30, 2011 and 2010 were \$20.9 million and \$14.6 million, respectively. The effective tax rates were 34.6% and 36.4% for the six months ended September 30, 2011 and 2010, respectively. The effective rate for the six months ended September 30, 2011 decreased as compared to the same prior year period primarily due to increased benefits from the qualified production activities deduction, research and development credits, which were not included in the provision for the same prior year period but included in the provision for the current year period, increased deductions related to incentive stock options that were exercised in the current quarter and fluctuations in the state effective tax rate.

### **Liquidity and Capital Resources**

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

	Six Months Ended September 30,	
	2011	2010
Cash and cash equivalents	\$ 125,775	\$ 106,852
Net increase in cash and cash equivalents	\$ 9,158	\$ 22,241
Net income	\$ 39,479	\$ 25,522
Net cash provided by operating activities	\$ 37,110	\$ 36,710
Number of days of sales outstanding	127	126

### **Cash Flows from Operating Activities**

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

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

	Six Months Ended September 30,	
	2011	2010
Net income	\$ 39,479	\$ 25,522
Non-cash expenses	12,956	10,471
Change in deferred revenue	6,155	1,951
Change in accounts receivable	(12,437)	(7,034)
Change in other assets and liabilities	(9,043)	5,800
Net cash provided by operating activities	\$ 37,110	\$ 36,710



## [Table of Contents](#)

**Net Income.** As referenced in the above table, net income makes up the majority of our cash generated from operations for the six months ended September 30, 2011 and 2010.

**Non-Cash Expenses.** Non-cash expenses include depreciation, amortization of intangibles and capitalized software costs, provisions for bad debts, share-based compensation and deferred taxes. Total non-cash expenses were \$13.0 million and \$10.5 million six months ended September 30, 2011 and 2010, respectively.

The \$2.5 million increase in non-cash expenses for the six months ended September 30, 2011 as compared to the same prior year period is primarily related to increases of approximately \$0.6 million in depreciation, \$0.4 million of amortization of capitalized software costs, \$0.4 million of amortization of other intangibles, \$0.9 million in bad debt expense, a \$0.4 million decrease in deferred income tax benefit, offset by a \$0.2 million decrease in share-based compensation.

**Deferred Revenue.** Cash from operations benefited from increases in deferred revenue primarily due to an increase in the volume of implementation and maintenance services invoiced by the NextGen Division which had not yet been rendered or recognized as revenue. Deferred revenue increased by approximately \$6.2 million for the six months ended September 30, 2011 versus an increase of \$2.0 million in the same prior year period, resulting in a \$4.2 million increase to cash from operations as compared to the same prior year period.

**Accounts Receivable.** Accounts receivable grew by approximately \$12.4 million and \$7.0 million for the six months ended September 30, 2011 and 2010, respectively. The increase in accounts receivable is due to the following factors:

- NextGen Division revenue grew 27.1% and 20.1% on a year-over-year basis for the six months ended September 30, 2011 and 2010, respectively;
- Inpatient Division revenue grew to \$15.7 million for the six months ended September 30, 2011 as compared to \$7.0 million for the same prior year period;
- Turnover of accounts receivable is generally slower for systems sales revenue in the NextGen Division and Inpatient Solutions Division due to the fact that the systems sales related revenue have longer payment terms, generally up to one year, which historically have accounted for a major portion of both Divisions' sales; and

The turnover of accounts receivable measured in terms of days sales outstanding ("DSO") increased from 126 days to 127 days during the six months ended September 30, 2011 as compared the same prior year period. The increase in DSO is primarily due to the factors mentioned.

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

**Other Assets and Liabilities.** Cash from operations in the six months ended September 30, 2011 was negatively impacted by \$9.0 million related to changes in other assets and liabilities compared to a benefit of \$5.8 million for the six months ended September 30, 2010. For the six months ended September 30, 2011, the \$9.0 million change in other assets and liabilities is the result of income tax payments made during the period which moved the Company from a \$3.5 million income tax payable at March 31, 2011 to a \$3.2 million income tax receivable as of September 30, 2011.

### **Cash Flows from Investing Activities**

Net cash used in investing activities for the six months ended September 30, 2011 and 2010 was \$16.6 million and \$0.3 million, respectively. The \$16.3 million increase in net cash used in investing activities during the six months ended September 30, 2011 as compared to the same prior year period is primarily due to net cash paid for the acquisitions of IntraNexus and CQI of \$3.3 million and \$2.7 million, respectively, in addition to \$6.1 million and \$4.7 million, respectively in additions to capitalized software and equipment and improvements. The prior year period cash flows from investing activities included additions to capitalized software and equipment and improvements which were offset entirely by proceeds from the sale of marketable securities.

### **Cash Flows from Financing Activities**

Net cash used in financing activities for the six months ended September 30, 2011 and 2010 was \$11.4 million and \$14.2 million, respectively. During the six months ended September 30, 2011, we received proceeds of \$6.8 million from the exercise of stock options and paid \$20.4 million in dividends to shareholders compared to proceeds of \$2.8 million from the exercise of stock options and payments of \$17.3 million in dividends to shareholders during the same prior year period.

We recorded a reduction in our tax benefit from share-based compensation of \$2.3 million and \$0.3 million during the six months ended September 30, 2011 and 2010, respectively, related to excess tax deductions received from stock option exercises. The benefit was recorded as additional paid in capital.

## [Table of Contents](#)

### **Cash and Cash Equivalents and Marketable Securities**

At September 30, 2011, we had cash and cash equivalents of \$125.8 million. We intend to expend some of these funds for the development of products complementary to our existing product line as well as new versions of certain of our products. These developments are intended to take advantage of more powerful technologies and to increase the integration of our products. We also intend to expend some of these funds related to the implementation of a company-wide enterprise resource planning (“ERP”) system. We believe the ERP will greatly enhance and streamline our operational processes and provide a common technology platform to support future growth opportunities. We anticipate capital expenditures will increase in fiscal year 2012 and will be funded from cash on hand and cash flows from operations.

In January 2007, our Board of Directors adopted a policy whereby we intend to pay a regular quarterly dividend of \$0.125 per share on our outstanding common stock, subject to further Board review and approval and establishment of record and distribution dates by our Board of Directors prior to the declaration of each such quarterly dividend. Our Board of Directors subsequently increased the quarterly dividend to \$0.150 per share in August 2008 and to \$0.175 per share in January 2011. We anticipate that future quarterly dividends, if and when declared by our Board of Directors pursuant to this policy, would likely be distributable on or about the fifth day of each of the months of October, January, April and July.

On October 26, 2011, the Board of Directors approved a quarterly cash dividend of \$0.175 per share on the Company’s outstanding shares of common stock, payable to shareholders of record as of December 20, 2011 with an expected distribution date on or about January 5, 2012.

