
**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 December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

Commission file number 0-13801

QUALITY SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

**California
(State or Other Jurisdiction of
Incorporation or Organization)**

**95-2888568
(I.R.S. Employer
Identification No.)**

**18191 Von Karman Avenue, Irvine California 92612
(Address of Principal Executive Offices)**

(Zip Code)

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

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 twelve 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 ninety days. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock as of the latest practicable date: 13,295,523 shares of Common Stock, \$0.01 par value, as of January 27, 2006.

PART I

CONSOLIDATED FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

QUALITY SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS	<u>DECEMBER 31, 2005</u> (UNAUDITED)	<u>MARCH 31, 2005</u>
Current assets:		
Cash and cash equivalents.....	\$ 75,228	\$ 51,157
Accounts receivable, net.....	37,861	33,362
Inventories, net.....	670	960
Prepaid income tax.....	2,579	15
Net current deferred tax assets.....	1,796	1,796
Other current assets.....	<u>1,976</u>	<u>1,677</u>
Total current assets.....	120,110	88,967
Equipment and improvements, net.....		
Capitalized software costs, net.....	3,270	2,697
Goodwill.....	4,880	4,334
Other.....	1,840	1,840
	<u>1,830</u>	<u>1,604</u>
Total assets.....	<u>\$ 131,930</u>	<u>\$ 99,442</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 3,371	\$ 2,284
Deferred revenue.....	33,036	24,115
Accrued compensation and related benefits.....	4,299	3,436
Other current liabilities.....	<u>3,389</u>	<u>4,021</u>
Total current liabilities.....	44,095	33,856
Deferred revenue, net of current.....		
Net deferred tax liabilities.....	1,080	1,362
Deferred compensation.....	291	291
	<u>1,529</u>	<u>1,202</u>
Total liabilities.....	46,995	36,711
Commitments and contingencies.....		
	--	--
Shareholders' equity:		
Common stock, \$0.01 par value; authorized 50,000 shares; issued and outstanding 13,296 and 13,111 shares at December 31, 2005 and March 31, 2005, respectively.....	133	131
Additional paid-in capital.....	50,710	44,499
Retained earnings.....	34,883	19,213
Deferred compensation.....	<u>(791)</u>	<u>(1,112)</u>
Total shareholders' equity.....	84,935	62,731
Total liabilities and shareholders' equity.....	<u>\$ 131,930</u>	<u>\$ 99,442</u>

See accompanying condensed notes to consolidated financial statements.

QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2005	DECEMBER 31, 2004	DECEMBER 31, 2005	DECEMBER 31, 2004
Revenues:				
Software, hardware and supplies.....	\$ 10,835	\$ 9,781	\$ 37,469	\$ 27,891
Implementation and training services.	2,615	1,889	8,136	6,455
System sales.....	<u>13,450</u>	<u>11,670</u>	<u>45,605</u>	<u>34,346</u>
Maintenance and other services.....	9,992	7,681	28,531	21,477
Electronic data interchange services.	3,310	2,737	9,586	7,612
Maintenance, EDI and other services...	<u>13,302</u>	<u>10,418</u>	<u>38,117</u>	<u>29,089</u>
Total revenue.....	<u>26,752</u>	<u>22,088</u>	<u>83,722</u>	<u>63,435</u>
Cost of revenue:				
Software, hardware and supplies.....	1,659	1,384	6,023	5,428
Implementation and training services.	1,975	1,575	5,741	4,546
Total cost of system sales.....	<u>3,634</u>	<u>2,959</u>	<u>11,764</u>	<u>9,974</u>
Maintenance and other services.....	3,553	2,823	10,598	8,727
Electronic data interchange services.	2,216	1,733	6,403	4,853
Total cost of maintenance, EDI and other services.....	<u>5,769</u>	<u>4,556</u>	<u>17,001</u>	<u>13,580</u>
Total cost of revenue.....	<u>9,403</u>	<u>7,515</u>	<u>28,765</u>	<u>23,554</u>
Gross profit.....	<u>17,349</u>	<u>14,573</u>	<u>54,957</u>	<u>39,881</u>
Operating expenses:				
Selling, general and administrative	8,016	6,420	24,968	16,786
Research and development costs.....	2,208	1,707	5,926	5,137
Total operating expenses.....	<u>10,224</u>	<u>8,127</u>	<u>30,894</u>	<u>21,923</u>
Income from operations.....	7,125	6,446	24,063	17,958
Interest income.....	594	263	1,395	553
Income before provision for income taxes.....	7,719	6,709	25,458	18,511
Provision for income taxes.....	<u>2,904</u>	<u>2,488</u>	<u>9,774</u>	<u>7,193</u>
Net income.....	<u>\$ 4,815</u>	<u>\$ 4,221</u>	<u>\$ 15,684</u>	<u>\$ 11,318</u>
Net income per share:				
Basic.....	<u>\$ 0.36</u>	<u>\$ 0.33</u>	<u>\$ 1.19</u>	<u>\$ 0.88</u>
Diluted.....	<u>\$ 0.35</u>	<u>\$ 0.32</u>	<u>\$ 1.15</u>	<u>\$ 0.86</u>
Weighted average shares outstanding:				
Basic.....	<u>13,245</u>	<u>12,952</u>	<u>13,169</u>	<u>12,800</u>
Diluted.....	<u>13,686</u>	<u>13,282</u>	<u>13,624</u>	<u>13,134</u>

See accompanying condensed notes to consolidated financial statements.

QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED	
	DECEMBER 31, 2005	DECEMBER 31, 2004
Cash flows from operating activities:		
Net income.....	\$ 15,684	\$ 11,318
Adjustments to reconcile net income to net cash provided by operating activities:.....		
Depreciation.....	989	724
Amortization of capitalized software costs.....	1,795	1,424
Provision for bad debts.....	1,002	635
Provision for inventory obsolescence.....	119	19
Non-cash compensation from issuance of options.....	321	323
Tax benefit from exercise of stock options.....	3,535	2,067
Changes in assets and liabilities:		
Accounts receivable.....	(5,501)	(8,228)
Inventories.....	171	(699)
Other current assets.....	(299)	84
Prepaid income tax.....	(2,564)	--
Other assets.....	(226)	(374)
Accounts payable.....	1,087	614
Deferred revenue.....	8,639	6,439
Accrued compensation and related benefits.....	863	(681)
Income taxes payable.....	--	1,533
Other current liabilities.....	(632)	933
Deferred compensation.....	327	48
Net cash provided by operating activities.....	25,310	16,179
Cash flows from investing activities:		
Additions to equipment and improvements.....	(1,562)	(1,118)
Additions to capitalized software costs.....	(2,341)	(1,777)
Net cash used in investing activities.....	(3,903)	(2,895)
Cash flows from financing activities:		
Dividends paid.....	(14)	--
Proceeds from the exercise of stock options.....	2,678	1,753
Net cash provided by financing activities.....	2,664	1,753
Net increase in cash and cash equivalents.....	24,071	15,037
Cash and cash equivalents at beginning of period.....	51,157	51,395
Cash and cash equivalents at end of period.....	\$ 75,228	\$ 66,432
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes, net of refunds	\$ 8,600	\$ 3,741

See accompanying condensed notes to consolidated financial statements.

QUALITY SYSTEMS, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements as of December 31, 2005 and for the three and nine months ended December 31, 2005 and 2004, 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 footnotes which would be presented were such financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These financial statements should be read in conjunction with the audited financial statements presented in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005. 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.

References to dollar amounts in this financial statement section are in thousands, except share and per share data, unless otherwise specified. Certain prior year amounts have been reclassified to conform with fiscal year 2006 presentation.

2. Stock Split

On February 2, 2005, the Board of Directors declared a 2-for-1 stock split with respect to the Company's outstanding shares of common stock. The stock split record date was March 4, 2005 and the stock began trading post split on March 28, 2005. References to share and per share data contained in the consolidated financial statements have been retrospectively adjusted to reflect the stock split for all periods presented.

3. Summary of Significant Accounting Policies

Principles of consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company accounts and transactions have been eliminated.

Revenue recognition. The Company currently recognizes revenue pursuant to Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2), as amended by Statement of Position No. 98-9 "Modification of SOP 97-2, Software Revenue Recognition" (SOP 98-9). The Company generates revenue from the sale of licensing rights to its software products directly to end-users and value-added resellers (VARs). The Company also generates revenue from sales of hardware and third party software, implementation, training, software customization, Electronic Data Interchange (EDI), post-contract support (maintenance) and other services performed for customers who license its products.

A typical system contract contains multiple elements of the above items. SOP 98-9 requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on vendor specific objective evidence (VSOE). The Company limits its assessment of VSOE for each element to either the price charged when the same element is sold separately (using a rolling average of stand alone transactions) 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 at the end of each quarter.

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

When evidence of fair value exists for the undelivered elements only, the residual method, provided for under SOP 98-9, 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. Undelivered elements of a system sale may include implementation and training services, hardware and third party software, maintenance, future purchase discounts, or other services. 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 contract amount upon contract execution. 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 and determinable and collection is considered probable, revenue from licensing rights and sales of hardware and third party software is generally recognized upon shipment and transfer of title. Revenue from implementation and training services is recognized as the corresponding services are performed. Maintenance revenue is recognized ratably over the contractual maintenance period.

Contract accounting is applied where services include significant software modification, development or customization. In such instances, the arrangement fee is accounted for in accordance with Statement of Position No. 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" (SOP 81-1). Pursuant to SOP 81-1, the Company uses the percentage of completion method provided all of the following conditions exist:

- contract includes provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement;
- the customer can be expected to satisfy its obligations under the contract;
- the Company can be expected to perform its contractual obligations; and
- reliable estimates of progress towards completion can be made.

The Company measures completion using labor input hours. Costs of providing services, including services accounted for in accordance with SOP 81-1, are expensed as incurred.

If a situation occurs in which a contract is so short term that the financial statements would not vary materially from using the percentage-of-completion method or in which the Company is unable to make reliable estimates of progress of completion of the contract, the completed contract method is utilized.

