

# Quality Systems Inc

**S&P Recommendation** **HOLD** ★★☆☆☆

**Price**  
\$66.18 (as of Dec 3, 2010)

**12-Mo. Target Price**  
\$65.00

**Investment Style**  
Small-Cap Growth

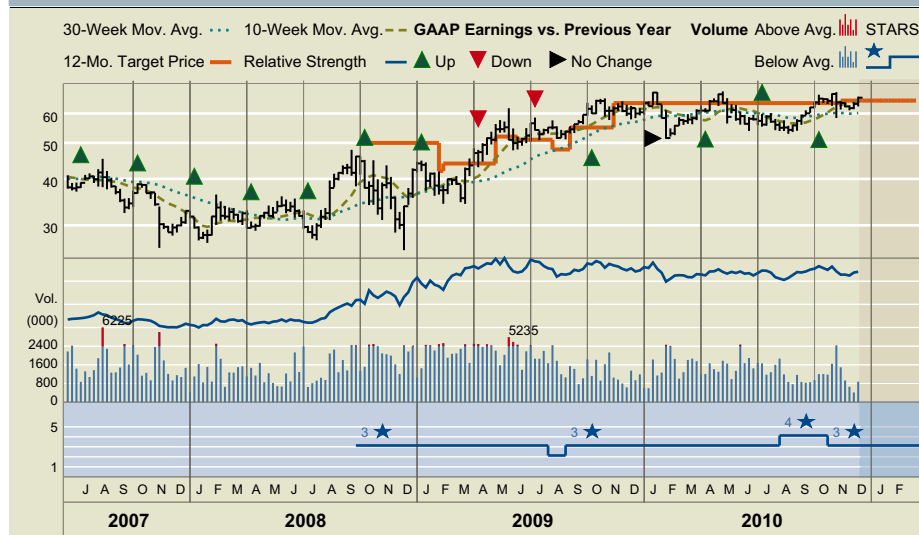
**GICS Sector** Health Care  
**Sub-Industry** Health Care Technology

**Summary** This company develops and provides computer-based practice management and electronic medical records systems for medical and dental practices.

**Key Stock Statistics** (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$68.89–51.30</b>	S&P Oper. EPS 2011E	<b>2.08</b>	Market Capitalization(B)	<b>\$1.916</b>	Beta	<b>0.95</b>
Trailing 12-Month EPS	<b>\$1.79</b>	S&P Oper. EPS 2012E	<b>2.60</b>	Yield (%)	<b>1.81</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>16</b>
Trailing 12-Month P/E	<b>37.0</b>	P/E on S&P Oper. EPS 2011E	<b>31.8</b>	Dividend Rate/Share	<b>\$1.20</b>	S&P Credit Rating	<b>NA</b>
\$10K Invested 5 Yrs Ago	<b>\$18,113</b>	Common Shares Outstg. (M)	<b>29.0</b>	Institutional Ownership (%)	<b>78</b>		

**Price Performance**



**Qualitative Risk Assessment**

**LOW** **MEDIUM** **HIGH**

Our risk assessment reflects rapid changes in technology, intense competition in the health care information technology market, and uncertainty in the U.S. economy, offset by the favorable impact we expect from wider adoption of healthcare IT over time.

**Quantitative Evaluations**

**S&P Quality Ranking** **B**

D C B- **B** B+ A- A A+

**Relative Strength Rank** **MODERATE**

64  
LOWEST = 1 HIGHEST = 99

**Revenue/Earnings Data**

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2011	82.93	81.46	--	--	--
2010	66.64	71.70	74.96	78.51	291.8
2009	55.22	58.98	65.48	65.83	245.5
2008	42.03	45.15	48.09	51.23	186.5
2007	36.07	37.46	38.50	45.14	157.2
2006	27.43	29.54	26.75	35.57	119.3

Earnings Per Share (\$)	2011	2010	2009	2008	2007	2006
	0.42	0.46	E0.58	E0.59	E2.08	
	0.36	0.41	0.46	0.45	1.68	
	0.40	0.37	0.46	0.40	1.62	
	0.29	0.35	0.40	0.41	1.44	
	0.28	0.30	0.32	0.31	1.21	
	0.19	0.22	0.18	0.28	0.85	

Fiscal year ended Mar. 31. Next earnings report expected: NA. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

**Dividend Data** (Dates: mm/dd Payment Date: mm/dd/yy)

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.300	01/27	03/19	03/23	04/05/10
0.300	05/28	06/15	06/17	07/06/10
0.300	07/30	09/15	09/17	10/05/10
0.300	10/29	12/15	12/17	01/05/11

Dividends have been paid since 2005. Source: Company reports.