Our Board of Directors declared the following dividends during the periods presented (stock split adjusted):

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Per Share Dividend</u>
May 25, 2011	June 17, 2011	July 5, 2011	\$ 0.175
July 27, 2011	September 19, 2011	October 5, 2011	\$ 0.175
Fiscal year 2012			<u>\$ 0.350</u>
May 26, 2010	June 17, 2010	July 6, 2010	\$ 0.150
July 28, 2010	September 17, 2010	October 5, 2010	\$ 0.150
October 25, 2010	December 17, 2010	January 5, 2011	\$ 0.150
January 26, 2011	March 17, 2011	April 5, 2011	\$ 0.175
Fiscal year 2011			<u>\$ 0.625</u>
May 27, 2009	June 12, 2009	July 6, 2009	\$ 0.150
July 23, 2009	September 25, 2009	October 5, 2009	\$ 0.150
October 28, 2009	December 23, 2009	January 5, 2010	\$ 0.150
January 27, 2010	March 23, 2010	April 5, 2010	\$ 0.150
Fiscal year 2010			<u>\$ 0.600</u>

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

### **Contractual Obligations**

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

Year ended March 31,	
2012 (remaining six months)	\$ 2,743
2013	5,785
2014	5,496
2015	5,008
2016 and beyond	<u>5,698</u>
	<u>\$ 24,730</u>

### **Recent Accounting Pronouncements**

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

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

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

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

#### **Changes in Internal Control over Financial Reporting**

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

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

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

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

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. (REMOVED AND RESERVED)**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
10.1*	Separation agreement and General Release of Claims dated July 29, 2011 by and between Patrick B. Cline and Quality Systems, Inc.
31.1*	Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.LAB**	XBRL Taxonomy Extension Label
101.PRE**	XBRL Taxonomy Extension Presentation

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\* Filed herewith.

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

**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: November 4, 2011

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

Date: November 4, 2011

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

**EXHIBIT INDEX**

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**SEPARATION AGREEMENT AND GENERAL RELEASE OF ALL CLAIMS**

This SEPARATION AGREEMENT AND GENERAL RELEASE OF ALL CLAIMS (“Agreement”) is made and entered by and between Patrick B. Cline (“Employee”) and Quality Systems, Inc., a California Corporation (the “Company”), as of July 29, 2011.

**RECITALS**

WHEREAS, Employee has been employed by the Company since 1996 as an at-will employee serving most recently in the position of President and Chief Strategy Officer; and

WHEREAS, Employee’s employment with the Company and any of its affiliated entities for which he provides services will terminate effective on December 1, 2011 as a result of Employee’s resignation from employment with the Company.

WHEREAS, the Company and Employee mutually desire to settle fully and finally any and all obligations to Employee that the Company may have of any nature whatsoever, as well as any asserted or unasserted claims that Employee may have arising out of his employment with the Company or the separation of that employment pursuant to the terms of this agreement.

**AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing Recitals, the mutual covenants and agreements and the terms and conditions set forth herein and other valuable consideration, the parties agree as follows:

**1. Separation.** Employee’s employment with the Company and any of its affiliated entities for which he provides services will terminate effective on December 1, 2011 (the “Separation Date”).

**2. Compensation Through Separation Date.** On the Separation Date, Employee will be paid all unpaid base salary, together with any accrued but unused vacation pay, less state and federal taxes and other required withholding, for the period from the last regular pay day through the Separation Date. Employee shall also be reimbursed for all business expenses incurred by Employee through the Separation Date and ordinarily reimbursable pursuant to the Company’s prior reimbursement practices with Employee. Employee agrees to present to the Company a claim for any such reimbursable expenses in accordance with the Company’s normal procedures within a reasonable time not to exceed sixty (60) days following the Separation Date. Except as provided for in this Agreement, Employee acknowledges and agrees that upon the receipt of the foregoing payments, the Company will have paid to him all salary, bonuses, benefits, accrued vacation pay, or other consideration owed to him at any time and for any reason through the Separation Date. Employee further represents and agrees that no further sums are or were due and owing to Employee either by the Company or by any individual or entity related to the Company in any way, except as provided for in this Agreement.

**3. Duties.** Employee shall continue in his full-time position as President and Chief Strategy Officer of the Company and such other positions with the Company’s subsidiaries as he

Initials: \_\_\_\_\_  
\_\_\_\_\_



is occupying as of the date of this Agreement through and up to the Separation Date, report directly to and be subject to the direction of the Company's Chief Executive Officer, and perform such services and duties for the Company as may from time to time be reasonably required by the Company's Chief Executive Officer.

**4. Pro-Rata Bonus Payment.** In consideration of this Agreement, and provided that (i) this Agreement has not been revoked by Employee pursuant to Paragraph 16, (ii) the Company does not terminate Employee's employment with the Company for cause and (iii) Employee executes and does not rescind the Second Release (as defined in Paragraph 12 below), the Company shall pay Employee a bonus payment (the "Pro-Rata Bonus Payment") equal to two-thirds (2/3) of the cash bonus amount the Company would have paid to Employee under the Company's 2012 Compensation Program (the "Program") as if Employee had remained employed by the Company through the date required under the Program for Employee to be eligible to receive such cash bonus amount. To make clear, if Employee would have received one-hundred percent (100%) of his cash bonus target under the 2012 Compensation Program, Employee's Pro-Rata Bonus Payment shall be two-thirds (2/3) of such amount. The Pro-Rata Bonus Payment shall be paid by Company to Employee on the same terms and at the same time the other executives of the Company are paid their cash bonus payments, if any, under the 2012 Compensation Program. The Company shall not be responsible to promote or facilitate the achievement of any performance milestone which would result in a bonus payment to Employee. For the purposes of this Paragraph 4, "cause" shall mean (i) the conviction of Employee of a felony under state or federal criminal laws; (ii) the good faith determination of the Board of Directors of the Company that Employee has become unable, as a result of alcohol or drug use, to carry out the responsibilities of his employment; (iii) the commission by Employee of any act of fraud, malfeasance, disloyalty, dishonesty or breach of trust against the Company or any of its subsidiaries or affiliated companies; (iv) the failure of Employee to devote his full time efforts to the responsibilities of President and Chief Strategy Officer of the Company, provided that Employee will be entitled to utilize accrued vacation time in an amount consistent with his prior use of accrued vacation time and the Company's vacation policies; or (v) the repeated refusal to carry out reasonable instructions of the Chief Executive Officer concerning the reasonable performance of Employee's work duties. Employee shall not be entitled to any bonus other than the Pro-Rata Bonus Payment described in this Paragraph 4.

**5. Income Taxes.** The following provisions shall govern all payments and benefits provided by the Company to Employee pursuant to this Agreement:

A. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums or the provision of any benefits to Employee under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon.