From time to time, the Company offers future purchase discounts on its products and services as part of its sales arrangements. Pursuant to AICPA TPA 5100.51, such discounts which are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, which are incremental to the range of discounts typically given in comparable transactions, and which 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.

Cash and cash equivalents. Cash and cash equivalents generally consist of cash, money market funds and short term U.S. Treasuries. The Company invests a portion of its cash in a money market fund which invests in only investment grade money market instruments from a variety of industries, and therefore bears minimal risk. The average maturity of the investments owned by the money market fund is approximately two to three months.

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

Included in accounts receivable are amounts related to maintenance and services which were billed, but which had not yet been rendered as of the end of the period. Undelivered maintenance and services are included on the balance sheet in deferred revenue.

Inventories. Inventories consist of hardware for specific customer orders and spare parts, and are valued at lower of cost (first-in, first-out) or market. Management provides a reserve to reduce inventory to its net realizable value.

Equipment and improvements. Equipment and improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of equipment and improvements are provided over the estimated useful lives of the assets, or the related lease terms if shorter, by the straight-line method. Useful lives range as follows:

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

Software development costs. Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any additional development costs are capitalized in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" (SFAS 86). Such costs are amortized on a straight line basis over the estimated economic life of the related product, which is generally three years. The Company reviews the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off.

Stock-based compensation. The Company accounts for stock-based employee compensation using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and has adopted the disclosure provisions from the Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS 148) that supercedes Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 148 requires pro forma disclosures of net income and net income per share as if the fair value based method of accounting for stock-based awards had been applied to employee grants. It also requires disclosure of option status on a more prominent and frequent basis. Such disclosure for the three and nine months ended December 31, 2005 and 2004 is presented below.

The Company accounts for stock options and warrants issued to non-employees based on the fair value method, but has not elected this treatment for grants to employees and Board of Director members. Under the fair value based method, compensation cost is recorded based on the value of the award at the grant date and is recognized over the service period.

On August 8, 2005, the Board of Directors granted 9,500 options under the Company's 1998 Stock Option Plan to selected employees at an exercise price equal to the market price of the Company's common stock on the date of the grant (\$64.89 per share). The options vest in four equal annual installments beginning August 8, 2006 and expire on August 8, 2012. No compensation expense has been recorded for these options.

On October 5, 2005, the Board of Directors granted a total of 62,000 stock options under the Company's 1998 Stock Option Plan to non-management Directors pursuant to the Company's previously announced compensation plan for non-management directors, at an exercise price equal to the market price of the Company's common stock on the date of the grant (\$68.13 per share). The options fully vested on January 5, 2006 and expire on October 5, 2012. No compensation expense has been recorded for these options.

The Company's fair value calculations for options granted on August 8, 2005 and October 5, 2005 were made using the Black-Scholes option pricing model with the following assumptions: expected life - approximately 57 months; stock volatility - 47.7%, risk free interest rate of 3.7%; and no dividends during the expected term. At the time the options were granted, the Company had no commitment to any future dividends and had not paid any dividends other than a one-time dividend in fiscal year 2005. Therefore, management believes that using a zero dividend rate in the valuation of the stock options granted on August 8, 2005 and October 5, 2005 is appropriate.

The Company's calculations are based on a single option valuation approach and forfeitures are recognized as they occur. If the computed fair values of awards had been amortized to

expense over the vesting period of the awards, pro forma net income and net income per share would have been as follows (unaudited):

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2005	2004	2005	2004
Net income, as reported.....	\$ 4,815	\$ 4,221	\$15,684	\$11,318
Add: Option expense, net of tax...	66	67	196	196
Deduct: Stock-based compensation expense determined under the fair value based method, net of related tax effects.....	(1,700)	(346)	(2,806)	(710)
Pro forma net income.....	<u>\$ 3,181</u>	<u>\$ 3,942</u>	<u>\$13,074</u>	<u>\$10,804</u>
Net income per share:				
Basic, as reported.....	<u>\$ 0.36</u>	<u>\$ 0.33</u>	<u>\$ 1.19</u>	<u>\$ 0.88</u>
Basic, pro forma.....	<u>\$ 0.24</u>	<u>\$ 0.30</u>	<u>\$ 0.99</u>	<u>\$ 0.84</u>
Diluted, as reported.....	<u>\$ 0.35</u>	<u>\$ 0.32</u>	<u>\$ 1.15</u>	<u>\$ 0.86</u>
Diluted, pro forma.....	<u>\$ 0.23</u>	<u>\$ 0.30</u>	<u>\$ 0.96</u>	<u>\$ 0.82</u>

4. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS 123R) which is a revision of SFAS 123. Statement 123R supersedes APB 25 and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" (SFAS 95). SFAS 123R requires all share-based payments to employees and non-employee directors acting in their role as members of the Board of Directors, including grants of stock options, to be recognized in the income statement based on their fair values and the pro forma disclosure alternative is no longer allowable under SFAS 123R. Subsequently, in April 2005, the Securities and Exchange Commission (SEC) extended the effective date for required implementation of SFAS 123R as described above to the first annual reporting period beginning after June 15, 2005, which for the Company will commence April 1, 2006. The Company has not completed the process of evaluating the impact that will result from adopting SFAS 123R and is therefore unable to disclose the impact that adoption will have on the Company's financial position and results of operations.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements" (SFAS 154). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect that adoption of SFAS 154 will have a material effect on its consolidated financial position, consolidated results of operations, or liquidity.

5. Composition of Certain Financial Statement Captions

Accounts receivable include amounts related to maintenance and services which were billed but not yet rendered as of the end of the period. Undelivered maintenance and services are included on the consolidated balance sheet as part of the deferred revenue balance.

	DECEMBER 31, 2005 (Unaudited)	MARCH 31, 2005
Accounts receivable, excluding undelivered maintenance and services.....	\$ 23,816	\$ 22,162
Undelivered maintenance and services billed in advance, included in deferred revenue.....	16,406	13,037
Accounts receivable, gross.....	<u>40,222</u>	<u>35,199</u>

Reserve for bad debts.....	(2,361)	(1,837)
Accounts receivable, net.....	\$ 37,861	\$ 33,362

Inventories are summarized as follows:

	DECEMBER 31, 2005	MARCH 31, 2005
	(Unaudited)	
Computer systems and components, net of reserve for obsolescence of \$266 and \$146, respectively.....	\$ 647	\$ 891
Miscellaneous parts and supplies.....	23	69
	<u>\$ 670</u>	<u>\$ 960</u>

Other current liabilities are summarized as follows:

	DECEMBER 31, 2005	MARCH 31, 2005
	(Unaudited)	
Customer deposits.....	\$ 706	\$ 527
Sales tax payable.....	644	833
Commission payable.....	666	625
Professional services.....	177	417
Payroll tax payable.....	220	--
Deferred rent.....	285	198
Accrued EDI expenses.....	--	419
Other accrued expenses.....	691	1,002
	<u>\$ 3,389</u>	<u>\$ 4,021</u>

Short and long-term deferred revenue are summarized as follows:

	DECEMBER 31, 2005	MARCH 31, 2005
	(Unaudited)	
Maintenance.....	\$ 5,881	\$ 4,639
Implementation services.....	20,705	17,471
Delivered VAR software, undelivered software and other.	7,530	3,367
	<u>\$ 34,116</u>	<u>\$ 25,477</u>

6. Intangible Assets - Goodwill

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), the Company does not amortize goodwill as the goodwill has been determined to have indefinite useful life. The balance of goodwill is related to the Company's NextGen Healthcare Information Systems Division (NextGen or Division), which was acquired by virtue of two acquisitions completed in May of 1996 and 1997, respectively. In accordance with SFAS 142, the Company has compared the fair value of the NextGen Division with the carrying amount of assets associated with the Division and determined that none of the goodwill recorded as of June 30, 2005 (the annual assessment date) was impaired. The fair value of NextGen was determined using a reasonable estimate of future cash flows of the Division and a risk adjusted discount rate to compute a net present value of future cash flows.

7. Intangible Assets - Capitalized Software Development Costs

The Company had the following amounts related to capitalized software development:

	DECEMBER 31, 2005	MARCH 31, 2005
	(Unaudited)	
Gross carrying amount.....	\$ 15,628	\$ 13,287
Accumulated amortization.....	(10,748)	(8,953)

Capitalized software costs, net.....	\$ 4,880	\$ 4,334
Aggregate amortization expense during the nine and twelve month periods ended, respectively.....	\$ 1,795	\$ 1,952

Activity related to net capitalized software costs for the nine month period ended December 31, 2005 is as follows:

Beginning of period.....	\$ 4,334
Capitalized costs.....	2,341
Amortization expense.....	(1,795)
End of the period.....	<u>\$ 4,880</u>

The following table represents the remaining estimated amortization of intangible assets with determinable lives as of December 31, 2005:

For the year ended March 31, 2006.....	\$ 664
2007.....	2,354
2008.....	1,480
2009.....	382
Total.....	<u>\$ 4,880</u>

8. Income Taxes

The provision for income taxes for the nine months ended December 31, 2005 was \$9,774 as compared to \$7,193 for the year ago period. The effective tax rates for the nine months ended December 31, 2005 and 2004 were 38.4% and 38.9%, respectively. The provision for income taxes for the nine months ended December 31, 2005 and 2004 differ from the combined statutory rates primarily due to the impact of varying state income tax rates and research and development tax credits. The effective rate for the nine months ended December 31, 2005 decreased slightly from the prior year due to the impact of research and development tax credits and the domestic manufacturer's deduction, which is effective for the year ending March 31, 2006.