Analysis prepared by **Zaineb Bokhari** on November 16, 2010, when the stock traded at **\$61.61**.

**Highlights**

- ▶ We estimate sales growth of 20% in FY 11 (Mar.), following a 19% increase reported in FY 10. Our outlook reflects a gradual improvement in the U.S. economy and projected advances of 29% for revenue cycle management and 24% for maintenance and services. We see software and related product sales increasing 15%. We expect spending on new IT projects will be supported by federal incentives for the adoption of electronic health records. We view favorably the recent certification of QSII's solution but expect quarterly sales to be lumpy.
- ▶ We forecast that gross margins will remain near 62% in FY 11, due to rising revenue cycle management sales, which have narrow gross margins. QSII added considerable sales capacity in the second half of FY 10; we expect hiring to be more measured in FY 11. Although we anticipate a higher absolute run rate for selling, general and administrative expense due to hiring, we expect SG&A to decline to 29% of revenue in FY 11 from 30% in FY 10. We see this and anticipated cost reductions from the integration of HSI and PMP resulting in modestly wider operating margins in FY 11.
- ▶ After taxes at 36%, we see EPS of \$2.08 in FY 11.

**Investment Rationale/Risk**

- ▶ We see the release of final "meaningful use" rules driving broader adoption of healthcare IT over time, but also expect competitive pressures to build. We expect bookings to be favorably impacted by the finalization of rules for the federal government's American Recovery and Reinvestment Act (ARRA), which offers financial incentives to support investment by health care providers in certified electronic health records systems over the next several years. We look for earnings accretion in FY 11 from recently acquired Opus Healthcare (February 2010).
- ▶ Risks to our opinion and target price include regulatory delays, sustained economic weakness, slower project implementations, ongoing competition, sales turnover and the potential for disruption from elevated M&A activity.
- ▶ Our 12-month target price of \$65 is based on a blend of our discounted cash flow (DCF) and P/E analyses. Our DCF model assumes a 9% weighted average cost of capital and 2% terminal growth, yielding an intrinsic value of about \$67. From our P/E analysis, we derive a value of \$63, applying a 27X P/E multiple to our forward 12-month EPS estimate of \$2.35.

**Quality Systems Inc****Business Summary** November 16, 2010

**CORPORATE OVERVIEW.** Quality Systems Inc. is a developer of health care information systems that automate certain aspects of medical and dental practices, networks of practices such as physician hospital organizations, management service organizations, ambulatory care centers, community health centers, and medical and dental schools. QSII was formed in 1974 and initially focused on providing information systems to dental group practices. The company entered the medical market and acquired two companies to accelerate its development.

Since then, QSII has continued to expand its product portfolio through internal development and acquisitions. In May 2008, it acquired Healthcare Strategic Initiatives (HSI) for about \$17 million in cash and stock. In October 2008, the company acquired Practice Management Partners, Inc. (PMP), for \$19 million in cash and an additional \$3 million in earn outs. These two acquisitions strengthened QSII's capability in revenue cycle management service, and led to the formation of a new business division called Practice Solutions, which mainly offers billing and collection services to physician practices. After FY 10, the company recast its results along three business segments: NextGen (79% of FY 10 revenue), QSI Dental (6%) and Practice Solutions (15%). More recent acquisitions have included Opus Healthcare Solutions (February 2010), a provider of clinical information systems to the small hospital inpatient market, and Sphere, a provider of financial information systems to the small hospital inpatient market (August 2009). Contributions from these acquisitions are included in the company's NextGen division.

Both the QSI and NextGen divisions develop software that streamlines many administrative functions required for operating in their respective industries, such as completing patient records and forwarding insurance claims. In addition to streamlining the record keeping and reimbursement process, QSII systems provide workflow process by integrating patient information with clinical test results on an enterprise-wide platform that allows many concurrent users.

**CORPORATE STRATEGY.** QSII sells its products primarily through a direct sales force. The company focuses its sales efforts on medical and dental practices in the U.S. QSII believes the adoption rate for its clinical software is relatively low, as the company's software often competes with customers' paper-based systems as opposed to replacing previously purchased systems. QSII augments its sales force with a small number of resellers. Software license sales by resellers accounted for less than 10% of total revenue in FY 09 and FY 10.

