

Quality Systems, Inc.

**Moderator: Louis Silverman
January 23, 2003
12:00 pm CT**

Operator: Good afternoon, my name is Anissa and I will be your conference facilitator today. At this time I would like to welcome everyone to the Quality Systems Third Quarter 2003 Earnings Results conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there will be a question and answer period. If you would like to ask a question during this time, simply press star, then the number 1 on your telephone keypad. If you would like to withdraw your question please press the pound key. Thank you.

I would now like to turn the call over to Mr. Silverman. Please go ahead sir.

Louis Silverman: Thank you Anissa. Welcome to Quality Systems' fiscal year 03 third quarter conference call. Greg Flynn, Exec VP of the QSI Division, Paul Holt, CFO, and Pat Cline, President of our NextGen Healthcare Information Systems Division join me on today's call.

Please note that comments made on this call may include statements that are forward-looking within the meaning of the Securities Laws including

statements related to anticipated industry trends, the company's plans and strategies and projected operating results. Actual results may differ materially from our expectations and projections and you should refer to our SEC Forms 10-K and 10-Q for discussions of the risk factors that could impact our actual performance.

For the tenth time in the past 11 quarters, the Company turned in record revenue performance, and for the 11th time in the last 12 quarters, the company is pleased to be able to report record earnings and EBITDA figures. For the quarter, revenues totaled \$14.4 million -up 30% over the prior year. Earnings per share at 30 cents per share exceeded prior year by 36%. EBITDA at \$3.3 million was up 30% year over year.

Once again, the quarter's performance was largely driven by strong performance at our NextGen Healthcare Information Systems unit. NextGen's \$10 million revenue quarter represented a new milestone for the division and a 50% increase over prior year. Operating income at NextGen was up 89% over the prior year.

Our EDI unit, with record revenues of \$1.8 million showed growth of 18% on a year over year basis, which represents an improvement over last quarter's year over year comparison. EDI growth within the NextGen client base continued to be strong, with divisional EDI revenues increasing 77% on a year over year basis.

The QSI division's revenues at \$4.4 million were essentially even with the prior year's performance. Divisional operating income came in at slightly north of 30% for the quarter, very strong performance and up over the two preceding quarters.

Greg and Pat will detail divisional performance in just a bit.

Cash and cash equivalents increased by \$3.3 million to a record \$33.1 million during the quarter. Interest income decreased from \$147k last year to \$109k this year.

Collections activity was again strong, though DSO's increased slightly to 104 days, due principally to an increase in deferred revenues. As has been mentioned on prior calls, this DSO figure is well within our "acceptable" range.

Annualized revenue per employee stood at \$230k for the quarter, also a record. There were no stock repurchases during the quarter.

During the quarter, gross margins came in at 55.9%, lower than levels attained in the several prior quarters and at the low end of our historical band. This was driven by an influx of hardware sales in the quarter. As has been well proven by many other companies, hardware is not a high margin business – and we are no exception. We neither encourage nor discourage hardware sales to our clients, but are happy to provide hardware as part of a turnkey sale if it helps our customers.

A few other summary comments on the quarter's performance:

Corporate expenses for the quarter were higher than has typically been the case, and at \$817k were about \$200k higher than we've averaged in prior quarters. This increase was driven in part by some special corporate initiatives that we will not elaborate on for competitive reasons. While we have not historically provided guidance to investors or analysts, and while we don't envision a break with this tradition, it is my current expectation that corporate

expenses will be running at higher than historical levels for at least the next 1 to 2 quarters.

The company's tax rate moved from 39% to 33% for the quarter. Based on some analysis we have commissioned, our use of R&D tax credits company-wide will be expanding on a go-forward basis. In conjunction with guidance from our auditors, we are using this quarter to book a "catch up" on our FY 03 effective tax rate which accounts for the significant sequential drop. We anticipate that our effective tax rate will be in the 36-38% range beginning next quarter and continuing into the near term future.