B. Code Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with, or be exempt from, Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith or exempt therefrom. If Employee notifies

Initials: \_\_\_\_\_

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the Company (with specificity as to the reason therefor) that Employee believes that any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause Employee to incur any additional tax or interest under Code Section 409A and the Company concurs with such belief or the Company independently makes such determination, the Company shall, after consulting with Employee, reform such provision to try to comply with Code Section 409A through good faith modifications to the minimum extent reasonably appropriate to conform with Code Section 409A. To the extent that any provision hereof is modified in order to comply with Code Section 409A, such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to Employee and the Company of the applicable provision without violating the provisions of Code Section 409A. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment that are considered "nonqualified deferred compensation" under Code Section 409A unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." If Employee is deemed on the date of termination to be a "specified employee" within the meaning of that term under Code Section 409A(a)(2)(B), then with regard to any payment that is considered non-qualified deferred compensation under Code Section 409A payable on account of a "separation from service," such payment or benefit shall be made or provided at the date which is the earlier of (A) the expiration of the six (6)-month period measured from the date of such "separation from service" of Employee, and (B) the date of Employee's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Employee in a lump sum with interest at the prime rate as published in The Wall Street Journal on the first business day following the end of the Delay Period, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Internal Revenue Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect and (iii) such payments shall be made on or before the last day of Employee's taxable year following the taxable year in which the expense occurred. For purposes of Code Section 409A, Employee's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty

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(30) days following the date of termination”), the actual date of payment within the specified period shall be within the sole discretion of the Company.

**6. Nondisparagement.** Employee agrees to refrain from any defamation, libel or slander of the Company or its products, or any unlawful interference with the contracts and relationships of the Company, its officers, directors and employees. Employee further agrees not to make any written or oral statement that may defame, disparage or cast in a negative light so as to do harm to the professional reputation of the Company. The Company agrees (i) not to make any written or oral statement that may defame, disparage or cast in a negative light so as to do harm to the personal or professional reputation of Employee, (ii) that all inquiries by potential future employers of Employee will be directed exclusively to the Company’s Chief Executive Officer, and (iii) in response to any inquiry so directed that the Company will confirm only Employee’s title, dates of employment, and final salary. Company records and any press release or required public filing with respect to Employee’s separation shall reflect that Employee’s employment with the Company was terminated by the Employee’s resignation effective December 1, 2011.

**7. Return of Company Property.** Employee represents that, as of the Separation Date, Employee will have returned to the Company all property of the Company or any of its customers in his possession or under his control, including but not limited to any equipment, supplies, credit cards, and office machines, and also including any documents relating to the Company or copies thereof in any form, except for such personnel and compensation records provided to Employee during the course of his employment.

**8. Complete Release of Claims by Employee.** In consideration for this Agreement, to the fullest extent permitted by law, Employee hereby releases and forever discharges the Company and each of its predecessors, successors, assigns, employees, officers, members, shareholders, directors, agents, attorneys, subsidiaries, divisions or affiliated corporations or organizations, whether previously or hereafter affiliated in any manner (collectively, “Released Parties”), from any and all claims, demands, causes of action, charges of discrimination, obligations, damages, attorneys’ fees, costs and liabilities of any nature whatsoever, including, but not limited to, all claims of discrimination or harassment arising under any federal, state or local statute, ordinance or common law, on the basis of race, sex, national origin, religion, disability, age medical condition, marital status, veteran status, sexual orientation, or any other basis under applicable law, whether or not now known, suspected or claimed, that Employee ever had, now has, or may claim to have as of the date of this Agreement against the Released Parties (whether directly or indirectly), or any of them, by reason of any act or omission concerning any matter, cause or thing. This Release includes, without limiting the generality of the foregoing, the waiver of any claims related to or arising out of Employee’s employment with the Company or his separation from that employment. **This Release specifically includes the waiver of any and all claims under the Age Discrimination in Employment Act, 29 U.S.C. § 621 and sections following.**

**9. Older Workers Benefit Protection Act.** This Agreement is subject to the terms of the Older Workers Benefit Protection Act of 1990 (the “OWBPA”). The OWBPA provides that an individual cannot waive a right or claim under the Age Discrimination in Employment Act (“ADEA”) unless the waiver is knowing and voluntary. Pursuant to the terms of the

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OWBPA, Employee acknowledges and agrees that he has executed this Agreement voluntarily, and with full knowledge of its consequences.

In addition, Employee hereby acknowledges and agrees that: (a) this Agreement has been written in a manner that is calculated to be understood, and is understood, by Employee; (b) the release provisions of this Agreement apply to rights and claims that Employee may have under the ADEA, including the right to file a lawsuit against the Company or any other Released Party for age discrimination; (c) the release provisions of this Agreement do not apply to any rights or claims that Employee may have under the ADEA that arise after the date Employee executes this Agreement; and (d) the Company does not have a preexisting duty to pay the special severance compensation identified in this Agreement.

**10. General Nature of Release; Claims Not Released.** The Release set forth above in Paragraph 8 of this Agreement is a general release of all claims, demands, causes of action, obligations, damages, and liabilities of any nature whatsoever that are described in the Release and is intended to encompass all known and unknown, foreseen and unforeseen claims that Employee may have against the Released Parties, or any of them, except for any claims that may arise from the terms of this Agreement, or any claims which may not be released as a matter of law. It is further understood by the Parties that nothing in this Agreement shall affect any rights Employee may have under any Pension Plan and/or Savings Plan (i.e., 401(k) plan) provided by the Company as of the Separation Date, or upon any rights Employee may have with respect to any grant of restricted stock or stock options made by the Company to Employee during Employee’s service as an employee, or as a member of the Company’s Board of Directors, or the vesting thereof, such items to be governed exclusively by the terms of the applicable plan documents. Employee covenants and agrees never to commence, aid in any way, prosecute or cause to be commenced or prosecuted any action or other proceeding based upon any claims, demands, causes of action, obligations, damages or liabilities which are the subject of this Agreement; provided however, that Employee does not relinquish any protected rights to file a charge, testify, assist or participate in any manner in an investigation, hearing or proceeding conducted by the Equal Employment Opportunity Commission, the Office of Federal Contract Compliance or any similar state human rights agency. However, Employee may not recover additional compensation or damages as a result of any such action.

**11. Release of Section 1542 Rights.** Employee expressly waives and relinquishes all rights and benefits he may have under Section 1542 of the California Civil Code or the law of any other state or jurisdiction, or common law principle, to the same or similar effect. Section 1542 is intended to protect against an inadvertent release of unknown or unsuspected claims that would be material to this Agreement. This Paragraph 11 provides that Employee also is releasing any such unknown or unsuspected claims. Section 1542 reads as follows:

“Section 1542. [General Release; extent.] A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”

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**12. Execution of Second Release.** As a condition of Employee's right to receive the Pro-Rata Bonus Payment provided for in this Agreement, Employee must execute and not rescind the release attached to this Agreement as Exhibit "A" (the "Second Release"). Employee acknowledges he is receiving now, and will have had more than twenty-one (21) days after his receipt of, the Second Release to consider whether to sign it. Employee agrees to execute the Second release on or within ten (10) business days after December 1, 2011, the Separation Date. The Employee's failure to execute the Second Release, or Employee's actual or attempted rescission of the Second Release, shall relieve the Company of any duty to provide any of the Pro-Rata Bonus Amount and any other consideration provided for in this Agreement.