Since November 2009, QSII has sharply increased the size of its direct sales force, ending FY 10 with about 105 reps, up from 72 at the start of November 2009. Since there is a four-to six-month training period and sales cycles can last from six to 24 months, we expect these reps to become productive later in 2010. The health care software industry is fragmented and intensely competitive. QSII's key competitors include Allscripts-Misys Healthcare Solutions, Athenahealth, Cerner Corporation, and McKesson Corporation.

**FINANCIAL TRENDS.** QSII has invested in infrastructure and sharply expanded its sales force over the past six months to position itself to take advantage of opportunities created by stimulus spending under the American Recovery and Reinvestment Act (ARRA). ARRA has a provision called Health Information Technology for Economic and Clinical Health Act (HITECH Act), which allocates over \$20 billion in financial incentives to broaden the use of electronic health records by health care providers. Providers can garner these incentives through the use of certified electronic health records systems, starting in 2011.

We expect sales growth of 20% in FY 11 and pipelines to expand in future quarters as a result of spending under ARRA, supported by a much larger sales force. We look for sales hiring to be more measured in FY 11 and anticipate some turnover, but note that the company exceeded its target of approximately 100 at the end of FY 10. While we expect signed business to rise in coming quarters, we think quarterly results will show some variation.

**Corporate Information****Investor Contact**

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S. Razin

**EVP & CFO**

P.A. Holt

**Pres**

P.B. Cline

**EVP, Secy & General****Counsel**

J.J. Sullivan

**CEO**

S. Plochocki

**Board Members**

C. A. Barbarosh

M. Brennan

G. H. Bristol

P. B. Cline

A. Hussein

R. Pflueger

S. Plochocki

S. Razin

M. A. Spivack

**Domicile**

California

**Founded**

1974

**Employees**

1,502

**Stockholders**

103

# Quality Systems Inc

## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	1-	<b>1</b>	2	3	4	5
		LOWEST				HIGHEST

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	<b>\$46.60</b>	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that QSII is overvalued by \$19.58 or 29.6%.
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<b>Investability Quotient Percentile</b>	<b>84</b>
	LOWEST = 1 HIGHEST = 100

QSII scored higher than 84% of all companies for which an S&P Report is available.

<b>Volatility</b>	<b>LOW</b>	AVERAGE	HIGH
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<b>Technical Evaluation</b>	<b>NEUTRAL</b>	Since November, 2010, the technical indicators for QSII have been NEUTRAL.
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<b>Insider Activity</b>	<b>UNFAVORABLE</b>	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2010	2009	2008	2007
Price/Sales	6.53	7.26	6.50	5.34
Price/EBITDA	23.59	23.36	19.60	15.90
Price/Pretax Income	25.00	24.32	19.23	15.50
P/E Ratio	39.39	38.67	30.22	25.28
Avg. Diluted Shares Outstg (M)	28.8	28.4	27.8	27.6

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	18.86	23.75	26.68	26.41
Net Income	4.90	13.51	24.72	36.51

## Ratio Analysis (Annual Avg.)

Net Margin (%)	16.58	18.95	19.51	17.22
% LT Debt to Capitalization	NA	NA	Nil	Nil
Return on Equity (%)	28.14	33.83	35.32	27.96

## Company Financials Fiscal Year Ended Mar. 31

Per Share Data (\$)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Tangible Book Value	3.82	3.83	4.08	3.30	2.64	2.32	2.34	1.86	1.57	1.34
Cash Flow	1.87	1.76	1.53	1.28	0.90	0.65	0.43	0.36	0.29	0.25
Earnings	1.68	1.62	1.44	1.21	0.85	0.61	0.40	0.28	0.21	0.14
S&P Core Earnings	1.67	1.63	1.41	1.21	0.74	0.57	0.39	0.26	0.19	0.13
Dividends	NA	1.00	1.00	1.00	0.88	0.75	Nil	Nil	Nil	Nil
Payout Ratio	NA	62%	69%	83%	103%	123%	Nil	Nil	Nil	Nil
Calendar Year	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Prices:High	65.98	47.94	45.44	45.97	44.62	16.25	12.44	6.09	4.50	4.69
Prices:Low	34.26	25.70	26.08	28.30	13.95	9.75	5.01	3.40	1.94	1.63
P/E Ratio:High	39	30	32	38	52	27	31	22	21	33
P/E Ratio:Low	20	16	18	23	16	16	13	12	9	11