In our tax returns filed for FY 02 as well as returns re-filed for prior years, we have claimed R& D tax credits totalling north of \$900k. In conjunction with our auditors, we have elected to fully disclose this anticipated but less than 100% certain tax credit in our upcoming 10Q and 10k filings, and plan on running the retrospective tax credit through our income statement at the earlier of when our re-filed returns are audited and the audit results are known, or when the re-filed returns are no longer "open for audit" and the credit is a certainty.

On January 9th we reported via press release that we had reached an agreement, subject to court approval, to settle the securities class action filed against the company in April of 1997. The release also noted that the settlement was funded fully by the company's directors and officers liability insurance. I am also pleased to announce that the settlement received preliminary court approval at a hearing held on January 14th. The in-force timetable calls for completion of the remaining parts of the process by April 14, 2003. The company continues to deny any and all allegations of wrongdoing and is pleased with the progress made to date in putting this action behind us.

On the investor conferences front, QSI is scheduled to present at the UBS conference in NY on 2/5, the B. Riley conference in LA on 3/13, and the Roth Capital conference in Southern California on 3/17.

In closing my initial comments for this morning, I'd like to thank all QSI associates for their contributions to the quarter's strong results, and in particular the folks in our NextGen division whose 50% year over year revenue increase and 89% increase in operating income continue a very impressive run.

I'll now turn the call over to Paul Holt, CFO, for additional financial texture on the quarter.

Paul Holt: Thanks Lou and greetings to all of you who have joined us today. I'm thrilled to report another quarter of robust growth in both system sales and recurring revenues.

System sales revenues grew to \$7.7 million this quarter, an increase of 40% compared to the prior year and 13% over the prior quarter. Our total recurring revenue grew to \$6.7 million, an increase of 21% compared to the prior year quarter and 9% over the prior quarter.

Thanks to NextGen's growing base of customers our EDI and maintenance revenues continue to push recurring revenues ever higher. Recurring revenues have now shown consecutive increases for the past 15 quarters.

Our gross profit margin, as Lou mentioned, came in at the lower end of our historical range at 55.9% of revenue. As I've mentioned in our prior calls, the

primary factor influencing our gross margin percentages is the level of hardware content included in our system sales which tends to fluctuate from quarter to quarter.

SG&A expense as a percentage of revenue was roughly unchanged, 27.2% compared to 27.3% in the prior year. Total SG&A expense increased to \$3.9 million in the third quarter, compared to \$3 million a year ago. The largest contributor to the increase was an increase in selling-related expenses in the NextGen division as well as the higher corporate expenses which were mentioned earlier.

R&D expense came in at \$1.3 million compared to \$1.1 million in the year ago quarter. All of that hard dollar increase in expense was related to the NextGen division.

An important item to note this quarter is the fact that the Company's effective income tax rate declined to 33.1%, compared to 37.6% in the year ago quarter. And as Lou mentioned, the Company engaged consultants to perform a study of our research and development tax credits available to the Company and concluded that a portion of our R&D expenses qualify as tax credits. As a result, the Company anticipates that it will be able to reduce its effective income tax rate on a go-forward basis to approximately 36%-38%.

The current quarter provision is substantially lower as it reflects a catch-up of R&D tax credits from the first and second quarters. Our treatment of this credit has been reviewed and approved by our auditors, Grant Thornton.

Moving over to divisional performance, the NextGen division reported its highest ever quarterly revenue and operating income numbers of \$10 million

and \$2.3 million respectively. Total operating income increased 89% compared to the prior year.

I'd also like to add on a year-to-date basis that the NextGen division has reported operating income of \$6.5 million, up 107% compared to the same period prior year.

The QSI Dental division reported revenue of \$4.4 million and operating income of \$1.3 million. This division continues to serve as a significant source to profits as a result of its lean cost structure.

Moving on to the balance sheet, I want to highlight three notable areas: receivables, deferred revenue and cash.

Our DSOs moved up to 104 days this quarter. That compares to 97 in the prior quarter and 106 days in the year ago quarter. And for those of you who are tracking this, our DSOs by division were 70 days for the QSI Dental division and 120 for the NextGen division.