**13. Non-Admission of Liability.** Employee and the Company acknowledge and agree that this Agreement is a settlement agreement and shall not in any way be construed as an admission by any of the Released Parties of any wrongful act against, or any liability to, Employee or any other person.

**14. Trade Secrets and Confidential Information; Board Resignation.** Employee agrees to keep in strict confidence, and will not, either directly or indirectly, make known, reveal, make available or use, any Confidential and Trade Secret Information of the Company obtained by Employee during Employee's employment with the Company. Employee acknowledges and agrees that he has complied and will continue to comply with the terms and provisions of the Quality Systems, Inc. Employee Confidential Information, Non-Compete and Employee Works Agreement (the "Confidentiality Agreement") entered into by and between Employee and the Company, a copy of which is attached to this Agreement as Exhibit "B", and that Employee's obligations under the Confidentiality Agreement shall survive the termination of Employee's employment with the Company. Employee acknowledges and agrees that he will continue to be bound by the terms of that certain Agreement to Resign from Board of Directors Upon Termination of Employment dated May 31, 2005 and, according thereto, Employee shall be deemed to have resigned from the Company's Board of Directors effective as of December 1, 2011.

**15. Twenty-One Day Consideration Period.** This Agreement is being given to Employee on July 29, 2011. Employee acknowledges that he is entitled to take up to twenty-one (21) calendar days to consider whether to accept this Agreement; provided however, that if Employee chooses to sign this Agreement before the end of this 21-day period, Employee acknowledges that he does so knowingly and voluntarily and waives any claim that to the effect that he was not given the full 21 days to consider whether to sign this Agreement or did not use the entire period of time available to consider this Agreement or to consult with an attorney. Employee agrees that any modifications, material or otherwise, made to this Agreement do not restart or affect in any manner the original twenty-one (21) calendar day consideration period.

**16. Seven Day Revocation Period.** After signing this Agreement, Employee shall have a period of seven (7) calendar days to revoke the Agreement by providing the Company with written notice of his revocation. To be effective, such revocation must be in writing, must specifically revoke this Agreement, and must be actually received by the Company's Chief Executive Officer, Steve Plochocki, at the Company's Irvine, California headquarters offices, 18111 Von Karman, Suite 600, Irvine, California 92612, prior to the eighth calendar day following Employee's execution of this Agreement. Unless timely revoked by Employee, this

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Agreement shall become effective, enforceable, and irrevocable on the eighth calendar day following Employee's execution of this Agreement (the "Effective Date"). In the event that Employee revokes this Agreement, it shall be null and void and Employee will not receive any payment or other benefit pursuant to this Agreement, including, but not limited to, the Pro-Rata Bonus Payment provided in Paragraph 4 herein. Any revocation of this Agreement, however, shall not affect the finality of the separation of Employee's employment with the Company on the Separation Date.

**17. Acknowledgment of Being Advised to Consult Legal Counsel.** This Agreement is an important legal document. Employee acknowledges that the Company hereby advises him to consult with an attorney of his choice prior to signing this Agreement, and Employee represents that he has had the opportunity to consult with an attorney to the extent he so desires.

**18. Confidentiality of Agreement.** As a material inducement to the Company to enter into this Agreement, Employee promises and agrees that this Agreement, including the Pro-Rata Bonus Payment referred to in Paragraph 4 hereof, shall be and remain confidential. Employee promises and covenants not to disclose, publicize, or cause to be publicized any of the terms and conditions of this Agreement except to his immediate family, and to his attorney or accountant to the extent reasonably necessary to obtain professional advice with respect to the parties' rights and obligations as stated herein. Employee further promises and covenants to use his best efforts to prevent any further disclosure of this Agreement by any such persons to whom he does make disclosure. Notwithstanding the foregoing, (i) Employee may disclose the terms of this Agreement to persons to whom disclosure is ordered by a court of competent jurisdiction or otherwise required by law and (ii) the restrictions included in this Section 18 shall not apply to the extent this Agreement or any terms of this Agreement are publicly disclosed by the Company.

**19. Cooperation.** Upon reasonable request, Employee shall make himself available to the Company to furnish full and truthful information concerning any event that took place during Employee's employment with the Company. Upon reasonable request, as deemed necessary by the Company, Employee shall make himself available to furnish full and truthful consultation concerning any potential or actual litigation. Employee shall furnish the information as soon as is practical after a request from the Company is received. The Company shall reimburse Employee for the reasonable cost of any travel, lodging, meals, and any direct loss of compensation suffered by Employee from Employee's current employer as a result of time spent furnishing information under this clause, upon presentation of evidence of such loss or expense satisfactory to the Company. Employee further agrees that Employee shall provide advance written notice to the Company in the event Employee is subpoenaed to testify, or provide documents at deposition or at trial, relating to: (1) any actual, possible, or perceived violation by the Company or any other Released Party of any federal, state, local, or administrative law, rule, or regulation; (2) the negotiations relating to and the terms of, this Agreement; and (3) any acts or omissions by the Company or any of the other Released Parties occurring prior to the Effective Date of this Agreement. Nothing in this Paragraph is intended to interfere with any protected right of Employee to file charges, testify, assist or participate in any manner in an EEOC or similar state agency investigation, hearing or proceeding, and nothing in

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this paragraph is intended to influence the substance of such involvement by Employee which is properly compelled by legal process

**20. Ambiguities.** The parties and/or their attorneys have had a full opportunity to review the terms and conditions of this Agreement. Accordingly, the parties expressly waive any common-law or statutory rule of construction that ambiguities should be construed against the drafter of this Agreement, and agree, covenant, and represent that the language in all parts of this Agreement shall be in all cases construed as a whole, according to its fair meaning.

**21. Interpretation.** Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be valid and effective under applicable law. Therefore, each and every provision of this Agreement shall be considered severable from, and shall in no way affect the validity or enforceability of, the remaining provisions of this Agreement except for the release provisions contained in Paragraphs 8 through 12 of this Agreement. If a court of competent jurisdiction finds any release provisions contained in Paragraphs 8 through 12 of this Agreement to be unlawful, void, or for any reason unenforceable or invalid, this Agreement shall become null and void, and Employee shall repay the special severance compensation paid by the Company pursuant to this Agreement within a reasonable period of time not to exceed fifteen (15) days. If a court of competent jurisdiction finds any provision other than the release provisions contained in Paragraphs 8 through 12 to be unlawful, void, or for any reason unenforceable or invalid, that provision, or part thereof, shall remain in force and effect to the extent allowed by law, and all of the remaining provisions of this Agreement shall remain in full force and effect and enforceable, and the rights and obligations of the parties shall be enforced to the fullest extent possible. All captions are for convenience of reference only and shall be disregarded in interpreting this Agreement.