## Income Statement Analysis (Million \$)

Revenue	292	246	187	157	119	89.0	70.9	54.8	44.4	39.9
Operating Income	80.8	76.4	61.8	52.8	37.2	25.6	17.5	12.8	9.94	7.68
Depreciation	5.45	3.95	2.37	1.95	1.37	1.01	0.84	2.18	2.09	2.70
Interest Expense	NA	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Pretax Income	76.2	73.3	63.0	54.2	37.9	25.5	17.0	11.1	8.50	6.02
Effective Tax Rate	NA	37.1%	36.4%	38.7%	38.5%	36.8%	38.9%	36.6%	38.0%	41.7%
Net Income	48.4	46.1	40.1	33.2	23.3	16.1	10.4	7.04	5.27	3.51
S&P Core Earnings	48.2	46.3	39.1	33.2	20.3	14.9	10.2	6.51	4.71	3.17

## Balance Sheet & Other Financial Data (Million \$)

Cash	91.8	70.2	61.5	60.0	57.2	51.2	51.4	36.4	25.4	18.5
Current Assets	220	179	150	133	108	89.0	76.9	58.8	42.9	35.2
Total Assets	310	242	188	151	122	99.4	86.7	67.6	52.1	44.9
Current Liabilities	101	79.6	70.2	56.5	46.7	33.9	25.7	20.1	12.1	11.0
Long Term Debt	NA	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Common Equity	188	156	114	91.2	72.4	62.7	61.0	47.5	40.1	33.9
Total Capital	188	160	115	91.2	72.4	63.0	61.0	47.5	40.1	33.9
Capital Expenditures	4.93	3.22	2.11	3.24	2.41	1.70	1.07	1.11	0.57	0.78
Cash Flow	53.8	50.1	42.4	35.2	24.7	17.1	11.2	9.21	7.35	6.21
Current Ratio	2.2	2.2	2.1	2.4	2.3	2.6	3.0	2.9	3.5	3.2
% Long Term Debt of Capitalization	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
% Net Income of Revenue	16.6	18.8	21.5	21.1	19.6	18.1	14.7	12.8	11.9	8.8
% Return on Assets	17.5	21.5	23.7	24.4	21.0	17.3	13.5	11.8	10.9	7.9
% Return on Equity	28.1	34.3	39.1	40.6	34.5	25.6	19.2	16.1	14.3	10.6

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Quality Systems Inc

## Sub-Industry Outlook

We have a neutral fundamental outlook for the health care technology sub-industry. This view reflects our belief that products and services of health care technology providers would be desired in many cases, but that growth trends in many areas have slowed as they have reached more mature stages.

This sub-industry includes companies that provide application, systems and/or data processing software, Internet-based tools, and IT consulting services to doctors, hospitals and health care businesses. Pharmaceutical companies tend to be major clients but we see mixed trends at these firms in coming periods. That view stems from a very substantial amount of patent expiries in branded drugs that started in 2006, with expiries in the U.S. expected to reach their peak in 2011 and 2012, when six of today's ten largest pharmaceutical products will face generic competition. On the positive side though, IMS Health, a leading provider of information to pharmaceutical and healthcare companies, is forecasting solid 5% to 8% compound annual growth in global pharmaceutical sales in the five years through 2014. Despite the slowing growth in more mature markets (3% to 6% compound annual rates seen by IMS in that period), IMS expects drug sales to grow at a compound annual rate of 14% to 17% in emerging markets over that time. We believe the government's recent health care legislation should also revive demand in this area, although price discounts will also apply. Overall, we think demand from pharmaceutical companies for health care technology services will improve somewhat in coming periods.

We also think health care facilities will seek technology products to assist with challenges. Hospital providers have faced an ongoing rise in uncompensated care, dependence on

reimbursement rates determined by governmental entities and managed care companies, and pressure on reimbursement rates for acute care and long-term care providers as a result of federal budget deficits. On the positive side, we anticipate modest increases in rates paid by managed care providers and higher Medicare reimbursement rates. Some of these factors could be shifted by the recent health care reform bill, but we do not see it offering any major assistance for several years. We base that opinion on the belief that rate cuts and givebacks will be implemented prior to the uninsured obtaining coverage.