Although our cash collections during the quarter were strong, the Company sold a significantly higher amount of services related to system sales this quarter resulting in both receivables and deferred revenue balances being higher. In fact, the entire increase in our DSOs can be attributed to the increase in deferred services which were recorded in both receivables and deferred revenue.

Unpaid deferred revenue included in accounts receivable totaled \$4.8 million this quarter compared to \$4.0 million last quarter.

Our quarter-end cash stood at \$33.1 million, or \$5.40 per share. This compares to \$29.8 million, or \$4.86 per share at the end of last quarter.

We generated \$3.8 million in cash from operations, and, for those of you who are tracking this our non-cash expenses for the quarter break down as follows. Total amortization expense at \$319,000 breaks out with \$73,000 for the QSI division and \$246,000 for the NextGen division. Total depreciation expense was \$242,000, with \$58,000 for the QSI division and \$184,000 for the NextGen division.

Our investing activities for the quarter are composed of capitalized software and fixed assets. And I'm going to give you those numbers as well. Total investments in capitalized software for the quarter were \$366,000, \$39,000 for the QSI division and \$327,000 for the NextGen division. Total investments in fixed assets were \$150,000, and that breaks down to \$14,000 for QSI and \$136,000 for NextGen.

Now I'd like to thank you all for being on this call and your interest in our Company. I'm going to turn things over to Mr. Greg Flynn.

Greg Flynn: Thank you Paul. Good day to you all.

As mentioned, revenues for the quarter were materially unchanged from last quarter at \$4.4M. Profitability was improved for the quarter due to a more favorable mix of software versus hardware sales.

On the EDI front, we continued our growth trends with revenues reaching a record of approximately \$1.8M for the quarter. This represents year over year growth of approximately 18% for the quarter and, of greater significance, a year over year growth of approximately 77% for sales of EDI to the NextGen division client base. New EDI sales opportunities within the NextGen

division continue to offer an exciting growth avenue. As you know, the company's EDI function is implemented and facilitated out of the QSI division.

Of note, on the product sales front, were numerous CPU upgrade purchases and the sale of a new CPS system to a current QSI client as well as continued CPS deployment among our current users. Additionally, QSI continued its client sales penetration with our dataminer reporting software and Enhanced User Interface screens, which we have discussed in previous calls, as well as our introduction of a new laser form/printer offering. Cumulatively, these products accounted for substantive new add-on sales to our clients for the quarter.

In anticipation of questions that I have been asked in the past, QSI's sales pipeline remains virtually unchanged at \$3.8M, our sales staffing is unchanged, however, we do feel that we are gaining momentum with the expanded use of our customer support staff in identifying and nurturing sales opportunities amongst our clients--for example, these individuals were key in our new add-on product sales--and our HIPAA preparedness continues on track and schedule.

As always, I would like to thank the team of dedicated QSI staff, our loyal clients, our shareholders for their support, and, in particular, those of you on this call for your interest.

Now, I would like to turn the discussion over to Pat Cline, President of our NextGen division. And Pat, congratulations on the record revenue in the quarter.

Patrick Cline: Thanks Greg. Hello everyone. As you've heard, NextGen set a number of records during the quarter including record revenue, record operating profit and records in a few other areas.

One significant area is the number of contracts we signed, 50 new agreements during the quarter. Thirty-seven of those agreements were new customer acquisitions and that's a number we're very proud of.

During the quarter we also worked on a number of product initiatives, including a new clinical knowledgebase for NextGen EMR with a greatly improved look and feel with additional capabilities. We also worked on a new version of NextGen's EPM to meet the HIPAA privacy rules which go into effect in April. As we mentioned previously, NextGen met the original HIPAA transaction set deadline on time last October.

We also embarked on another new product initiative that we don't intend to disclose at this point but we intend to publicly announce later in 2003.

Moving to sales and marketing, we remain steady at 20 sales reps and regional managers and our pipeline has grown to just over \$30 million at this point. After the winter break, we're heading into a more active tradeshow season beginning with the HIMSS Conference which is one of the larger conferences that we do during the year and which is in early February in San Diego.