9. Net Income Per Share

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

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2005	2004	2005	2004
Net income.....	\$ 4,815	\$ 4,221	\$ 15,684	\$ 11,318
Basic net income per common share:				
Weighted average of common shares outstanding.....	13,245	12,952	13,169	12,800
Basic net income per common share	<u>\$ 0.36</u>	<u>\$ 0.33</u>	<u>\$ 1.19</u>	<u>\$ 0.88</u>
Net income.....	\$ 4,815	\$ 4,221	\$ 15,684	\$ 11,318
Diluted net income per common share:				
Weighted average of common shares outstanding.....	13,245	12,952	13,169	12,800
Effect of potentially dilutive securities (options) ..	441	330	455	334
Weighted average of common shares outstanding-diluted.....	<u>13,686</u>	<u>13,282</u>	<u>13,624</u>	<u>13,134</u>

Diluted net income per common share.....	<u>\$ 0.35</u>	<u>\$ 0.32</u>	<u>\$ 1.15</u>	<u>\$ 0.86</u>
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10. Operating Segment Information

The Company has prepared operating segment information in accordance with Statement of Accounting Standards No. 131 "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131) to report components that are evaluated regularly by the Company's chief operating decision maker, or decision making group in deciding how to allocate resources and in assessing performance.

The Company's reportable operating segments include its NextGen Healthcare Information Systems Division and the QSI Division.

The disaggregated financial results of the segments reflect allocation of certain functional expense categories consistent with the basis and manner in which Company management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. Certain corporate overhead costs are not allocated to the individual segments by management. The Company evaluates performance based on stand-alone segment revenue and operating income performance. Because the Company does not evaluate performance based on return on assets at the operating segment level, assets are not tracked internally by segment. Therefore, segment asset information is not presented.

Operating segment data for the three and nine month periods ended December 31, 2005 and 2004 is as follows (unaudited):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2005	2004	2005	2004
Revenue:				
QSI Division.....	\$ 3,867	\$ 3,742	\$ 11,718	\$ 11,678
NextGen Division.....	22,885	18,346	72,004	51,757
Consolidated revenue.....	<u>\$ 26,752</u>	<u>\$ 22,088</u>	<u>\$ 83,722</u>	<u>\$ 63,435</u>
Operating income:				
QSI Division.....	\$ 951	\$ 1,037	\$ 2,971	\$ 3,436
NextGen Division.....	7,904	6,727	26,460	17,986
Unallocated corporate expenses	(1,730)	(1,318)	(5,368)	(3,464)
Consolidated operating income...	<u>\$ 7,125</u>	<u>\$ 6,446</u>	<u>\$ 24,063</u>	<u>\$ 17,958</u>

11. Concentration of Credit Risk

The Company had cash deposits at U.S. banks and financial institutions which exceeded federally insured limits at December 31, 2005. 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. Guarantees

Software license agreements in both our QSI and NextGen divisions include a performance guarantee that its 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 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 of less than 20 days in certain of its sales arrangements. Based on its historical experience with similar types of sales transactions bearing these short-term rights of return, the Company has not recorded any accrual for returns in its financial statements.

The Company's standard sales agreements in the NextGen division contain an indemnification provision pursuant to which it shall indemnify, hold harmless, and agree to 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 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.

From time to time, the Company offers future purchase discounts on its products and services as part of its sales arrangements. Discounts which are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, which are incremental to the range of discounts typically given in comparable transactions, and which 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.

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 and only if they host specific site visits upon our request for prospective customers which directly result in a purchase of our software by the visiting prospects. Amounts earned by existing users under this program are treated as a selling expense in the period in which commissionable software has been recognized as revenue.

13. Commitments and Contingencies

Litigation. After the close of business on October 26, 2005, the Company learned that a lawsuit has been filed against the Company and six of its eight directors by Ahmed Hussein, a director and significant shareholder of the Company. The complaint names the Company and all individual directors, except for directors Ibrahim Fawzy and Ahmed Hussein.

Filed in the Superior Court for Orange County, California, the complaint alleges that in connection with the Company's 2005 Annual Shareholders' Meeting, the certified results from the independent inspector of election included certain proxies that should not have been included in the final vote tabulation. The independent inspector of election has certified the election of the Company's eight directors (as previously announced) after hearing Mr. Hussein's claim concerning this matter. Specifically, Mr. Hussein seeks (i) a determination that the election of directors at the Annual Meeting is invalid, (ii) a determination that the votes of the disputed shares were improper and in violation of applicable regulations, (iii) an order requiring that the election of directors at the Annual Meeting be retabulated without including the disputed shares in the count, (iv) an order requiring the election of directors with the retabulated votes in a manner so as to provide Mr. Hussein with the greatest number of directors possible, and (v) costs.

A hearing was held before the California Superior Court on February 2, 2006. A further hearing is scheduled for March 7, 2006 at which time the court has informed the parties that a ruling is expected.

The Company believes that Mr. Hussein's claims lack merit and that the results certified by the independent inspector of elections are conclusive of this matter. The Company intends to defend itself and the directors named in Mr. Hussein's complaint vigorously.

14. Subsequent Events

On January 26, 2006, the Board of Directors approved a one-time cash dividend of \$1.75 per share payable on its outstanding shares of common stock. The cash dividend record date is February 24, 2006 and is expected to be distributed to shareholders on or about March 16, 2006.

On January 26, 2006, the Board of Directors approved a 2-for-1 stock split with respect to its outstanding shares of common stock. The stock split record date is March 3, 2006. The share and per share data presented and disclosed on the December 31, 2005 Consolidated Financial Statements and the Condensed Notes to the Consolidated Financial Statements have been adjusted for the stock split.

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 quarterly report 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 impact our ability to achieve our goals, and interested persons are urged to review the risks described in "Risk Factors" as set forth herein, as well as in our other public disclosures and filings with the Securities and Exchange Commission.

The following discussion 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 report. Historical results of operations, percentage profit fluctuations and any trends that may be inferred from the discussion below are not necessarily indicative of the operating results for any future period.

Critical Accounting Policies. The discussion and analysis of our financial condition 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 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, intangible assets and software development cost 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 are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe revenue recognition, the allowance for doubtful accounts, and software development costs are among the most critical accounting policies that impact our consolidated financial statements. We believe that our significant accounting policies, as described in Note 3 of our Condensed Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies", should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

Revenue Recognition. We currently recognize revenue pursuant to SOP 97-2, as amended by SOP 98-9. We generate revenue from the sale of licensing rights to use our software products sold directly to end-users and value-added resellers (VARs). We also generate revenue from sales of hardware and third party software, and implementation, training, software customization, EDI, post-contract support ("maintenance") and other services performed for customers who license our products.

A typical system contract contains multiple elements of the above items. SOP 97-2, as amended, requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of those elements. The fair value of an element must be based on vendor specific objective evidence (VSOE). We limit our assessment of VSOE for each element to either the price charged when the same element is sold separately (using a rolling average of stand alone transactions) 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 at the end of each quarter.

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

When evidence of fair value exists for the undelivered elements only, the residual method, provided for under SOP 98-9, 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. Undelivered elements

of a system sale may include implementation and training services, hardware and third party software, maintenance, future purchase discounts, or other services. 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.

We bill for the entire contract amount upon contract execution. 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 and determinable and collection is considered probable, revenue from licensing rights and sales of hardware and third party software is generally recognized upon shipment and transfer of title. Revenue from implementation and training services is recognized as the corresponding services are performed. Maintenance revenue is recognized ratably over the contractual maintenance period.

Contract accounting is applied where services include significant software modification, development or customization. In such instances, the arrangement fee is accounted for in accordance with Statement of Position No. 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" (SOP 81-1).

Pursuant to SOP 81-1, the Company uses the percentage of completion method provided all of the following conditions exist:

- contract includes provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement;
- the customer can be expected to satisfy its obligations under the contract;
- the Company can be expected to perform its contractual obligations; and
- reliable estimates of progress towards completion can be made.

We measure completion using labor input hours. Costs of providing services, including services accounted for in accordance with SOP 81-1, are expensed as incurred.

If a situation occurs in which a contract is so short term that the financial statements would not vary materially from using the percentage-of-completion method or in which we are unable to make reliable estimates of progress of completion of the contract, the completed contract method is utilized.

From time to time, we offer future purchase discounts on our products and services as part of our sales arrangements. Pursuant to AICPA TPA 5100.51, discounts which are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, which are incremental to the range of discounts typically given in comparable transactions, and which 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.

Allowance for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We perform credit evaluations of our customers and maintain reserves for estimated credit losses. Reserves for potential credit losses are determined by establishing both specific and general reserves. Specific reserves are based on management's estimate of the probability of collection for certain troubled accounts. General reserves are established based on our historical experience of bad debt expense and the aging of our accounts receivable balances net of deferred revenue and specifically reserved accounts. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances would be required.

Software Development Costs. Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. After technological feasibility is established with the completion of a working model of the enhancement or product, any additional development costs are capitalized in accordance with the Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" (SFAS 86). Such capitalized costs are amortized on a straight line basis over the estimated economic life of the related product, which is generally three years. We perform an annual review of the recoverability of such

capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off.

Company Overview

Quality Systems Inc., comprised of the QSI Division (QSI Division) and a wholly owned subsidiary, NextGen Healthcare Information Systems, Inc. (NextGen Division) (collectively, the Company, we, our, or us) develops and markets healthcare information systems that automate certain aspects of medical and dental practices, networks of practices such as physician hospital organizations (PHO's) and management service organizations (MSO's), ambulatory care centers, community health centers, and medical and dental schools.

The Company, 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 what is today the NextGen Division. Today, we serve the medical and dental markets through our two divisions.

The two Divisions operate largely as stand-alone operations with each Division maintaining its own distinct product lines, product platforms, development, implementation and support teams, sales staffing, and branding. The two Divisions share the resources of the "corporate office" which includes a variety of accounting and other administrative functions. Additionally, there are a small number of clients who are simultaneously utilizing software from each of our two Divisions.

The QSI Division, co-located with our Corporate Headquarters in Irvine, California, currently focuses on developing, marketing and supporting software suites sold to dental and certain niche medical practices. In addition, the Division supports a number of medical clients that utilize the Division's UNIX¹ based medical practice management software product.

The NextGen Division, with headquarters in Horsham, Pennsylvania, and a second significant location in Atlanta, Georgia, focuses principally on developing and marketing products and services for medical practices.

Both Divisions develop and market practice management software which 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. 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, both Divisions develop and market software that automates the patient record and enhances patient-provider interactions. Adoption of this software, commonly referred to as clinical software, is in its relatively early stages. Therefore, we are typically competing to replace paper-based patient record alternatives as opposed to replacing previously purchased systems.