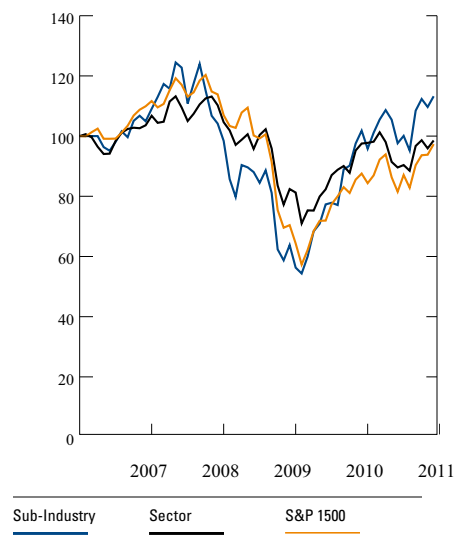
Year to date through November 12, the S&P Health Care Technology Index was up 8.2%, compared with an 8.5% rise in the S&P 1500. We see the Health Care Technology Index performing in line with the S&P 1500 over the next 12 months.

--Michael Jaffe

## Stock Performance

**GICS Sector: Health Care**  
**Sub-Industry: Health Care Technology**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 11/30/10



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

## Sub-Industry : Health Care Technology Peer Group\*: Based on market capitalizations within GICS Sub-Industry

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Quality Systems</b>	<b>QSII</b>	<b>1,916</b>	<b>66.18</b>	<b>68.89/51.30</b>	<b>0.95</b>	<b>1.8</b>	<b>37</b>	<b>46.60</b>	<b>B</b>	<b>84</b>	<b>16.6</b>	<b>NA</b>
A.D.A.M. Inc	ADAM	71	6.55	8.19/2.95	0.96	Nil	28	NA	C	17	NA	22.0
Computer Programs & Sys	CPSI	522	47.60	50.05/33.92	0.66	3.0	33	33.90	NR	85	11.9	NA
Emdeon Inc	EM	1,124	12.37	16.90/9.95	NA	Nil	88	NA	NR	31	1.0	45.6
HealthStream Inc	HSTM	145	6.65	7.60/1.98	1.06	Nil	11	5.80	B-	74	24.3	Nil
MedAssets Inc	MDAS	1,131	19.48	25.08/16.54	0.68	Nil	42	21.60	NR	29	5.8	30.9
MedQuist Inc	MEDQ	336	8.95	12.39/6.52	0.90	Nil	14	NA	NR	35	7.6	NA
Medidata Solutions	MDSO	494	20.75	21.83/13.36	NA	Nil	44	NA	NR	31	3.7	NA
Mediware Information Sys	MEDW	83	10.39	11.57/6.52	0.71	Nil	23	NA	B-	63	6.8	NA
Merge Healthcare	MRGE	318	3.82	4.25/1.92	0.78	Nil	NM	2.80	C	8	0.4	NA
Omniceil Inc	OMCL	462	14.02	15.38/10.93	1.02	Nil	NM	NA	B-	70	0.2	NA
SXC Health Solutions	SXCI	2,759	45.37	45.69/22.61	0.80	Nil	47	38.00	NR	25	3.2	NA
Transcend Services	TRCR	163	15.48	21.82/12.00	1.06	Nil	22	18.70	B-	75	9.4	NA
Vital Images	VTAL	195	13.88	16.92/12.20	1.20	Nil	NM	7.10	C	17	NA	NA
athenahealth Inc	ATHN	1,449	42.28	47.82/21.51	1.06	Nil	NM	36.80	NR	78	4.9	4.0

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**Quality Systems Inc****S&P Analyst Research Notes and other Company News****December 1, 2010**

Quality Systems Inc. announced that it has named James J. Sullivan to the position of executive vice president, general counsel and secretary of the company, effective November 29, 2010. In this capacity, Sullivan will be responsible for overseeing all legal-related functions for the company. The general counsel role is a newly created position, and Sullivan is replacing Paul A. Holt as secretary of the company. Holt will continue to serve as executive vice president and chief financial officer. Sullivan brings more than 25 years of experience in corporate and securities law to the company. Before joining Quality Systems, Sullivan served as senior vice president, general counsel and secretary of The TriZetto Group Inc.