**22. Entire Agreement.** Employee acknowledges that he is not relying, and has not relied, on any representation or statement by the Company with regard to the subject matter or terms of this Agreement, except to the extent set forth fully in this Agreement. This Agreement constitutes the entire agreement between Employee and the Company with respect to the subject matter of this Agreement, and supersedes any and all other agreements, understandings or discussions between Employee and the Company with respect to the subject matter of this Agreement; provided, however, that this Agreement does not supersede, and has no effect upon, the Confidentiality Agreement attached hereto as Exhibit "B" and the Second Amended and Restated Indemnification Agreement attached hereto as Exhibit "C."

**23. Risk of New or Different Facts.** Employee acknowledges that he may discover new information different from or inconsistent with facts he presently believes to be true, and expressly agrees to assume the risk of such new or different information.

**24. Modification.** This Agreement cannot be modified or terminated, except by a writing signed by the party against whom enforcement of the modification or termination is sought.

**25. Voluntary Agreement.** This Agreement in all respects has been voluntarily and knowingly executed by the parties hereto. Employee specifically represents that he has

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carefully read and fully understands all of the provisions of this Agreement, and that he is voluntarily entering into this Agreement.

**26. Execution in Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

**27. Governing Law.** This Agreement is made and entered into in the State of California and shall in all respects be interpreted and enforced pursuant to the laws of the State of California, without regard to or application of any of California's conflict of laws rules.

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IN WITNESS WHEREOF, the parties hereto have executed this Separation Agreement and General Release of All Claims, and have initialed each page hereof, on the dates set forth below.

Employee

Dated: July 29, 2011

/s/ Patrick B. Cline  
Patrick B. Cline

Quality Systems, Inc.

Dated: July 29, 2011

By: /s/ James J. Sullivan  
James J. Sullivan  
Its: Secretary, Executive Vice President and General  
Counsel

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Exhibit A

Second Release

This Second Release is entered into by and between Quality Systems, Inc. (the "Company") and Patrick B. Cline ("Employee"), and amends the Separation Agreement and General Release of Claims between those same parties (the "Agreement") by extending the promise and agreements of paragraphs 9 through 12 of the Agreement, through the last day of Employee's employment, December 1, 2011.

**1. Older Workers Benefit Protection Act.** This Second Release is subject to the terms of the Older Workers Benefit Protection Act of 1990 (the "OWBPA"). The OWBPA provides that an individual cannot waive a right or claim under the Age Discrimination in Employment Act ("ADEA") unless the waiver is knowing and voluntary. Pursuant to the terms of the OWBPA, Employee acknowledges and agrees that he has executed this Second Release voluntarily, and with full knowledge of its consequences.

In addition, Employee hereby acknowledges and agrees that: (a) this Second Release has been written in a manner that is calculated to be understood, and is understood, by Employee; (b) the release provisions of this Second Release apply to rights and claims that Employee may have under the ADEA, including the right to file a lawsuit against the Company or any other Released Party for age discrimination; and (c) the release provisions of this Second Release do not apply to any rights or claims that Employee may have under the ADEA that arise after the date Employee executes this Second Release.

**2. Seven Day Revocation Period.** After signing this Second Release, Employee shall have a period of seven (7) calendar days to revoke the Second Release by providing the Company with written notice of his revocation. To be effective, such revocation must be in writing, must specifically revoke this Second Release, and must be actually received by the Company's Chief Executive Officer, Steve Plochocki, at the Company's Irvine, California headquarters offices, 18111 Von Karman, Suite 600, Irvine, California 92612, prior to the eighth calendar day following Employee's execution of this Second Release. Unless timely revoked by Employee, this Agreement shall become effective, enforceable, and irrevocable on the eighth calendar day following Employee's execution of this Second Release (the "Effective Date"). In the event that Employee revokes this Second Release, it shall be null and void and Employee will not receive any payment or other benefit pursuant to the Agreement, including, but not limited to, the bonus payment provided in Paragraph 4 therein. Any revocation of this Second Release, however, shall not affect the finality of the separation of Employee's employment with the Company on the Separation Date.

Employee

Dated: \_\_\_\_\_, 2011

\_\_\_\_\_  
Patrick B. Cline

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**ACKNOWLEDGEMENT**

I, PATRICK B. CLINE, Employee, hereby acknowledge that I was given more than twenty-one (21) days to consider the foregoing Second Release which extends the promises I made in the Agreement through the last day of Employee's employment, December 1, 2011, and I voluntarily chose to sign the Second Release on the date indicated above. I was provided this Second Release July 29, 2011 but I acknowledge it is not effective or enforceable unless I sign it on or after December 1, 2011. Further, I have either consulted an attorney or knowingly declined my opportunity to do so.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

EXECUTED this \_\_\_\_\_ day of \_\_\_\_\_, 2011, at \_\_\_\_\_, \_\_\_\_.

\_\_\_\_\_  
Patrick B. Cline, Employee

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Exhibit B

Employee Confidential Information, Non-Compete and Employee Works Agreement  
[Attached hereto]

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QUALITY SYSTEMS, INC.  
EMPLOYEE CONFIDENTIAL INFORMATION, NON-COMPETE AND  
EMPLOYEE WORKS AGREEMENT  
(PENNSYLVANIA—OPTION GRANTEE)

THIS CONFIDENTIAL INFORMATION, NON-COMPETE AND EMPLOYEE WORKS AGREEMENT (the “Agreement”) is entered into by and between QUALITY SYSTEMS, INC., for and on behalf of itself and its present and future affiliates and/or subsidiaries including but not limited to NextGen Healthcare Information Systems, Inc. (collectively referred to as “QSI”), and the undersigned (“Employee”), to be effective as of the date set forth herein. In consideration of the foregoing and the mutual covenants and agreements contained in this Agreement, QSI and Employee covenant and agree as follows:

RECITALS

A. The successful operation of QSI’s business (the “Business”) requires that trade secrets and other confidential information, which are valuable and unique assets, be maintained as secret and confidential. QSI has disclosed and will be disclosing to Employee in the continued course of Employee’s employment, certain trade secrets and other confidential business information of QSI for the sole and exclusive benefit of QSI and with the express condition that Employee not disclose or misuse such information.

B. In connection with Employee’s continued employment, and the granting to Employee of certain stock options (the “Options”), QSI and Employee are entering into this Agreement to memorialize Employee’s continuing obligations to QSI with respect to such confidential and trade secret information, Employee’s covenants not to compete with QSI nor solicit its employees, and Employee’s assignment to QSI of all Employee Works as set forth herein. Employee acknowledges that QSI’s grant of the Options represents sufficient consideration for Employee’s covenants contained herein.

C. QSI and Employee acknowledge that (i) QSI’s grant of the Options to Employee is contingent upon Employee entering into this Agreement; (ii) QSI is actively developing and marketing its Business throughout the United States as well as internationally and that Employee plays a material role in such efforts; and (iii) the restrictions contained in this Agreement are reasonable in territorial scope and duration and are reasonably necessary to protect QSI’s interests in its property, customer relationships and goodwill.