I'm also proud to announce that NextGen's been named a finalist in three categories in the Microsoft Industry Solution Awards competition. Those categories are ambulatory care financial systems, ambulatory care clinical systems, and one of our customers, Southeast Texas Medical, was named finalist for the Microsoft Clinic of the Year award.

In closing, I'd like to again thank the NextGen staff for another terrific performance. And at this point we're ready for questions.

Operator: Thank you. At this time I would like to remind everyone, in order to ask a question you'll need to press star then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question will come from Ilona Yulman with Sidoti.

(Ilona Yulman): Hi guys. Congratulations on a great quarter. Question about the QSI division. Given the flat revenue over the past couple of quarters, where do you see that going forward?

Greg Flynn: We see it as virtually unchanged for the near-term future.

(Ilona Yulman): Thank you.

Operator: Your next question will from Shai Gerson with Corsair Capital.

(Shai Gerson): Hello. On the NextGen division, could you go through with me who you're sort of seeing down the competitive front on the--I think it was 37 or something new wins--who you're taking share from and what's going on out there, what is sort of the environments out there. Is the economy having any affect? If you could just elaborate.

Patrick Cline: Okay, I'll try to do that. First, as you know we sell both electronic medical record systems and practice management systems. The competitive matrix looks a little bit different in each one of those market segments.

On the EMR side, we're selling into a relatively unpenetrated market where fewer than 5% of the medical practices in the country have electronic medical record systems. And typically the competition in that market is pretty weak. A lot of small companies, a lot of regional companies. A few larger, well established legacy system players, but their product offerings--and I'm generalizing--their product offerings don't stack up to NextGen EMR.

On the practice management side we're selling into a market that is about 95% saturated. But there's reasonable turnover in that market because of all the legacy systems that are out there and customers wanting to move to new technology with better return on investment and technology that will help them meet the HIPAA regulations that have started to go into effect.

On the practice management side we're competing with many of the older, larger legacy vendors but doing rather well. I think there's probably in that market about a 20% turnover per year. And I would guess that that would probably continue for the next couple of years. Does that help?

(ShaiGerson): That definitely does. On the HIPAA front, can you just sort of talk about if HIPAA has already started to be a driver, where do you see that in the next two quarters in terms of, you know, helping your revenue. At what point does that really start to kick in?

Patrick Cline: It has started to kick in. But I think it will continue to be a driver over the next couple of years. As you may know, HIPAA consists of a series of regulations or components of regulations.

The first one to go into effect was in October of 2002, and that's the transaction set standards. And those regs covered primarily the electronic exchange of data, like insurance claims and remittance and eligibility

transactions. And there are other pieces of that legislation that went into effect. That's largely what it was.

Before October of 2002, the federal government allowed people to file an extension, so in effect, granting them until this coming October to comply. But it's something that practices are out there thinking about and needing to comply with.

Many of them are not compliant at this point. In fact, better than 50% of them in our estimation are not currently compliant. And in fact it goes beyond the medical practice into the payer community and hospital community and many of the covered entities.

In a few months here, in April, another component of the regulations goes into effect. And those are the regs covering patient privacy and the privacy of protected health information. And then toward the end of the year or perhaps in 2004--it's a little bit unclear right now because of some delays and feedback that's coming through to us--additional security measures come on-line.

But the HIPAA regs are being talked about and thought about by just about all of the covered entities, all of our customers and potential customers and the entire healthcare market. It's very difficult to comply with all of the regulations and proposed regulations without systems such as ours.

(Shai Gerson): All right. And in terms of just the traction that the NextGen products seem to be getting and then the marketshare you seem to be taking, can we expect additional sales staff? Is there more out there than your sales staff can currently handle?

Patrick Cline: Yes there is. We have the fortunate or unfortunate situation of having more interest than the current sales force can handle. We have more leads than our sales people can possibly follow up so we're trying to do as well as we can in qualifying those leads and talking to those prospects that are the most serious about these kinds of systems.