Electronic Data Interchange (EDI)/connectivity products are intended to automate a number of manual, often paper-based or telephony intensive communications between patients and/or providers and/or payors. Two of the more common EDI services are forwarding insurance claims electronically from providers to payors and assisting practices with issuing statements to patients. Most practices utilize at least some of these services from us or one of our competitors. Other EDI/connectivity services are used more sporadically by client practices. We typically compete to displace incumbent vendors for claims and statements accounts, and attempt to increase usage of other elements in our EDI/connectivity product line. In general, EDI services are only sold to those accounts utilizing software from one of our Divisions.

¹ UNIX is a registered trademark of the AT&T Corporation.

The QSI Division's practice management software suite utilizes a UNIX operating system. Its Clinical Product Suite (CPS) utilizes a Windows NT² operating system and can be fully integrated with the practice management software from each Division. 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 EDI/connectivity applications. The QSI Application Service Provider (ASP/Internet) offering is also developed and marketed by the Division.

Our NextGen Division develops and sells proprietary electronic medical records software and practice management systems under the NextGen^{®3} product name. Major product categories of the NextGen suite include Electronic Medical Records (NextGen^{emr}), Enterprise Practice Management (NextGen^{epm}), Enterprise Appointment Scheduling (NextGen^{eas}), Enterprise Master Patient Index (NextGen^{epi}), NextGen Image Control System (NextGen^{ics}), Realtime Transaction Server (NextGen^{rts}), Electronic Data Interchange, System Interfaces, a Patient-centric Web Portal solution (NextMD⁴.com), and a handheld product (NextGen^{pda}). NextGen also markets a version of NextGen^{emr} with reduced capabilities (NextGen Express). NextGen products utilize Microsoft Windows technology and can operate in a client-server environment as well as via private intranet, the Internet, or within an ASP environment.

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

Inclusive of divisional EDI revenue, the NextGen Division accounted for approximately 85.5% of our revenue for the third quarter of fiscal 2006 compared to 83.1% in the third quarter of fiscal 2005. The QSI Division accounted for 14.5% and 16.9% of revenue in the third quarter of fiscal 2006 and 2005, respectively. The NextGen Division's year over year revenue grew at 24.7% and 31.0% in the third quarter of fiscal 2006 and 2005, respectively, while the QSI Division's year over year revenue increased by 3.3% and declined by 10.9% in the third quarter of fiscal 2006 and 2005, respectively.

In addition to the aforementioned software solutions which we offer through our two divisions, each division offers comprehensive hardware and software installation services, maintenance and support services, and system training services.

Risk Factors

The risk factors described below reflect material changes from risk factors as previously included in our Exchange Act reports. However, additional risks and uncertainties may also impair our business operations including but not limited to those outlined in our prior SEC filings. If any of these or other risks actually occur, our business, financial condition or results of operations will likely suffer. Any of these or other factors could harm our business and future results of operations and may cause you to lose all or part of your investment.

We face evolving competition. The markets for healthcare information systems are intensely competitive and there has been significant merger and acquisition activity among a number of our competitors in recent months. Transaction induced pressures, or other related factors may result in price erosion or other negative market dynamics that could have a material adverse effect on our business, results of operations, financial condition and price of our stock.

We face risks related to litigation advanced by a director and shareholder of the Company. After the close of business on October 26, 2005, we learned that a lawsuit has been filed against us and six of our eight directors (those elected by the shareholders, but not nominated by Mr. Hussein). The complaint alleges that in connection with our 2005 Annual Shareholders' Meeting, the certified results from the independent inspector of election included certain proxies that should not have been included in the final vote tabulation. The independent inspector of election certified the election of the eight directors

² Microsoft Windows, Windows NT, Windows 95, Windows 98, Windows XP, and Windows 2000 are registered trademarks of the Microsoft Corporation.

³ NextGen is a registered trademark of NextGen Healthcare Information Systems, Inc.

⁴ NextMD is a registered trademark of NextGen Healthcare Information Systems, Inc.

presently serving on the Board after hearing Mr. Hussein's claim concerning this matter. Mr. Hussein continues to pursue his claim in California State Superior Court. Moreover, following a ruling by the Superior Court, it is possible that such litigation may be continued by one or more parties by appealing such ruling. As a result of such litigation, the Company's operating results and share price may be negatively impacted due to the negative publicity, additional expenses incurred, management distraction, and/or other factors. In addition, litigation of this nature may negatively impact our ability to attract and retain qualified board members. It is also possible that Mr. Hussein will launch further proxy contests in opposition to the Company's board nominees at one or more future shareholder meetings with potential negative effects similar to those discussed above.

Our future policy concerning the payment of dividends is uncertain. While we paid a one-time cash dividend in March 2005 and have announced an additional dividend for March 2006, there can be no assurance that we will pay another dividend in the future. Unfulfilled expectations to the contrary could have a material negative impact upon the price of our stock.

Our future policy concerning stock split is uncertain. While we announced a 2:1 split of our stock in February 2005 and a second 2:1 stock split has been announced with an effective date of March 3, 2006, there can be no assurance that another stock split will occur in the future. Unfulfilled expectations to the contrary could have a material negative impact upon the price of our stock.

We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance. Based on our reading and interpretations of relevant guidance, principles or concepts issued by, among other authorities, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the United States Securities and Exchange Commission, Management believes our current sales and licensing contract terms and business arrangements have been properly reported. However, there continue to be issued interpretations and guidance for applying the relevant standards to a wide range of sales and licensing contract terms and business arrangements that are prevalent in the software industry. Future interpretations or changes by the regulators of existing accounting standards or changes in our business practices could result in future changes in our revenue recognition and/or other accounting policies and practices that could have a material adverse effect on our business, financial condition, cash flows, revenue and results of operations.

Our quarterly software revenue may fluctuate significantly. Sales of software licenses may fluctuate significantly from quarter to quarter based upon the size or timing of orders received from large purchasers.

Results of Operations

Overview of results

- We have experienced significant growth in our total revenue as a result of growth in our NextGen Division. Consolidated revenue grew 32.0% in the nine months ended December 31, 2005 versus 2004 and 21.6% in the nine months ended December 31, 2004 versus 2003.
- Consolidated income from operations grew 34.0% in the nine months ended December 31, 2005 versus 2004 and 54.6% in the nine months ended December 31, 2004 versus 2003. This performance was driven principally by the results in our NextGen Division.
- We have benefited and hope to continue to benefit from the increased demands on healthcare providers for greater efficiency and lower costs, as well as increased adoption rates for electronic medical records and other technology in the healthcare arena.
- During the quarter ended December 31, 2005, we had our first significant sale of licenses to Siemens Medical Solutions. This transaction was for \$4 million and was included in deferred revenue as of December 31, 2005.

NextGen Division

- Our NextGen Division has experienced significant growth in revenue and operating income. Divisional revenue grew 39.1% in the nine months ended December 31, 2005 versus 2004 and 30.4% in the nine months ended December 31, 2004 versus 2003 while divisional operating income (excluding unallocated corporate expenses) grew 47.1% in the nine months ended December 31, 2005 versus 2004 and 63.6% in the nine months ended December 31, 2004 versus 2003.
- During the nine months ended December 31, 2005, we added staffing resources to departments including sales, support, implementation, and software development and intend to continue to do so during the remainder of fiscal year 2006.
- Our goals include continuing to further enhance our existing products, developing new products for targeted markets, continuing to add new customers, selling additional software and services to existing customers and expanding penetration of connectivity services to new and existing customers.

QSI Division

- Our QSI Division revenue remained relatively consistent in the nine months ended December 31, 2005 versus 2004 and declined 6.2% in the nine months ended December 31, 2004 versus 2003. The Division experienced a 13.5% decrease in operating income (excluding unallocated corporate expenses) in the nine months ended December 31, 2005 versus 2004.
- Our goals for the QSI Division include maximizing revenue and profit performance given the constraints present in this Division's target market.

The following table sets forth for the periods indicated, the percentage of revenues represented by each item in our Consolidated Statements of Income.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues:				
Software, hardware and supplies....	40.5%	44.3%	44.8%	44.0%
Implementation and training services	9.8	8.5	9.7	10.1
System sales.....	50.3	52.8	54.5	54.1
Maintenance and other services.....	37.3	34.8	34.1	33.9
Electronic data interchange services	12.4	12.4	11.4	12.0
Maintenance, EDI and other services...	49.7	47.2	45.5	45.9
Total revenue.....	100.0	100.0	100.0	100.0
Cost of revenue:				
Software, hardware and supplies....	6.2	6.3	7.2	8.6
Implementation and training services	7.4	7.1	6.9	7.1
Total cost of system sales.....	13.6	13.4	14.1	15.7
Maintenance and other services.....	13.2	12.8	12.7	13.8
Electronic data interchange services	8.3	7.8	7.6	7.6
Total cost of maintenance, EDI and other services.....	21.5	20.6	20.3	21.4
Total cost of revenue.....	35.1	34.0	34.4	37.1
Gross profit.....	64.9	66.0	65.6	62.9
Selling, general and administrative	30.0	29.1	29.8	26.5
Research and development costs.....	8.2	7.7	7.1	8.1
Income from operations.....	26.7	29.2	28.7	28.3
Interest income.....	2.2	1.2	1.7	0.9
Income before provision for income				

taxes.....	28.9	30.4	30.4	29.2
Provision for income taxes.....	10.9	11.3	11.6	11.4
Net income.....	18.0%	19.1%	18.7%**	17.8%

** does not add due to rounding

For the Three-Month Periods December 31, 2005 versus 2004

Net Income. The Company's net income for the three months ended December 31, 2005 was \$4.8 million or \$0.36 per share on a basic and \$0.35 per share on a fully diluted basis. In comparison, we earned \$4.2 million or \$0.33 per share on a basic and \$0.32 per share on a fully diluted basis for the three months ended December 31, 2004. The increase in net income for the three months ended December 31, 2005 was achieved primarily through a 21.1% increase in consolidated revenue, driven by a 24.7% increase in NextGen Division revenue which accounted for 85.5% of consolidated revenue.