**October 29, 2010**

11:53 am ET ... S&P MAINTAINS HOLD RECOMMENDATION ON SHARES OF QUALITY SYSTEMS (QSII 63.94\*\*\*): Sep-Q EPS of \$0.46, vs. \$0.41, misses our \$0.55 estimate. Sales rose 14% to \$81.5M, \$4M below our view, as a few large deals slipped into Dec-Q. We think market activity has picked up since the finalization of meaningful use rules, and favorably view the recent certification of QSII's EHR solution but still expect quarterly sales to be lumpy. As QSII has largely built out its salesforce, we expect some margin expansion ahead. We trim FY 11 (Mar.) EPS \$0.06 to \$2.08 but raise FY 12 \$0.03 to \$2.60. We raise our target price \$1 to 65, blending relative and intrinsic measures. /Z.Bokhari

**October 20, 2010**

02:21 pm ET ... S&P LOWERS OPINION ON SHARES OF QUALITY SYSTEMS TO HOLD FROM BUY, ON VALUATION (QSII 63.52\*\*\*): QSII shares trade near our \$64 12-month target price, and we now think they are fairly valued. We continue to expect future bookings to be favorably impacted by the recent finalization of rules for the federal government's American Recovery and Reinvestment Act, which offers financial incentives to support investment by health care providers in certified electronic health records systems. We keep our EPS estimates of \$2.14 for FY 11 (Mar) and \$2.57 for FY 12. We base our target price on a blend of our P/E analysis, and intrinsic valuation measures. /Z.Bokhari

**August 13, 2010**

Quality Systems Inc. announced that at the annual general meeting held on August 11, 2010, the shareholders elected Maureen A. Spivack as director of the company.

**July 30, 2010**

01:27 pm ET ... S&P RAISES OPINION ON SHARES OF QUALITY SYSTEMS TO BUY FROM HOLD, ON VALUATION (QSII 54.02\*\*\*\*): Jun-Q EPS of \$0.42 vs. \$0.36 is \$0.07 below our est. Sales rose 24% to \$83M, \$2.6M above our view, with higher hardware sales adding to growth but negatively impacting gross margin. SG&A and R&D exceeded our view, but we see growth for these costs slowing. We see the release of final "meaningful use" rules driving broader adoption of healthcare IT over time, but also expect competitive pressures to build. We trim our FY 11 (Mar.) EPS \$0.06 to \$2.14 to reflect Jun-Q, and set \$2.57 for FY 12. We keep our target price at \$64, blending relative and intrinsic measures. /Z. Bokhari

**May 28, 2010**

QSII posts \$0.45 vs. \$0.40 Q4 EPS on 19% revenue rise. Street was looking for \$0.49. Says Q4 results were negatively impacted by amortization of acquired intangibles, transaction costs related to acquisition of Opus Healthcare Solutions, decreases in collections from co.'s revenue cycle management division. Also announces resignation of COO Philip Kaplan.

**May 28, 2010**

11:53 am ET ... S&P MAINTAINS HOLD RECOMMENDATION ON SHARES OF QUALITY SYSTEMS (QSII 57.93\*\*\*): Mar-Q EPS of \$0.45, vs. \$0.40, is \$0.01 below our est. Sales rose 19% to \$78.5M, \$1.5M above our view as strong systems sales offset weather-related weakness in revenue cycle management. QSII sees the U.S. government finalizing "meaningful use" this July, but we think the possibility of more delays should be considered. QSII's sales force has grown 50% over last 6 months, and we expect pipelines to benefit. We are concerned by the departure of QSII's COO after a brief tenure but lift our FY 11 (Mar.) sales view \$1.5M to \$350M and EPS \$0.05 to \$2.20. We keep our \$64 target price. /Z.Bokhari

**May 28, 2010**

10:06 am ET ... QUALITY SYSTEMS, INC. (QSII 56.92) DOWN 3.81, QUALITY SYS. (QSII) POSTS Q4. LEERINK SWANN CITES CONCERN ABOUT COSTS... Analyst George Hill tells salesforce QSII posted \$0.45 Q4 EPS, \$0.04 below his, consensus \$0.49 est. on higher-than-expected SG&A costs, amortization costs of acquired intangibles (OPUS acquisition). Notes SG&A costs were 32.1% of rev., a high (as percent of rev.) for at least last 2 yrs. Is concerned by hike in SG&A spend, will be focused during 10 am ET conf. call on whether increasing competition in ambulatory space is raising cost of doing biz. Also is concerned about resignation of COO Phillip Kaplan. Currently rates QSII outperform./B.Egli