As you might imagine on the EMR side especially, given that it's an infant market, there are a lot of tire kickers out there still. We're trying to do a good job of lead qualifying. And we have, as on past calls like this, disclosed that our strategy is to continue to grow the sales force.

We'd like to see the sales force grow by one or two new sales people per quarter. Over the last couple of quarters we haven't been successful in meeting that goal. We've hired a couple of new people but we traded up in a couple of cases. But yes, on a go-forward basis we do intend to grow the sales staff.

(Shai Gerson): Thank you very much.

Patrick Cline: You're welcome.

Operator: Once again to ask a question please press star then the number 1 on your keypad. Your next question comes from Andrew Shapiro with Lawndale Asset Management.

(Andrew Shapiro): Hi. Good morning. Lawndale Capital Management will ask a few questions. We have a bit more but we'll back out into the question queue. But to start, in the QSI division you had a margin increase that you've cited. And I think you mentioned it to be one of software to hardware mix.

Greg can you comment? You know how your DSOs differ between the medical and the dental divisions. Does your software to hardware mix in dental differ from your software to hardware mix that exists in the NextGen side, and has there been a trend in the QSI revenue stream to be more and more software as hardware sales had flattened there.

Greg Flynn: I do not have the exact numbers. I honestly couldn't comment on a trend on that. I could say on a quarter-to-quarter basis on the QSI division, hardware to software mix varies. This quarter we had better port sales which are software licenses and less hardware components which typically relates to our CPS sales. Comparatively, to NextGen I do not have an answer to that Andy.

Louis Silverman: Andy this is Lou. We're not going to go down the path of starting to break out hardware versus software by division, nor for the Company as a whole. But as a general rule, - software is a higher percentage of total revenues in the NextGen division than it is at the QSI division

(Andrew Shapiro): Okay, that helps just to understand the business between them. And as you were doing more port sales this quarter in QSI, is that just a coincidence or are you beginning to see an increased liquidity or liquefaction here in the consolidators and their reentry into the market of acquiring individual practices in a highly fragmented market.

Greg Flynn: I wouldn't call it coincidental. It was a result of effort. But in terms of liquefaction again I'm not seeing anything substantive in that regard. And port sales really did not relate dramatically to that area.

(Andrew Shapiro): Okay. Lou you had mentioned in the last quarter, and people are asking about obviously the built-up cash and the utilization of that, that you've started to begin a process of looking very carefully and slowly at prospective

acquisition candidates. Can you comment just on the progress your process has been making? Are you - is it moving forward ever so slowly but moving?

Louis Silverman: It's absolutely moving and I think that sums it up. We're not at a place where we are extremely far down the road with any situations in particular. But I'm comfortable and pleased with the progress we've made since the last call and in beginning to establish a funnel and beginning to vet opportunities.

(Andrew Shapiro): Okay. Last question. I'll back out into the queue. But then please come back to us. Your tax rate for this quarter was lower. You cited partially from a going-forward basis but also partially from a catch-up on the first two quarters.

I'm certain you've probably done some analysis internally, and can provide a little bit of at least a range of where you were absent the catch-up portion. If your tax rate was this quarter that which you expect it to be going forward, and after the catch-up what would your earnings have looked like for the quarter?

Louis Silverman: We actually haven't done that calculation Andy.

(Andrew Shapiro): Oh.

Louis Silverman: We're actually more concerned with what the earnings were for the quarter. But just to put it in some perspective, we're looking for--if I understood your question correctly--right around 37% would have been the tax rate without any catch-up adjustments. I believe that should give you the data to back into your calculations.

(Andrew Shapiro): Okay. So if it was 37%, yeah that works out to be about like 28-1/2, 29 cents fully diluted then. Great. We'll back out of the queue, let others ask questions. But please come back to us.

Louis Silverman: Okay.

Operator: Your next question comes from Mike Crawford with B. Riley & Co.

(Mike Crawford): Lou you said corporate expenses were going to be up for the next couple of quarters. Is that related to the new product Pat mentioned out of NextGen, or are there other factors?