**Confidential Information.** The confidential information (“Confidential Information”) addressed in this Agreement is defined as information relating to QSI, or any of its customers or prospective customers, licensors and licensees, or their affiliates, and consultants, including but not limited to: (1) business, financial and technical information, cost and price structure, strategies and related data, product information, customer identification and lists, potential customers, customers or prospective customer needs, suppliers, vendors or other information related to QSI products, and (2) any intellectual property including, but not limited to, trade secrets, software (including object and source code, templates, modifications and derivative works and system infrastructure), formulas, test data and results, designs, know-how, inventions, marketing ideas and plans, business plans and strategies, designs, manuals, and technical data and summaries. Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no wrongful act of Employee or of others who were under confidentiality obligations as to the item or items involved or improvements or new versions thereof.

Employee acknowledges that QSI desires to maintain the foregoing information so that it is not known to its competitors or to the general public and the foregoing Confidential Information matters: (a) are maintained by QSI in a manner not contemplated to be known to QSI’s competitors or to the general public; (b) derive independent actual or potential economic value from the fact that they are confidential; and (c) are the subject of efforts that are reasonable under the circumstances to maintain their secrecy. Employee agrees that it is not necessary for QSI to label or stamp information as “Confidential” or to enact express security systems (although QSI may do so in its discretion) in order to maintain the confidential nature of such information, and that no failure of QSI to do so shall be deemed to waive or

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otherwise impair the confidential nature of such information. Employee understands and agrees that Employee has no right to modify or otherwise prepare derivative works, or reverse engineer or to reverse assemble or decompile Confidential Information. Employee agrees to keep the Confidential Information confidential, and not to disclose or make any use of the Confidential Information at any time during or subsequent to Employee’s employment except for the benefit of QSI. Employee further agrees not to deliver, cause to be delivered or otherwise transmit, reproduce or in any way allow the Confidential Information to be used by any third parties without the prior written consent of a duly authorized representative of QSI. Nothing in this provision shall restrict Employee’s right to disclose information concerning Employee’s own compensation or working conditions, to the extent such right exists pursuant to federal or applicable state laws.

**Health Insurance Portability & Accountability Act (Privacy Act):** Employee understands that as part of his or her employment with QSI, Employee may come into contact with Protected Health Information (including but not limited to patient health information ). Employee agrees to use appropriate safeguards to prevent use or disclosure of any Protected Health Information other than as may be allowed under an agreement in place with QSI or as may be required by law, including but not limited to the Standards of Privacy of Individually Identifiable Health Information at 45 CFR part 160 and part 164, subparts A and E.

**Conflicting Employment and Outside Activities.** Employee agrees that during Employee’s employment with QSI, Employee will not undertake, or conduct planning to undertake, any other employment, self-employment, occupation, consulting or other activity which is competitive with the business in which QSI is now or may hereafter become engaged (while Employee is employed at QSI) or which would otherwise conflict with Employee’s obligations to QSI. Employee further agrees that during Employee’s employment with QSI, Employee shall not, without the express written approval of the QSI Board of Directors: (1) serve as a member or advisory member of any other Board of Directors or similar governing or advisory body of a business entity; (2) engage in outside employment or perform work as a consultant or independent contractor; or (3) accept any compensation, whether direct, indirect, in-kind, current or deferred, in connection with any of the foregoing activities. Nothing in this section shall prohibit Employee’s service on the Board of Directors of, or in any other capacity for, a charitable organization formed pursuant to Internal Revenue Code Section 501(c)(3), provided that such activities do not interfere with the performance of Employee’s duties to QSI.

**Return of Documents/Materials.** Employee agrees that all Confidential Information, together with any other records, materials, equipment, drawings, documents and data of any nature, and all copies thereof, made or obtained by Employee from QSI or from a third party on QSI’s behalf, are and shall remain the property of QSI. In the event of termination of employment with QSI for any reason whatsoever, Employee agrees to promptly surrender and deliver to QSI all such property, and all copies thereof, to QSI at its place of business. The foregoing shall not apply to ordinary records concerning employment, compensation or benefits received by Employee in connection with his or her own employment.

**Customers.** During the period of his or her employment, and for one (1) year after employment terminates for any reason, the Employee shall not, directly or indirectly, call on, solicit, take away, or attempt to call on, solicit, or take away any of the customers or potential customers of QSI, either for himself or herself or for any other person, firm, or corporation. For purposes of this agreement, “potential customers” are companies and/or their representatives that have been contacted by QSI for the purpose of making a sale of any of its products or services within the one (1) year period preceding the cessation of the Employee’s employment at QSI.

**Employees.** Employee acknowledges and agrees that QSI’s employment relationships and its information about employees constitute a valuable asset and Confidential Information of QSI. Employee agrees that he or she will not, during his or her employment by QSI and for a period of one (1) year after employment terminates for any reason, directly or indirectly, for himself or on behalf of any other person or entity, raid or solicit any of QSI’s employees for a competing business or otherwise induce or attempt to induce any such employees to terminate their employment with QSI or to otherwise disrupt or interfere or attempt to disrupt or interfere with QSI’s relationships with such employees.

**Employee Works.** Employee hereby assigns to QSI all right, title and interest in any and all inventions, ideas and works of authorship created by Employee using QSI’s resources, during Employee’s work hours or related to any product, service, idea,

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invention or technology created or used by QSI (“Employee Works”), including all worldwide copyrights, trade secrets, and all patent, proprietary and property rights therein. Employee agrees to execute, without further consideration, such assignments, instruments and documents as QSI deems necessary or desirable in order to effect the assignment of the Employee Works.

**At will employment.** Employee represents and warrants that Employee’s execution of and performance of this Agreement will not violate or impair any other obligations of Employee, whether under an employment or consulting agreement or otherwise. It is expressly understood and agreed that Employee’s employment by QSI is at will and that either party to the employment relationship, may terminate it and this Agreement at any time, with or without reason, with or without cause. Employee further understands and agrees that this at will employment relationship can only be changed by a writing signed by the Employee and the President of QSI.

**Non-Competition.** During the period of Employee’s employment with QSI and for a period of twelve (12) months after the date of Employee’s separation from employment with QSI for any reason, Employee will not directly or indirectly: as an individual proprietor, partner, stockholder, officer, employee, director, joint venturer, investor, lender, or in any other capacity whatsoever (other than as the holder of not more than two percent (2%) of the total outstanding stock of a publicly held company), and in any city, county, state or other geographic area where QSI is then marketing or selling its products or providing services, engage in the business of developing, producing, marketing or selling products or providing services of the kind or type developed or being developed or considered for development, produced, marketed, sold or provided by QSI while Employee was employed by QSI.