Revenue. Revenue for the three months ended December 31, 2005 increased 21.1% to \$26.8 million from \$22.1 million for the three months ended December 31, 2004. NextGen Division revenue increased 24.7% from approximately \$18.3 million to approximately \$22.9 million in the period, while QSI Division revenue increased by 3.3% during the period.

We report revenue in two major categories, "Systems sales" and "Maintenance, EDI and other services". Revenue in the systems sales category includes software license fees, hardware, third party software, supplies and implementation and training services related to the purchase of the Company's software systems. The majority of the revenue in the system sales category is related to the sale of software. Revenue in the Maintenance, EDI and other category includes maintenance, EDI, and other revenue. Maintenance and EDI revenue are the principal sources of revenue in this category.

System Sales. Company-wide sales of systems for the three months ended December 31, 2005, increased 15.3% to \$13.5 million from \$11.7 million in the prior year quarter.

Our increase in revenue from sales of systems was principally the result of a 13.2% increase in category revenue at our NextGen Division. Divisional sales in this category grew from \$11.3 million during the quarter ended December 31, 2004 to \$12.8 million during the quarter ended December 31, 2005. This increase was driven primarily by higher sales of NextGen^{emr} and NextGen^{epm} software to both new and existing clients, as well as delivery of related implementation services, offset by a decline in Company-wide sales of related hardware, third party software, and supplies.

The following table breaks down our reported system sales into software, hardware, third party software, supplies, and implementation and training services components by Division:

	Software	Hardware, Third Party Software and Supplies	Implementation and Training Services	Total System Sales
Three months ended DECEMBER 31, 2005				
QSI Division.....	\$ 216	\$ 391	\$ 67	\$ 674
NextGen Division.....	9,696	532	2,548	12,776
Consolidated.....	\$ 9,912	\$ 923	\$ 2,615	\$ 13,450
Three months ended DECEMBER 31, 2004				
QSI Division.....	\$ 167	\$ 132	\$ 89	\$ 388
NextGen Division.....	8,660	822	1,800	11,282
Consolidated.....	\$ 8,827	\$ 954	\$ 1,889	\$ 11,670

NextGen Division software revenue increased 12.0% between the three months ended December 31, 2004 and the three months ended December 31, 2005. During the quarter ended December 31, 2005, a \$4 million sale of licenses to a VAR that was closed and paid for in full during the quarter was not recognized based on application of applicable revenue recognition guidelines. Our VAR revenue may fluctuate significantly from quarter to quarter which could have a material effect on our operations.

During the three months ended December 31, 2005, 4.2% of NextGen's system sales revenue was represented by hardware and third party software compared to 7.3% in the same prior year period. We have noted that the last several quarter's results have included a relatively lower amount of hardware and third party software compared to prior periods. However, this decrease was not and is not the result of any change in emphasis on our part. The number of customers 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 customers. The inclusion of hardware and third party software in the Division's sales arrangements is typically at the request of the customer and is not a priority focus for us.

Implementation and training revenue at the NextGen Division increased 41.6% in the three months ended December 31, 2005 compared to the three months ended December 31, 2004. The year over year growth in implementation and training revenue is the result of increases in the amount of implementation and training services rendered to our customers. The amount of implementation and training services revenue and the corresponding rate of growth compared to a prior period in any given quarter is dependant on several factors including timing of customer 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 December 31, 2005 versus 2004 in order to accommodate the increased amount of implementation services sold in conjunction with increased software sales. In order to achieve continued increased revenue 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.

The NextGen Division's growth has come in part from investments in sales and marketing activities including hiring additional sales representatives, trade show attendance, and advertising expenditures. We have also benefited from winning numerous industry awards for the NextGen Division's flagship NextGen^{emr} and NextGen^{epm} software products in fiscal years 2005 and 2004, as well as in prior years, and the apparent increasing acceptance of electronic medical records technology in the healthcare industry.

For the QSI Division, total system sales increased 73.7% to \$0.7 million in the three months ended December 31, 2005 compared to \$0.4 million in the three months ended December 31, 2004 primarily due to an increase in sales of hardware, third party software and supplies. We do not presently foresee any material changes in the business environment for the Division with respect to the constrained environment that has been in place for the past several years.

Maintenance, EDI and Other Services. For the three months ended December 31, 2005, Company-wide revenue from maintenance and other services grew 27.7% to \$13.3 million from \$10.4 million in the same period in the prior year. The increase in this category resulted from an increase in both EDI and maintenance and other revenue from the NextGen Division's client base offsetting slight decreases in the QSI Division's aggregate revenue in these areas. Total NextGen Division maintenance revenue for the three months ended December 31, 2005 grew 23.7% to \$6.0 million from \$4.9 million in the same year ago period, while EDI revenue grew 44.9% to \$2.2 million compared to \$1.5 million during the same prior year period. QSI Division maintenance revenue declined 6.3% in the same period while QSI divisional EDI revenue declined by 8.3% between the same periods.

The following table details revenue included in the Maintenance, EDI and other category for the three month periods ended December 31, 2005 and 2004:

	Maintenance	EDI	Other	Total
Three months ended				
DECEMBER 31, 2005				
QSI Division.....	\$ 1,729	\$ 1,130	\$ 334	\$ 3,193
NextGen Division....	6,004	2,180	1,925	10,109
Consolidated.....	<u>\$ 7,733</u>	<u>\$ 3,310</u>	<u>\$ 2,259</u>	<u>\$ 13,302</u>
Three months ended				
DECEMBER 31, 2004				
QSI Division.....	\$ 1,845	\$ 1,232	\$ 277	\$ 3,354
NextGen Division....	4,852	1,505	707	7,064
Consolidated.....	<u>\$ 6,697</u>	<u>\$ 2,737</u>	<u>\$ 984</u>	<u>\$ 10,418</u>

The growth in maintenance revenue for the NextGen Division has come from new customers that have been added each quarter as well as our relative success in retaining existing maintenance customers. NextGen's EDI revenue growth has come from new customers and from further penetration of the Division's existing customer base. We intend to continue to promote maintenance and EDI services to both new and existing customers.

The following table provides the number of billing sites which were receiving maintenance services as of the last business day of the quarters ended December 31, 2005 and 2004 respectively, as well as the number of billing sites receiving EDI services during the last month of each respective period at each Division of the Company. The table presents summary information only and includes billing entities added and removed for any reason. Note also that a single client may include one or multiple billing sites, and changes in billing protocols for certain clients can cause period to period changes in the number of billing sites.

	NextGen		QSI		Consolidated	
	Maintenance	EDI	Maintenance	EDI	Maintenance	EDI
DECEMBER 31, 2004.....	504	373	301	225	805	598
Billing sites added.....	287	220	6	15	293	235
Billing sites removed.....	(8)	(63)	(27)	(50)	(35)	(113)
DECEMBER 31, 2005.....	<u>783</u>	<u>530</u>	<u>280</u>	<u>190</u>	<u>1,063</u>	<u>720</u>

Cost of Revenue. Cost of revenue for the three months ended December 31, 2005 increased 25.1% to \$9.4 million from \$7.5 million in the quarter ended December 31, 2004, while the cost of revenue as a percentage of net revenue increased to 35.1% from 34.0% due to the fact that the rate of growth in cost of revenue grew slightly faster than the aggregate revenue growth rate for the Company.

The following table details the individual components of cost of revenue and gross profit as a percentage of total revenue for our Company and our two Divisions:

	Hardware, Third Party Software	Payroll and related Benefits	Other	Total Cost of Revenue	Gross Profit
Three months ended DECEMBER 31, 2005					
QSI Division.....	10.4%	19.3%	20.4%	50.1%	49.9%
NextGen Division..	3.1	13.4	16.1	32.6	67.4
Consolidated.....	<u>4.1%</u>	<u>14.3%</u>	<u>16.7%</u>	<u>35.1%</u>	<u>64.9%</u>
Three months ended DECEMBER 31, 2004					
QSI Division.....	5.0%	17.8%	25.7%	48.5%	51.5%
NextGen Division..	4.5	12.3	14.3	31.1	68.9
Consolidated.....	<u>4.6%</u>	<u>13.2%</u>	<u>16.2%</u>	<u>34.0%</u>	<u>66.0%</u>

During the three months ended December 31, 2005, hardware and third party software constituted a smaller portion of consolidated revenue compared to the same year ago period driven principally by the composition of NextGen Division revenue. We have noted that the last several quarter's results have included a relatively lower amount of hardware and third party software compared with prior periods. However, this reduction was not the result of any change in emphasis on our part. The number of customers 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 the customers and is not a priority focus for us.

Our payroll and benefits expense associated with delivering our products and services increased to 14.3% of consolidated revenue in the three months ended December 31, 2005 compared to 13.2% during the three months ended December 31, 2004. The absolute level of consolidated payroll and benefit expenses grew from \$2.9 million in the three months ended

December 31, 2004 to \$3.8 million in the three months ended December 31, 2005, an increase of 31% or \$0.9 million. This increase was due primarily to additions to related headcount, payroll and benefits expense associated with delivering products and services in the NextGen Division where such expenses increased to \$3.1 million in three months ended December 31, 2005 from \$2.2 million in the three months ended December 31, 2004. Payroll and benefits expense associated with delivering products and services in the QSI Division during the three months ended December 31, 2005 and 2004 remained relatively unchanged at approximately \$0.7 million.

We anticipate continued additions to headcount in the NextGen Division 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.

We do not currently intend to make any significant additions to related headcount at the QSI Division.

"Other", which consists of outside service costs, amortization of software development costs and other costs, increased slightly on a consolidated basis to 16.7% of revenue during the three months ended December 31, 2005 compared to 16.2% a year ago.

Should the NextGen Division continue to represent an increasing share of our revenue and should the NextGen Division continue to carry higher gross profit than the QSI Division, our consolidated gross profit percentages should increase to more closely match those of the NextGen Division.

As a result of the foregoing events and activities, the gross profit percentage for the Company and our two operating divisions slightly decreased for the three month period ended December 31, 2005 versus the prior year period.