Louis Silverman: Other factors, some corporate projects we're working on. The R&D stuff that would be going on in a division would be charged to that division.

(Mike Crawford): Oh, so you're saying that's - oh, corporate. That's outside of the divisional expenses.

Louis Silverman: Correct.

(Mike Crawford): Okay. And Pat can you give any further color on what type - what kind of product you're referencing later in this year?

Patrick Cline: No, not at this point. I'm sorry.

(Mike Crawford): Okay. And then just further the HIPAA compliance scaling and phenomenon, so it's my understanding that for the transaction set entities that filed for an extension until October they need to also submit a plan. And I would presume they need to be selecting vendors now. So are you seeing a lot of activity from that or is that something that still has yet to occur?

Patrick Cline: We are seeing activity. We think there'll be more activity. As you also may know, in addition to filing for the extension, filing the plan was a very easy undertaking that was done on the Web. And the plans didn't necessarily have to have a timeframe for vendor selection.

So the bottom line is, people are selecting vendors and they'll continue to select vendors over the next couple of quarters. But I also think that many of the existing vendors out there are moving quickly to comply. So again that leads me to the rough guess that maybe 20% of the market will turn-over in the 12 month period.

(Mike Crawford): On the EPM side.

Patrick Cline: Yes, correct.

(Mike Crawford): Okay. And the final question just relates back to the hardware sales. So I think your words were, "There was an influx of hardware sales." Could you just provide a little bit more information on, you know, are these computers or exactly what is it that...

Patrick Cline: Yes. As Lou has pointed out, we don't necessarily encourage or discourage hardware sales. Most of the sales that NextGen makes are without hardware but there are a number of customers who choose to purchase hardware and software from a single source. And typically they're computers, servers and workstations, some communications equipment. And in this particular quarter we had a little bit more of that go on. But I wouldn't call it a trend.

(Mike Crawford): You know I have one final question is that the maintenance and other services revenues jumped up quite a lot. I think Paul you did mention that's 15

consecutive quarters. But historically that's been more of a function of maybe if you look back six months and assume a growth rate from there. So would you actually expect that to dip down from the December level or was that higher for some other reason that we can expect going forward. That's my final question.

Paul Holt: Mike it's higher generally because Nextgen continues to sell systems and grow the number of customers who are on maintenance. Generally it is roughly six months, after we sell a system where the maintenance kicks in. So, you know, I really don't see that stopping as they keep on selling.

Louis Silverman: This is Lou. Just to supplement that. There was nothing special that occurred in the quarter that made the revenue - the sequential or year-over-year numbers particularly different than any other quarter. It was all done in the ordinary course.

(Mike Crawford): Thank you.

Operator: Your next question comes from Gene Manheimer with Roth Capital Partners.

(Gene Manheimer): Hi. Gentlemen, congratulations on another great quarter.

Patrick Cline: Thank you.

Louis Silverman: Thank you.

(Gene Manheimer): I have two quick questions on QSI. Actually on EDI. How is--I may have missed this--but how is the EDI revenue spread among both NextGen and the QSI divisions?

Lou Silverman: Of the \$1.8 million, \$1.37 million of that was in the QSI division and \$460,000--round numbers--was in the NextGen division.

(Gene Manheimer): Okay, thanks. And secondly, what is the sales pipeline for the QSI division?

Greg Flynn: It's \$3.8 million.

(Gene Manheimer): Three point eight million. So as I recall is that slightly lower than last quarter's?

Greg Flynn: No, I believe it's unchanged from last quarter.

(Gene Manheimer): Roughly unchanged. Okay. And just to reiterate, the gross margin erosion from the higher mix of hardware seemed to be now two quarters in a row. But you don't anticipate that to be a trend? You still predict that gross margins will be in your historical band of say 56%-59%?

Paul Holt: You know, I really wouldn't call it a trend. If you look at the year-over-year comparison it's pretty much unchanged. So, you know, what happened a year ago, then the following two quarters the margins were higher. So we really can't call that any type of a trend.

(Gene Manheimer): Okay.