If any restriction set forth in this section is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend only over the maximum period of time, range of activities or geographic area as to which it may be enforceable. The restrictions contained in this section are necessary for the protection of the business and goodwill of QSI and are considered by Employee to be reasonable for such purpose. In addition, Employee acknowledges that Employee’s education, background, skills, and experience are such that the enforcement of the restrictions in this section will not unreasonably interfere with Employee’s ability to earn a living.

**Obligations Regarding Former Employers’ Trade Secrets and Confidential Information.** QSI is confident of its ability to compete on the basis of its own products and commitment to service, and Employee understands that QSI does not desire to obtain or make use of any trade secrets or confidential information (if any) that Employee may have acquired during any former employment. It has been explained to Employee that any information needed to succeed in Employee’s position is publicly available, readily known throughout the industry, or can be obtained without recourse to trade secret or confidential information obtained through Employee’s prior employment. Employee agrees that during his or her employment with QSI, Employee will not improperly disclose or use any trade secrets or confidential information that Employee may have acquired from prior employment. If at any time Employee believes that his or her job duties would otherwise touch upon trade secrets or confidential information obtained during prior employment Employee will refrain from any use or disclosure of such information and let his or her supervisor or manager know immediately.

QSI has not asked Employee to provide it with any documents or records obtained from a “former employer” (which for the purposes of this Agreement, includes any person or business entity for which Employee has acted as an independent contractor or consultant). Employee has not brought and will not bring with him or her to QSI, or use in his or her Employment, any materials or documents of a former employer that are not generally available to the public, unless Employee has obtained express written authorization from his or her former employer for their possession and use for QSI’s benefit.

Employee also understands that in his or her service to QSI, Employee is not to breach any obligation of confidentiality that Employee may have to a former employer or employers. Employee represents that his or her performance of all the terms of this Agreement and his or her performance as an employee of QSI does not and will not breach any agreement by him or her to protect any trade secrets and confidential information Employee may have acquired prior to his or her Employment with QSI. Employee has not entered into, and Employee agrees that Employee will not enter into, any agreement either written or oral, which is in conflict with this Agreement Employee has provided QSI with a copy of any and

Initials: \_\_\_\_\_  
\_\_\_\_\_

all agreements with former employers concerning the confidentiality of proprietary information, assignment of inventions, or any other related subject matter, which may affect his or her duties as a QSI employee.

**Injunctive Relief.** The parties agree that in the event of any breach or threatened breach of any of the Employee’s covenants or obligations in this Agreement, the damage or imminent damage to the value and the goodwill of the Company’s business will be irreparable and extremely difficult to estimate, making any remedy at law or in damages inadequate. Accordingly, the parties agree that QSI shall be entitled to injunctive relief against Employee in the event of any breach or threatened breach of any such provisions by Employee, in addition to any other relief (including damages) available to QSI under this Agreement or under law.

**Notification of Obligations.** Employee recognizes and agrees that QSI may notify and provide a copy of this Agreement to any person or entity it deems appropriate for the purpose of notifying such person or entity of Employee’s obligations pursuant to this Agreement.

**Waiver and Amendment.** No waiver, amendment or modification of this Agreement shall be effective unless in writing and signed by a duly authorized representative of the party against whom the waiver, amendment or modification is sought to be enforced. No failure or delay by either party in exercising any right, power or remedy under this Agreement shall operate as a waiver of the right, power or remedy. No waiver of any term, condition or default of this Agreement shall be construed as a waiver of any other term, condition, or default.

**Successors and Assigns.** This Agreement is intended to benefit and is binding on the successors and assigns of QSI and the heirs and legal successors of Employee. The benefits of this Agreement may be assigned by QSI to any person or entity succeeding to any portion of QSI’s business.

**Severability.** In the event that any paragraph or provision of this Agreement shall be held to be illegal or unenforceable in any jurisdiction, such paragraph or provision shall, as to that jurisdiction, be adjusted and reformed, if possible, in order to achieve the intent of the parties, and if such paragraph or provision cannot be adjusted and reformed, such paragraph or provision shall, for the purposes of that jurisdiction be voided and severed from this Agreement, and the entire Agreement shall not fail on account thereof but shall otherwise remain in full force and effect.

**Governing Law and Forum.** QSI and the Employee agree that the validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to conflict of laws or choice of law principles. Employee hereby consents to the exclusive jurisdiction of the state and federal courts located in the Commonwealth of Pennsylvania for any lawsuit filed there against Employee by QSI arising from or relating to this Agreement.

**Survival of Obligations.** This Agreement shall continue in force and effect following any separation of Employee’s employment with QSI for any reason, whether voluntary or involuntary.

**Entire Agreement.** This Agreement constitutes the complete and final agreement between the parties, and supersedes all prior negotiations and agreements between the parties concerning its subject matter. Any prior written agreement between the parties concerning the subject matter of this Agreement shall remain effective with respect to any event occurring from the effective date of any such prior agreement through the effective date of this Agreement.

In Witness Whereof, the parties have executed this Agreement the 11<sup>th</sup> day of July, 2009. The undersigned employee also acknowledges that consideration in such form as a job offer, salary increase, implementation of a bonus or commission plan, or grant of stock options or other equity has been given and accepted.

/s/ Patrick B. Cline  
\_\_\_\_\_  
Employee

/s/ Steven T. Plochocki  
\_\_\_\_\_  
Quality Systems, Inc.

Date 7-11-09

Title CEO

Initials: \_\_\_\_\_  
\_\_\_\_\_



Exhibit C

Second Amended and Restated Indemnification Agreement

[Attached hereto]

Initials: \_\_\_\_\_  
\_\_\_\_\_

**QUALITY SYSTEMS, INC.**

**SECOND AMENDED AND RESTATED  
INDEMNIFICATION AGREEMENT**

This Second Amended and Restated Indemnification Agreement (this "Agreement") is effective as of January 27, 2010, by and between QUALITY SYSTEMS, INC., a California corporation (the "Company"), and Patrick B. Cline ("Indemnitee").

**R E C I T A L S**

**WHEREAS**, the Company and Indemnitee recognize the increasing difficulty in obtaining quality directors' and officers' liability insurance, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

**WHEREAS**, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting officers and directors to expensive litigation risks at the same time as the availability and coverage of cost effective liability insurance has been severely limited; and

**WHEREAS**, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as officers and directors of the Company and to indemnify its officers and directors so as to provide them with the maximum protection permitted by law.

NOW, THEREFORE, in consideration for Indemnitee's services as an officer or director of the Company (as the case may be), the Company and Indemnitee hereby agree as follows:

**1. Indemnification.**

(a) Third Party Proceedings. The Company shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or any alternative dispute resolution mechanism, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including reasonable attorneys' fees and costs), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such action, suit or proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act

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in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) Proceedings By or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee is or was a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company or any subsidiary of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including reasonable attorneys' fees and costs) and, to the fullest extent permitted by law, amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such action or suit if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company, except that no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent that the Superior Court of the State of California or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Superior Court of the State of California or such other court shall deem proper.