The following table details revenue and cost of revenue on a consolidated and divisional basis for the three month periods ended December 31, 2005 and 2004:

	Three months ended DECEMBER 31,		Three months ended DECEMBER 31,	
	2005	%	2004	%
QSI Division				
Revenue.....	\$ 3,867	100.0%	\$ 3,742	100.0%
Cost of revenue..	1,939	50.1	1,815	48.5
Gross profit.....	<u>\$ 1,928</u>	<u>49.9%</u>	<u>\$ 1,927</u>	<u>51.5%</u>
NextGen Division				
Revenue.....	\$ 22,885	100.0%	\$ 18,346	100.0%
Cost of revenue..	7,464	32.6	5,700	31.1
Gross profit.....	<u>\$ 15,421</u>	<u>67.4%</u>	<u>\$ 12,646</u>	<u>68.9%</u>
Consolidated				
Revenue.....	\$ 26,752	100.0%	\$ 22,088	100.0%
Cost of revenue..	9,403	35.1	7,515	34.0
Gross profit.....	<u>\$ 17,349</u>	<u>64.9%</u>	<u>\$ 14,573</u>	<u>66.0%</u>

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended December 31, 2005 increased 24.9% to \$8.0 million as compared to \$6.4 million for the three months ended December 31, 2004. The increase in the amount of such expenses resulted primarily from a \$0.5 million increase in compensation expense in the NextGen Division, a net \$0.7 million increase in other selling, general and administrative expenses in the NextGen Division and a \$0.4 million increase in corporate related expenses. Approximately half of the increase in year over year corporate related expense was related to an increase in compensation expense. Selling, general and administrative expenses as a percentage of revenue increased slightly from 29.1% in the three months ended December 31, 2004 to 30.0% in the three months ended December 31, 2005 due to the fact that the rate of growth in selling, general and administrative expense grew faster than the aggregate revenue growth rate for the Company.

We anticipate increased expenditures for trade shows, advertising and the employment of additional sales and administrative staff at the NextGen Division. We also anticipate

future increases in corporate expenditures being made in a wide range of areas. 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 December 31, 2005 and 2004 were \$2.2 million and \$1.7 million, respectively. The increases in research and development expenses were primarily due to increased investment in the NextGen product line. Research and development costs as a percentage of net revenue increased to 8.2% from 7.7% during the three months ended December 31, 2005. Research and development expenses are expected to continue at or above current dollar levels.

Interest Income. Interest income for the three months ended December 31, 2005 increased to approximately \$0.6 million compared with \$0.3 million in the three months ended December 31, 2004. Interest income in the three months ended December 31, 2005 increased primarily due to the effect of an increase in short term interest rates versus the prior year quarter as well as comparatively higher amounts of funds available for investment during the three months ended December 31, 2005.

Our investment policy is determined by our Board of Directors. We currently maintain our cash in very liquid short term assets including money market funds and short term U.S. Treasuries with maturities of less than 90 days. Our Board of Directors may consider alternate uses for our cash including, but not limited to payment of a special dividend similar to one time dividends declared and paid in March 2005 and to be paid in March 2006, initiation of a regular dividend, initiation of a stock buy-back program, an expansion of our investment policy to include investments with maturities of greater than 90 days, or other items. Additionally, it is possible that we will utilize some or all of our cash to fund an acquisition or other similar business activity. 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 December 31, 2005 was approximately \$2.9 million as compared to approximately \$2.5 million for the year ago period. The effective tax rates for the three months ended December 31, 2005 and 2004 were 37.6% and 37.1%, respectively. The provision for income taxes for the three months ended December 31, 2005 and 2004 differ from the combined statutory rates primarily due to the impact of varying state income tax rates, research and development tax credits, and the newly-enacted domestic manufacturer's deduction under Internal Revenue Code Section 199. During the quarter ended December 31, 2004, the provision for income taxes was reduced by \$0.2 million of research and development credits that were not recognized in their respective prior periods. These credits were principally from credits in which the statute of limitations has expired.

Research and Development Tax Credits/Domestic Manufacturer's Deduction. For the three months ended December 31, 2005 and 2004, we have estimated research and development tax credits of \$138,000 and \$100,000, respectively. We expect to claim these credits on our respective tax returns. Research and development credits taken by the Company involve certain assumptions and judgments regarding qualification of expenses under the relevant tax codes.

For the three months ended December 31, 2005, we have estimated a deduction of \$123,000 for the newly-enacted domestic manufacturer's deduction. The Company expects to capture this benefit on our tax returns.

For the Nine-Month Periods December 31, 2005 versus 2004

Net Income. The Company's net income for the nine months ended December 31, 2005 was \$15.7 million or \$1.19 per share on a basic and \$1.15 per share on a fully diluted basis. In comparison, we earned \$11.3 million or \$0.88 per share on a basic and \$0.86 per share on a fully diluted basis in the nine months ended December 31, 2004. The increase in net income for the nine months ended December 31, 2005, was achieved primarily through the following:

- a 32.0% increase in consolidated revenue driven by a 39.1% increase in NextGen Division revenue which accounted for 86.0% of consolidated revenue; and
- increase in the consolidated gross profit percentage which increased to 65.6% in the nine months ended December 31, 2005 versus 62.9% in the same period last year.

Revenue. Revenue for the nine months ended December 31, 2005 increased 32.0% to \$83.7 million from \$63.4 million for the nine months ended December 31, 2004. NextGen Division revenue increased 39.1% from \$51.8 million during the nine month ended December 31, 2004 to \$72.0 million during the nine month ended December 31, 2005, while QSI Division revenue remained relatively consistent during the same period.

We report revenue in two major categories, "Systems sales" and "Maintenance, EDI and other services". Revenue in the systems sales category includes software license fees, hardware, third party software, supplies and implementation and training services related to purchase of the Company's software systems. The majority of the revenue in the system sales category is related to the sale of software. Revenue in the Maintenance, EDI and other category includes maintenance, EDI, and other revenue. Maintenance and EDI revenue are the principal sources of revenue in this category.

System Sales. Company-wide sales of systems for the nine months ended December 31, 2005 increased 32.8% to \$45.6 million from \$34.3 million in the same prior year period.

Our increase in revenue from sales of systems was principally the result of a 33.6% increase in category revenue at our NextGen Division. Divisional systems sales grew from \$32.8 million to \$43.9 million. This increase was driven primarily by higher sales of NextGen^{emr} and NextGen^{epm} software to both new and existing clients, as well as delivery of related implementation and training services, partially offset by decline in Company-wide sale of hardware, third party software, and supplies.

Category revenue in the QSI Division increased by 15.1% between the nine months ended December 31, 2004 and the nine months ended December 31, 2005. The primary reason for the increase was an increase in sales of hardware, third party software and supplies.

The following table breaks down our reported systems sales into software, hardware and third party software and supplies, and implementation and training services components by Division:

	Software	Hardware, Third Party Software and Supplies	Implementation and Training Services	Total System Sales
Nine months ended DECEMBER 31, 2005				
QSI Division.....	\$ 517	\$ 829	\$ 389	\$ 1,735
NextGen Division.....	33,156	2,967	7,747	43,870
Consolidated.....	<u>\$ 33,673</u>	<u>\$ 3,796</u>	<u>\$ 8,136</u>	<u>\$ 45,605</u>
Nine months ended DECEMBER 31, 2004				
QSI Division.....	\$ 686	\$ 576	\$ 246	\$ 1,508
NextGen Division.....	22,821	3,808	6,209	32,838
Consolidated.....	<u>\$ 23,507</u>	<u>\$ 4,384</u>	<u>\$ 6,455</u>	<u>\$ 34,346</u>

NextGen Division software revenue increased 45.3% between the nine months ended December 31, 2005 and the nine months ended December 31, 2004. The Division's software revenue accounted for 75.6% of divisional systems sales revenue during the nine months ending December 31, 2005, an increase from 69.5% in the nine months ended December 31, 2004. This increase was not the result of any new trend or change in emphasis on our part relative to software sales. Software license revenue continues to be an area of primary emphasis for the NextGen division and management was pleased with the Division's performance in this area.

During the nine months ended December 31, 2005, 6.8% of NextGen's systems sales revenue was represented by hardware and third party software compared to 11.6% in the same prior year period. We have noted that the last several quarter's results have included a relatively lower amount of hardware and third party software compared to prior periods. However, this decrease was not and is not the result of any change in emphasis on our part. The number of customers 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 customers. The inclusion of hardware and third party software in the division's sales arrangements is typically at the request of the customer and is not a priority focus for us.

Implementation and training revenue at the NextGen Division increased 24.8% from the nine months ended December 31, 2004 compared to the nine months ended December 31, 2005. The growth in implementation and training revenue is the result of increases in the amount of implementation and training services rendered to our customers. The number of implementation and training staff increased during the course of the nine months ended December 31, 2005 versus 2004 in order to accommodate the increased amount of implementation services sold in conjunction with increased software sales. In order to achieve continued increased revenue in this area, additional staffing increases and additional training facilities are anticipated, though actual future increases will depend upon the availability of qualified staff, business conditions, and our ability to retain current staff members.

The NextGen Division's growth has come in part from investments in sales and marketing activities including hiring additional sales representatives, trade show attendance, and advertising expenditures. We have also benefited from winning numerous industry awards for the NextGen Division's flagship NextGen^{emx} and NextGen^{epm} software products in fiscal years 2005 and 2004, as well as in prior years, and the apparent increasing acceptance of electronic medical records technology in the healthcare industry.

Maintenance, EDI and Other Services. For the nine months ended December 31, 2005, company-wide revenue from maintenance and other services grew 31.0% to \$38.1 million from \$29.1 million during the same period last year. The increase in this category resulted principally from an increase in both EDI and maintenance and other revenue from the NextGen Division's client base. Total NextGen Division maintenance revenue for the nine months ended December 31, 2005 grew 33.5% to \$17.2 million from \$12.9 million in the period a year ago, while EDI revenue grew 55.8% to \$6.1 million compared to \$3.9 million during the same period. QSI Division maintenance revenue declined 5.0% from \$5.5 million to \$5.2 million in the same period while QSI Divisional EDI revenue declined by 5.9% from \$3.7 million to \$3.5 million during such period.

