



Quality Systems, Inc.

September 30, 2000

Message To Our Shareholders

With the close of our second quarter of fiscal 2001, QSI is progressing toward our vision of the future while building on the achievements of the recent past.

Second-quarter revenues rose 4.3% to \$9.7 million from \$9.3 million in the prior quarter, which ended June 30, 2000. Net income of \$744,000, or \$0.12 per basic and diluted share, was up 19% from the prior quarter's net income of \$625,000, or \$0.10 per basic and diluted share.

This quarter was marked by a number of notable achievements, including:

- Our MicroMed division, which had a 30% growth rate during our previous fiscal year, had a new all-time revenue record of \$5.12 million for the quarter.
- The QSI division, which rebounded from a very difficult Q1, had revenues of \$4.5 million, representing an 8.4% increase over the prior quarter.
- Our EDI product line was up 47% from the year prior, and up 9% from the previous quarter, showing good sequential growth.
- Maintenance and other services, which is our recurring revenue stream, were up 20% from the previous year.
- Continued progress in building the Company's capabilities and successes in our Internet and ASP business model initiatives.

We are obviously very proud of these accomplishments, and are aggressively pursuing ever higher levels of performance. We continue to pursue improvements in our business fundamentals and to evolve our vision for the future. Further, we continue to see great potential for our products and our company.

Overall, we look at the quarter as a continuation of the positive revenue, profit, earnings-per-share, and product progress that we've made. We also look at the quarter as confirmation that there is much more to be accomplished.



Lou Silverman

Consolidated Balance Sheets

<i>(in thousands)</i>	<i>(unaudited)</i>	
	<i>September 30,</i>	<i>March 31,</i>
	<i>2000</i>	<i>2000</i>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$16,605	\$15,926
Short-term investments	248	243
Accounts receivable, net	15,107	13,710
Inventories	967	1,010
Other current assets	1,322	2,496
Total current assets	34,249	33,385
Equipment and Improvements, net	2,026	1,797
Capitalized Software Costs, net	1,894	1,984
Deferred Tax Asset	2,936	3,042
Excess of Cost Over Net Assets of Acquired Business, net	1,942	2,112
Other Assets	1,655	1,816
Total assets	\$44,702	\$44,136
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,617	\$ 1,246
Deferred service revenue	5,712	5,691
Other current liabilities	3,871	5,116
Total liabilities	11,200	12,053
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, \$0.01 par value, 20,000 shares authorized, 6,208 and 6,201 shares issued and outstanding, respectively	62	62
Additional paid-in capital	35,533	35,483
Accumulated deficit	(2,093)	(3,462)
Total shareholders' equity	33,502	32,083
Total liabilities and shareholders' equity	\$44,702	\$44,136

Consolidated Statements of Operations and Comprehensive Income (Unaudited)

<i>(in thousands, except per share amounts)</i>	<i>Three Months Ended September 30,</i>		<i>Six Months Ended September 30,</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
Net Revenues:				
Sales of computer systems, upgrades and supplies	\$4,794	\$5,633	\$9,189	\$10,749
Maintenance, EDI, and other	4,869	4,076	9,736	8,062
	9,663	9,709	18,925	18,811
Cost of Products and Services	4,363	4,466	8,395	8,524
Gross Profit	5,300	5,243	10,530	10,287
Selling, General and Administrative Expenses	3,244	3,138	6,609	6,178
Research and Development Costs	974	965	1,979	1,857
	1,082	1,140	1,942	2,252
Income from Operations	1,082	1,140	1,942	2,252
Investment Income	251	182	497	348
Income before Provision for Income Taxes	1,333	1,322	2,439	2,600
Provision for Income Taxes	589	584	1,070	1,120
Net Income and Comprehensive Income	\$ 744	\$ 738	\$1,369	\$ 1,480
Net Income per Share, basic & diluted	\$ 0.12	\$ 0.12	\$ 0.22	\$ 0.24