(c) Mandatory Payment of Expenses. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of this Section 1, or in defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including reasonable attorneys' fees and costs) actually and reasonably incurred by Indemnitee in connection therewith. For purposes of this Agreement, and without limitation, the termination of any claim, issue or matter in any action, suit or proceeding by dismissal with prejudice shall be deemed to be a successful result as to such claim, issue or matter.

2. Agreement to Serve. In consideration of the protection afforded by this Agreement, if Indemnitee is a director of the Company he agrees to serve at least for the 90 days after the effective date of this Agreement as a director and not to resign voluntarily during such period without the written consent of a majority of the Board of Directors. If Indemnitee is an officer of the Company not serving under an employment contract, he agrees to serve in such capacity at least for the 90 days after the effective date of this Agreement and not to resign voluntarily during such period without the written consent of a majority of the Board of Directors. Following the applicable period set forth above, Indemnitee agrees to continue to serve in such capacity at the will of the Company (or under separate agreement, if such agreement exists) so long as he is duly appointed or elected and qualified in accordance with the applicable provisions of the Bylaws of the Company or any subsidiary of the Company or until such time as he tenders his resignation in writing. Nothing contained in this Agreement is intended to create in Indemnitee any right to continued employment.

### 3. Expenses; Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any civil or criminal action, suit or proceeding referenced in Section 1(a) or (b) hereof (but not amounts actually paid in settlement of any such action, suit or proceeding). Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefor by Indemnitee to the Company.

(b) Notice/Cooperation by Indemnitee. Indemnitee shall, as a condition precedent to his or her right to be indemnified under this Agreement, give the Company written notice as soon as practicable of any claim for which Indemnitee will or could seek indemnification under this Agreement. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

(c) Procedure. Any indemnification and advances provided for in Section 1 and this Section 3 shall be made no later than thirty (30) days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Company's Articles of Incorporation or Bylaws providing for indemnification, is not paid in full by the Company within thirty (30) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the claim and, subject to Section 8 and 10(g) of this Agreement, Indemnitee shall also be entitled to be paid for the expenses (including reasonable attorneys' fees and costs) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any action, suit or proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed. However, Indemnitee shall be entitled to receive interim payments of expenses pursuant to Section 3(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal exists. It is the parties' intention that if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be for a court of competent jurisdiction to decide, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its stockholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(d) Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 3(b) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the

insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Company shall be obligated under Section 3(a) hereof to pay the expenses of any proceeding against Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel approved by Indemnitee (which approval shall not be unreasonably withheld), upon the delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (i) Indemnitee shall have the right to employ his counsel in any such proceeding at Indemnitee's expense; and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (C) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company.

#### 4. Additional Indemnification Rights; Nonexclusivity; Contribution.

(a) Scope. Notwithstanding any other provision of this Agreement, the Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by the California General Corporation Law (the "CGCL"), notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Articles of Incorporation, the Company's Bylaws or by statute. In the event of any change, after the date of this Agreement, in any applicable law, statute, or rule which expands the right of a California corporation to indemnify a member of its board of directors or an officer, such changes shall be, ipso facto, within the purview of Indemnitee's rights and Company's obligations, under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a California corporation to indemnify a member of its board of directors or an officer, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Nonexclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Articles of Incorporation, its Bylaws, any agreement, any vote of stockholders or disinterested Directors, the CGCL, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in such capacity at the time of any action, suit or other covered proceeding.

(c) Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason

whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute (“Contribution”) to the amount incurred by Indemnitee, whether for liabilities and/or for expenses, in connection with any proceeding relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such proceeding in order to reflect (1) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving rise to such proceeding; and (2) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s), *provided, however*, that no such Contribution shall be made pursuant to this Section 4(c) with respect to any of the matters set forth in Section 8.

5. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually and reasonably incurred by him in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

6. Mutual Acknowledgement. Both the Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company’s right under public policy to indemnify Indemnitee.

7. Officer and Director Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses from wrongful acts, or to ensure the Company’s performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of director and officer liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company’s directors, if Indemnitee is a director; or of the Company’s officers, if Indemnitee is not a director of the Company but is an officer. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a subsidiary or parent of the Company.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Claims Initiated by Indemnitee. To indemnify, provide Contribution or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought

voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 317 of the CGCL, but such indemnification, Contribution or advancement of expenses may be provided by the Company in specific cases if the Board of Directors has approved the initiation or bringing of such suit; or

(b) Lack of Good Faith. To indemnify or provide Contribution to Indemnitee for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous; or

(c) Insured Claims. To indemnify or provide Contribution to Indemnitee for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) which have been paid directly to Indemnitee by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Company; or

(d) Claims Under Section 16(b). To indemnify or provide Contribution to Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

#### 9. Construction of Certain Phrases.

(a) For purposes of this Agreement, references to the "Company" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries.

#### 10. Miscellaneous.

(a) Choice of Law. This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of California, as applied to contracts between

California residents entered into and to be performed entirely within California without regard to the conflict of law principles thereof.

(b) Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of California .

(c) Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by both the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

(d) Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto.

(e) Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns, and shall inure to the benefit of Indemnitee and Indemnitee's estate, heirs and legal representatives.

(f) Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

(g) Attorneys' Fees. In the event that any action is instituted by Indemnitee under this Agreement to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by Indemnitee with respect to such action, unless as a part of such action, the court of competent jurisdiction determines that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the name of the Company under this Agreement or to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by Indemnitee in defense of such action (including with respect to Indemnitee's counterclaims and cross-claims made in such action), unless as a part of such action the court determines that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.



(h) Notice. All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be delivered personally by hand or by courier, mailed by United States first-class mail, postage prepaid, sent by facsimile or sent by electronic mail directed to the party to be notified at the address, facsimile number or electronic mail address indicated for such person on the signature page hereof, or at such other address, facsimile number or electronic mail address as such party may designate by ten (10) days' advance written notice to the other parties hereto. All such notices and other communications shall be deemed given upon personal delivery, on the date of mailing, upon confirmation of facsimile transfer or when directed to the electronic mail address set forth on signature page hereof.

(i) Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

(j) Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

(k) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

*[signature page follows]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

QUALITY SYSTEMS, INC.

By: \_\_\_\_\_  
Steven T. Plochocki, Chief Executive Officer

Address:  
18111 Von Karman Avenue, Suite 600  
Irvine, CA 92612  
Facsimile #: 949-255-2600  
Email: [splochocki@qsii.com](mailto:splochocki@qsii.com)

AGREED TO AND ACCEPTED:

**“Indemnitee”**

\_\_\_\_\_  
Patrick B. Cline

Address:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Email: [pcline@nextgen.com](mailto:pcline@nextgen.com)

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

I, Steven T. Plochocki, certify that:

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

Date: November 4, 2011

By: /s/ Steven T. Plochocki

Steven T. Plochocki  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Paul A. Holt, certify that:

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

Date: November 4, 2011

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

**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, 2011 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2011

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

Dated: November 4, 2011

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

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