The following table details revenue included in Maintenance, EDI and other for the nine month periods ended December 31, 2005 and 2004:

	Maintenance	EDI	Other	Total
Nine months ended				
DECEMBER 31, 2005				
QSI Division.....	\$ 5,246	\$ 3,470	\$ 1,266	\$ 9,982
NextGen Division....	17,157	6,116	4,862	28,135
Consolidated.....	<u>\$ 22,403</u>	<u>\$ 9,586</u>	<u>\$ 6,128</u>	<u>\$ 38,117</u>
Nine months ended				
DECEMBER 31, 2004				
QSI Division.....	\$ 5,523	\$ 3,687	\$ 959	\$ 10,169
NextGen Division....	12,852	3,925	2,143	18,920
Consolidated.....	<u>\$ 18,375</u>	<u>\$ 7,612</u>	<u>\$ 3,102</u>	<u>\$ 29,089</u>

The growth in overall maintenance revenue has come from new customers that have been added each quarter, additional software purchases by existing customers, as well as our relative success in retaining existing maintenance customers. NextGen EDI revenue growth has come from new customers and from further penetration of the Division's existing customer base. We intend to continue to promote maintenance and EDI services to both new and existing customers.

The following table provides the number of billing sites which were receiving maintenance services as of the last business day of the quarters ended December 31, 2005 and 2004 respectively, as well as the number of billing sites receiving EDI services during the last month of each respective period at each division of the Company. The table presents summary information only and includes billing entities added and removed for any reason. Note also that a single client may include one or multiple billing sites, and changes in billing protocols for certain clients can cause period to period changes in the number of billing sites.

NextGen		QSI		Consolidated	
Maintenance	EDI	Maintenance	EDI	Maintenance	EDI

DECEMBER 31,

2004.....	504	373	301	225	805	598
Billing sites added.....	287	220	6	15	293	235
Billing sites removed.....	(8)	(63)	(27)	(50)	(35)	(113)
DECEMBER 31, 2005.....	<u>783</u>	<u>530</u>	<u>280</u>	<u>190</u>	<u>1,063</u>	<u>720</u>

Cost of Revenue. The cost of revenue for the nine months ended December 31, 2005 increased 22.1% to \$28.8 million from \$23.6 million, while the cost of revenue as a percentage of net revenue decreased to 34.4% from 37.1% during the same period a year ago.

The decrease in our consolidated cost of revenue as a percentage of revenue between the nine months ended December 31, 2005 and the nine months ended December 31, 2004 is attributable to four main factors:

- a reduction in the level of third party hardware and software as a percentage of revenue in the NextGen Division;
- a reduction in the relative level of employee compensation expense included in cost of sales as a percentage of revenue in the NextGen Division as a result of increased leverage achieved with expanded revenue;
- an increase in the NextGen Division's share of consolidated revenue from 81.6% in the nine months ended December 31, 2004 to 86.0% in the nine months ended December 31, 2005. The NextGen Division's gross profit margin has been and continues to be higher than the gross profit margin for the QSI Division; and
- a decrease in the cost of revenue as a percentage of revenue in the NextGen Division causing a corresponding increase in gross profit margin.

The following table details the individual components of cost of revenue and gross profit as a percentage of total revenue for our Company and our two Divisions:

	Hardware, Third Party Software	Payroll and related Benefits	Other	Total Cost of Revenue	Gross Profit
Nine months ended DECEMBER 31, 2005					
QSI Division.....	9.4%	18.9%	20.8%	49.1%	50.9%
NextGen Division.	4.9	11.9	15.2	32.0	68.0
Consolidated.....	<u>5.5%</u>	<u>12.9%</u>	<u>16.0%</u>	<u>34.4%</u>	<u>65.6%</u>
Nine months ended DECEMBER 31, 2004					
QSI Division.....	6.9%	17.4%	25.0%	49.3%	50.7%
NextGen Division.	6.8	13.1	14.5	34.4	65.6
Consolidated.....	<u>6.8%</u>	<u>15.0%</u>	<u>15.3%</u>	<u>37.1%</u>	<u>62.9%</u>

During the nine months ended December 31, 2005, the cost of hardware and third party software constituted 5.5% of consolidated revenue compared to 6.8% in the same year ago period. We have noted that the last several quarter's results have included a relatively lower amount of hardware and third party software compared to prior periods. However this year over year reduction was and is not the result of any change in emphasis on our part. The number of customers 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 the customers and is not a priority focus for us.

Our payroll and benefits expense associated with delivering our products and services decreased to 12.9% of consolidated revenue in the nine months ended December 31, 2005 compared to 15.0% in the nine months ended December 31, 2004. The absolute level of consolidated payroll and benefit expenses grew from \$8.8 million in the nine months ended December 31, 2004 to \$10.8 million in December 31, 2005, an increase of 23%. This increase was due primarily to additions to headcount, payroll and benefits expense associated with delivering products and services in the NextGen Division. These divisional expenses increased to \$8.6 million in the nine months ended December 31, 2005 compared to \$6.8 million in the nine months ended December 31, 2004, an increase of 26%.

The Division's payroll and benefits expense associated with delivering products and services as a percentage of divisional revenue in the nine months ended December 31, 2005 decreased to 11.9% compared to 13.1% in the prior year period. Headcount expense as a percentage of revenue for the nine month period ended December 31, 2005 at the QSI Division increased compared to the prior year at 18.9% versus 17.4%, in the prior year period.

We anticipate continued additions to headcount in the NextGen Division 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.

We do not currently intend to make any significant additions to related headcount at the QSI Division.

"Other", which consists of outside service costs, amortization of software development costs and other costs, increased slightly to 16.0% of revenue from 15.3% in the year ago period.

Should the NextGen Division continue to represent an increasing share of our revenue and should NextGen continue to show higher gross profit percentages compared to the QSI Division, our gross profit percentages should increase to more closely match those of the NextGen Division.

As a result of the foregoing events and activities, our gross profit percentage for the Company and our two operating Divisions increased for the nine month period ended December 31, 2005 versus the prior year period.

The following table details revenue and cost of revenue on a consolidated and divisional basis for the nine month periods ended December 31, 2005 and 2004:

	Nine months ended DECEMBER 31,		Nine months ended DECEMBER 31,	
	2005	%	2004	%
QSI Division				
Revenue.....	\$ 11,718	100.0%	\$ 11,678	100.0%
Cost of revenue..	5,756	49.1	5,756	49.3
Gross profit.....	<u>\$ 5,962</u>	<u>50.9%</u>	<u>\$ 5,922</u>	<u>50.7%</u>
NextGen Division				
Revenue.....	\$ 72,004	100.0%	\$ 51,757	100.0%
Cost of revenue..	23,009	32.0	17,798	34.4
Gross profit.....	<u>\$ 48,995</u>	<u>68.0%</u>	<u>\$ 33,959</u>	<u>65.6%</u>
Consolidated				
Revenue.....	\$ 83,722	100.0%	\$ 63,435	100.0%
Cost of revenue..	28,765	34.4	23,554	37.1
Gross profit.....	<u>\$ 54,957</u>	<u>65.6%</u>	<u>\$ 39,881</u>	<u>62.9%</u>

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the nine months ended December 31, 2005 increased 48.7% to \$25.0 million as compared to \$16.8 million for the nine months ended December 31, 2004. The increase in the amount of such expenses resulted primarily from increases of \$2.0 million in salaries and related benefits in the NextGen division, \$1.3 million in commission expenses in the NextGen Division, \$1.1 million in travel expenses in the NextGen division, \$1.8 million in other general selling, general and administrative expenses in the NextGen Division and \$2.0 million in increased corporate related expenses. Approximately \$0.7 million of the increase in year over year corporate related expenses was salaries and related benefits and \$0.5 million was related to expenses associated with the contested director election which occurred in conjunction with the 2005 Annual Shareholders' Meeting. Selling, general and administrative expenses as a percentage of revenue increased from 26.5% in the nine months ended December 31, 2004 to 29.8% in the nine months ended December 31, 2005 due to selling, general, administrative expenses growing at a faster rate than revenue.

We anticipate increased expenditures for trade shows, advertising and the employment of additional sales and administrative staff at the NextGen Division. We also anticipate future increases in corporate expenditures being made in areas including but not limited

to staffing and professional services. 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 nine months ended December 31, 2005 and 2004 were \$5.9 million and \$5.1 million, respectively. The increases in research and development expenses were primarily due to increased investment in the NextGen product line. Research and development costs as a percentage of net revenue decreased to 7.1% from 8.1% due in part, to the fact that revenue growth exceeded the increase in research and development spending. Research and development expenses are expected to continue at or above current dollar levels.

Interest Income. Interest income for the nine months ended December 31, 2005 increased to \$1.4 million compared with \$0.6 million in the nine months ended December 31, 2004. Interest income in the nine months ended December 31, 2005 increased primarily due to the effect of an increase in short term interest rates versus the prior year period as well as comparatively higher amounts of funds available for investment during the nine months ended December 31, 2005.

Our investment policy is determined by our Board of Directors. We currently maintain our cash in very liquid short term assets including money market funds and short term U.S. Treasuries with maturities of less than 90 days. Our Board of Directors continues to review alternate uses for our cash including, but not limited to payment of a special dividend similar to one time dividends declared and paid in March 2005 and to be paid in March 2006, initiation of a regular dividend, initiation of a stock buy back program, an expansion of our investment policy to include investments with maturities of greater than 90 days, or other items. Additionally, it is possible that we will utilize some or all of our cash to fund an acquisition or other similar business activity. 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 nine months ended December 31, 2005 was approximately \$9.8 million as compared to \$7.2 million for the year ago period. The effective tax rates for the nine months ended December 31, 2005 and 2004 were 38.4% and 38.9%, respectively. The provision for income taxes for the nine months ended December 31, 2005 and 2004 differ from the combined statutory rates primarily due to the impact of varying state income tax rates, research and development tax credits, and the newly-created domestic manufacturer's deduction under Internal Revenue Code Section 199, which is effective for the tax year ended after December 31, 2004. The effective rate for the nine months ended December 31, 2005 decreased slightly from the prior year primarily due to the impact of research and development tax credits and the domestic manufacturer's deduction.