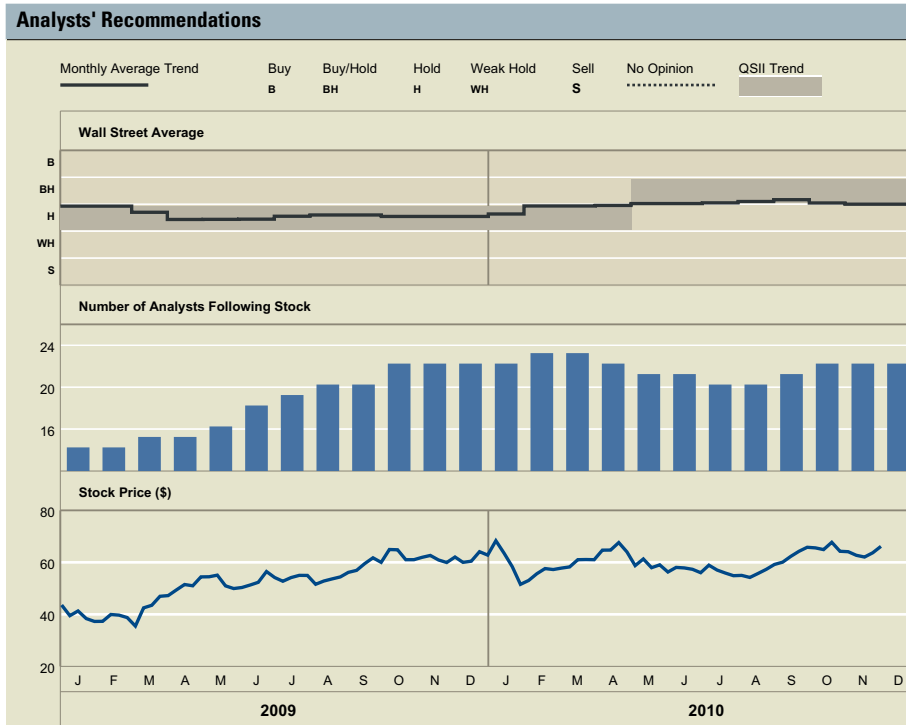
**May 3, 2010**

10:18 am ET ... S&P MAINTAINS HOLD RECOMMENDATION ON SHARES OF QUALITY SYSTEMS (QSII 65.08\*\*\*): Ahead of Mar-Q results expected late May, we maintain our EPS estimate of \$0.46 vs. \$0.40. We currently project a sales increase of 17% to \$77M. We see maintenance, electronic data interchange, and revenue cycle management as the primary drivers for our sales outlook. QSII expanded its sales force by 20 in Dec-Q to 92, and we expect reported Mar-Q pipelines to expand as a result. We see additional sales hiring as QSII expands its sales force to approximately 100 by the end of FY 10 (Mar.), and we see earnings accretion in FY 11 from recently acquired Opus Healthcare. /Z.Bokhari

**April 22, 2010**

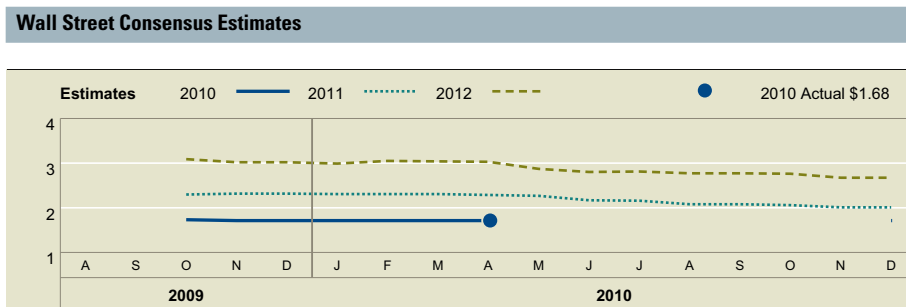
Quality Systems Inc. announced that several executives have been promoted into expanded roles as the company further strengthens its veteran management team. Tim Eggena has been named executive vice president of research and development, a role with newly created and expanded responsibilities that includes the overseeing of all ambulatory research and development efforts, including, among others, electronic health records (EHR), practice management solutions, mobile strategy, health information exchange and integration of inpatient solutions. Previously, as vice president of product development at NextGen, Eggena, oversaw product development of NextGen Healthcare's EHR and Practice Management Systems. Additionally, Donn Neufeld, who served as senior vice president and general manager of QSI's Dental unit, was named executive vice president of electronic data interchange (EDI) and dental, for both NextGen and QSI. In this role, Neufeld will continue to oversee the QSI Dental business unit as well as head the EDI business unit. Previously, Neufeld held the role of senior vice president and general manager of the QSI Division since 2008. His responsibilities included managing all aspects of the dental business including sales, implementation, development and support. Eggena reports to Scott Decker, president of NextGen Healthcare. Sandler and Neufeld will report directly to QSI Chief Operating Officer Philip N. Kaplan.

# Quality Systems Inc



Of the total 23 companies following QSII, 22 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	4	18	4	5
Buy/Hold	4	18	4	5
Hold	13	59	13	10
Weak Hold	1	5	1	1
Sell	0	0	0	0
No Opinion	0	0	0	0
<b>Total</b>	<b>22</b>	<b>100</b>	<b>22</b>	<b>21</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2012	2.69	3.30	2.40	21	24.6
2011	2.02	2.14	1.92	21	32.8
<b>2012 vs. 2011</b>	<b>▲ 33%</b>	<b>▲ 54%</b>	<b>▲ 25%</b>	<b>0%</b>	<b>▼ -25%</b>
Q3'12	0.71	0.85	0.64	14	93.2
Q3'11	0.54	0.59	0.49	22	NM
<b>Q3'12 vs. Q3'11</b>	<b>▲ 31%</b>	<b>▲ 44%</b>	<b>▲ 31%</b>	<b>▼ -36%</b>	<b>NM</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

### Wall Street Consensus Opinion

**BUY/HOLD**

### Companies Offering Coverage

- Auriga USA
- Bb&t Capital Markets
- Bofa Merrill Lynch
- Brean Murray, Carret & Co.
- Caris & Company
- Deutsche Bank North America
- FBR Capital Markets & Co.
- First Analysis Securities Corp
- JMP Securities
- Jefferies & Co.
- Jpmorgan
- Leerink Swann LLC
- Maxim Group
- Morgan, Keegan & Company, Inc.
- Oppenheimer & Co.
- Piper Jaffray
- Raymond James
- Sidoti & Company LLC
- Stifel Nicolaus & Company, inc.
- Thinkquity LLC
- UBS (us)
- Wells Fargo Securities, LLC
- William Blair & Company, L.I.c.

### Wall Street Consensus vs. Performance

For fiscal year 2011, analysts estimate that QSII will earn \$2.02. For the 2nd quarter of fiscal year 2011, QSII announced earnings per share of \$0.46, representing 23% of the total annual estimate. For fiscal year 2012, analysts estimate that QSII's earnings per share will grow by 33% to \$2.69.

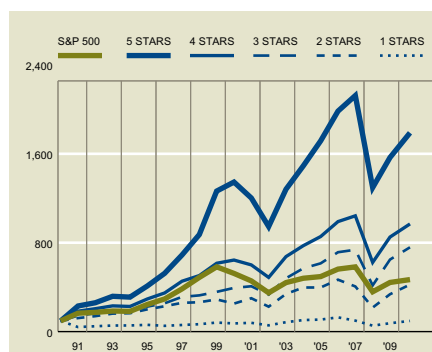
# Quality Systems Inc

## Glossary

### S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

### STARS Average Annual Performance



### S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

### Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

### Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

### Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

### S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

### S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

### S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

### Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

### Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

### Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

### S&P's IQ Rationale: Quality Systems

	Raw Score	Max Value
Proprietary S&P Measures	29	115
Technical Indicators	25	40
Liquidity/Volatility Measures	19	20
Quantitative Measures	49	75
<b>IQ Total</b>	<b>122</b>	<b>250</b>

### Volatility

Rates the volatility of the stock's price over the past year.

### Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

### Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

### Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

### S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

### Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

### S&P Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC-London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

### Abbreviations Used in S&P Equity Research Reports

**CAGR**- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

# Quality Systems Inc

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**Globally:** As of September 30, 2010, research analysts at Standard & Poor's Equity Research Services globally have recommended 39.5% of issuers with buy recommendations, 50.2% with hold recommendations and 10.3% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

**For All Regions:** All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

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