Research and Development Tax Credits/Domestic Manufacturer's Deduction. For the nine months ended December 31, 2005 and 2004, we have estimated research and development tax credits of \$0.4 million and \$0.3 million, respectively. The Company expects to claim these credits on our tax returns. Research and development credits taken by the Company involve certain assumptions and judgments regarding qualification of expenses under the relevant tax codes.

For the nine months ended December 31, 2005, we have estimated a deduction of \$0.4 million for the newly-enacted domestic manufacturer's deduction. The Company expects to capture this benefit on our tax returns.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for each of the nine months ended December 31, 2005 and 2004:

	Nine months ended DECEMBER 31,	
	2005	2004
Cash and cash equivalents.....	\$ 75,228	\$ 66,432
Net increase in cash and cash equivalents during the nine month period.....	\$ 24,071	\$ 15,037

Net income during the nine month period.....	\$	15,684	\$	11,318
Net cash provided by operations during the nine month period.....	\$	25,310	\$	16,179
Number of days of sales outstanding at start of the period.....		119		99
Number of days of sales outstanding at the end of the period.....		129		115

Cash provided by operations has historically been our primary source of cash and has primarily been driven by our net income and secondarily by non-cash expenses including depreciation, amortization of capitalized software, provisions for bad debts and inventory obsolescence, and stock option expenses.

The following table summarizes our statement of cash flows for the nine month period ended December 31, 2005 and 2004: (000's)

	2005	2004
Net Income	15,684	11,318
Non-cash expenses	4,226	3,125
Tax Benefit from Stock Options	3,535	2,067
Change in deferred revenue	8,639	6,439
Change in accounts receivable	(5,501)	(8,228)
Change in other assets & liabilities	(1,273)	1,458
Net Cash Provided by Operating Activities	<u>25,310</u>	<u>16,179</u>

Net Income

As referenced in the above table, net income makes up the majority of our cash generated from operations for the nine month period ended December 31, 2005 and 2004. Our NextGen Division's contribution to net income has increased each year due to that Division's operating income increasing more quickly than the Company as a whole.

Non-Cash expenses

Non-cash expenses include depreciation, amortization of capitalized software, provisions for bad debts and inventory obsolescence, and stock option expenses. Total non-cash expenses grew by approximately \$1.1 million between the nine month periods ended December 31, 2005 versus 2004. Approximately \$0.4 million of the increase was related to amortization of our increased investment in software development related to our NextGen division in both periods.

Tax Benefits from Stock Options

The quantity of stock options exercised by employees grew in the nine month period ending December 31, 2005 over 2004 levels resulting in an increase of approximately \$1.5 million dollars of tax benefit in the period ending December 31, 2005.

Deferred Revenue

Cash from operations benefited significantly 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 grew by approximately \$8.6 million in the nine month period ending December 31, 2005 versus \$6.4 million in the year ago period. A \$4 million sale of licenses to a VAR that was closed and paid for in full during the quarter contributed to the increase in deferred revenue during the nine month period ended December 31, 2005.

Accounts Receivable

Accounts receivable grew by approximately \$5.5 million and \$8.2 million in the nine month periods ending December 31, 2005 and 2004, respectively. The increase in accounts receivable in both periods is due to the following factors:

- o NextGen division revenue grew 39.1% and 30.4% in the nine month periods ended December 31, 2005 and 2004, respectively;
- o The NextGen Division constituted a larger percentage of our receivables at December 31, 2005 compared to March 31, 2005. Turnover of accounts receivable in the NextGen division is slower than the QSI division due to the fact that the majority of the QSI division's revenue is coming from maintenance and EDI services which typically have shorter payment terms than systems sales related revenue which historically have accounted for a major portion of NextGen division sales; and
- o We experienced an increase in the volume of undelivered services billed in advance by the NextGen division which were unpaid as of the end of each period and included in accounts receivable. This resulted in an increase in both deferred revenue and accounts receivable of approximately \$3.4 million and \$6.7 million in the nine month periods ended December 31 2005 and 2004, respectively.

The turnover of accounts receivable measured in terms of days sales outstanding (DSO) increased from 99 days to 115 days during the nine month period ended December 31, 2004 primarily due to the above mentioned factors. During the nine month period ended December 31, 2005, DSO's increased from 119 to 129 days primarily due to the above mentioned factors.

If amounts included in both accounts receivable and deferred revenue were netted, the Company's turnover of accounts received expressed as days sales outstanding would be 73 days as of December 31, 2005 and 72 days as of March 31, 2005. Provided turnover of accounts receivable, deferred revenue, and profitability remain consistent with the nine months ended December 31, 2005, we anticipate being able to continue to generate cash from operations during fiscal 2006 primarily from the net income of the Company.

Cash and cash equivalents increased by \$24.1 million between March 31, 2005 and December 31, 2005 primarily as a result of cash provided by operating activities. Cash and cash equivalents increased approximately \$15.0 million during the nine months ended December 31, 2004, also primarily as a result of cash generated by operating activities.

Net cash used in investing activities for the nine months ended December 31, 2005 and 2004 was \$3.9 million and \$2.9 million, respectively. Net cash used in investing activities for the nine months ended December 31, 2005 and 2004 consisted of additions to equipment and improvements and capitalized software.

During the nine months ended December 31, 2005, we received proceeds of \$2.7 million from the exercise of stock options and recorded a reduction in income tax liability of \$3.5 million related to tax deductions received from employee stock option exercises. The benefit was recorded as additional paid in capital.

At December 31, 2005, we had cash and cash equivalents of \$75.2 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 have no additional significant current capital commitments.

On January 26, 2006, the Board of Directors approved a one-time cash dividend of \$1.75 per share payable on its outstanding shares of common stock. The cash dividend record date is February 24, 2006 and is expected to be distributed to shareholders on or about March 16, 2006.

Management believes that its cash and cash equivalents on hand at December 31, 2005, together with cash flows from operations, if any, will be sufficient to meet its working capital and capital expenditure requirements in the ordinary course of business for the balance of fiscal 2006.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 31, 2005, and the effect that such obligations are expected to have on our liquidity and cash in future periods:

Contractual Obligations	Total	Less than a year	1-3 years	3-5 years	Beyond 5 years
Non-cancelable lease obligations	\$ 7,846	\$ 425	\$ 3,650	\$ 3,436	\$ 335

Item 3. Qualitative and Quantitative Disclosures About Market Risk

We have a significant amount of cash and short-term investments with maturities less than three months. This cash portfolio exposes us to interest rate risk as short-term investment rates can be volatile. Given the short-term maturity structure of our investment portfolio, we believe that it is not subject to principal fluctuations and the effective interest rate of our portfolio tracks closely to various short-term money market interest rate benchmarks.

Item 4. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) conducted an evaluation of the design and operation of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")). Based on their evaluation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2005, our officers including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded that our disclosure controls and procedures result in the effective recordation, processing, summarization and reporting of information that is required to be disclosed in the reports that we file under the Securities Exchange Act of 1934 and the rules there under.

During the quarter ended December 31, 2005, no significant changes have occurred in our "internal controls 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 financial reporting function. However, we are performing ongoing evaluations of our internal processes in order to find opportunities to further enhance our internal controls system.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

After the close of business on October 26, 2005, the Company learned that a lawsuit has been filed against the Company and six of its eight directors by Ahmed Hussein, a director and significant shareholder of the Company. The complaint names the Company and all individual directors except for directors Ibrahim Fawzy and Ahmed Hussein.

Filed in the Superior Court for Orange County, California, the complaint alleges that in connection with the Company's 2005 Annual Shareholders' Meeting, the certified results from the independent inspector of election included certain proxies that should not have been included in the final vote tabulation. The independent inspector of election has certified the election of the Company's eight directors (as previously announced) after hearing Mr. Hussein's claim concerning this matter. Specifically, Mr. Hussein seeks (i) a determination that the election of directors at the Annual Meeting is invalid, (ii) a determination that the votes of the disputed shares were improper and in violation of applicable regulations, (iii) an order requiring that the election of directors at the Annual Meeting be retabulated without including the disputed shares in the count, (iv) an order requiring the election of directors with the retabulated votes in a manner so as to provide Mr. Hussein with the greatest number of directors possible, and (v) costs.

A hearing was held before the California Superior Court on February 2, 2006. A further hearing is scheduled for March 7, 2006 at which time the court has informed the parties that a ruling is expected.

The Company believes that Mr. Hussein's claims lack merit and that the results certified by the independent inspector of elections are conclusive of this matter. The Company intends to defend itself and the directors named in Mr. Hussein's complaint vigorously.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

Previously reported on Form 8-K filed October 6, 2005.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

31.1 Certifications 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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUALITY SYSTEMS, INC.

Date: February 9, 2006

By: /s/ Louis Silverman _____
Louis Silverman
Chief Executive Officer

Date: February 9, 2006

By: /s/ Paul Holt _____
Paul Holt
Chief Financial Officer; Principal Accounting
Officer

EXHIBIT 31.1

CERTIFICATIONS

I, Louis Silverman, certify that:

1. I have reviewed this 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;
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: February 9, 2006

/s/ LOUIS SILVERMAN

Louis Silverman

Chief Executive Officer (principal executive officer)

I, Paul Holt, certify that:

1. I have reviewed this 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;
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: February 9, 2006

/s/ PAUL HOLT

Paul Holt
Chief Financial Officer (principal accounting officer)

EXHIBIT 32.1

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

In connection with the quarterly report on Form 10-Q of Quality Systems, Inc. (the "Company") for the quarterly period ended December 31, 2005 (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: February 9, 2006

By: /s/ LOUIS SILVERMAN_____
Louis Silverman
Chief Executive Officer (principal executive officer)

Dated: February 9, 2006

By: /s/ PAUL HOLT_____
Paul 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.