Operator: Your next question is a follow-up from Andrew Shapiro with Lawndale Capital Management.

(Andrew Shapiro): Yeah, Paul, thank you very much. First off in your script you answered a lot of the questions that I regularly ask. But one of the parts of your script I'd like you to help me a little bit further on, you said there's about a \$900,000 tax credit that you're claiming that would then get recognized as the items are adjudicated or made final. Is that first off a correct understanding?

Paul Holt: Yes.

(Andrew Shapiro): Okay. When \$900,000 - let's say it was all adjudicated tomorrow. Does that \$900,000 come in as pretax income or does it come in as net income? Is it tax-affected?

Paul Holt: No. That's not tax-affected. It goes straight to the tax provision.

(Andrew Shapiro): Straight to the bottom line you mean.

Paul Holt: Straight to the bottom line.

(Andrew Shapiro): So \$900,000 on 6 million shares.

Paul Holt: Yes.

(Andrew Shapiro): Very nice. And what is the expected--for the years that you're looking back--what is the expected timing for when - we'll call it the first (tranche) of tax credit applied for kind of finalizes and you could see recognition from that?

Paul Holt: They were filed this quarter and there's a three-year statute for federal tax returns and a four-year statute for state returns.

(Andrew Shapiro): But just say it was federal. It's three years from the date you filed the amended return, or three years from the tax year you're claiming?

Paul Holt: Three years from the date we filed the amended return.

(Andrew Shapiro): So we might not see, unless they audit you and bless it, we might not see the \$900,000 then until three years from now.

Paul Holt: Yes.

(Andrew Shapiro): Okay, so just a contingent asset then. Okay.

Paul Holt: Yes, you could call it that. But a fully disclosed one.

(Andrew Shapiro): Oh yeah. No, that's fine. A question here on system sales comparing maintenance service, you know, mix. You have your revenue stream above which you had a lot of good system sales, really nice growth this quarter, etcetera. Is the Company still operating under its kind of historical pattern that recurring maintenance and service monies and revenues kick in about a six-month time lag or two-quarter time lag from the system sales?

Paul Holt: Yes.

(Andrew Shapiro): Okay so this surge that you have in - a system sale surge might cause a bump in the growth rate or the bump in the recurring service maintenance line item two quarters from now.

Paul Holt: Yes, I would call that a true statement.

(Andrew Shapiro): Okay.

Louis Silverman: Andy this is Lou. I would supplement that again by saying that I would just caution you against setting your watch to that. We still need to do a lot of work to get all of that ready to go, get the systems implemented, etcetera, etcetera.

We are at this point hiring fairly aggressively to keep up, not just with this quarter's growth, but the growth we've had in prior quarters. So I think as a general rule a two-quarter lag has historically been the case. And I think it's fair to expect that is likely to be the case in the future. But understand from an operations perspective we are gearing up to make that come true.

(Andrew Shapiro): But if it wasn't two quarters it would be for example three quarters. There's still some correlation or relationship that definitely exists.

Lou Silverman: Absolutely right.

(Andrew Shapiro): Okay. In NextGen you had 50 contracts Pat and 37 of those are new customers. In the overall contracts and with the new customers this quarter was it primarily EMR, was it primarily PMS, was it primarily both? How does it break out for you?

Patrick Cline: Primarily both. I would say over the last few quarters between 50% and 60% of our system sales are to customers that purchase both modules. In the third quarter I think there was a little bit more on the practice management side than the EMR side.

Typically it's been the other way around. And I'm very pleased to see practice management sales coming up. But as with the hardware I wouldn't call it a trend.

(Andrew Shapiro): And with the new customers, would that breakout echo that of the total division?

Patrick Cline: I'm sorry, would you ask that again?

(Andrew Shapiro): Well you have like 37 of the 50 contracts were new people. Do the new people have a predilection that's similar to the overall divisional EMR/PMS breakout or are they mostly EMR or mostly PMS?

Patrick Cline: I was talking about the new ones (Andy).

(Andrew Shapiro): Oh, okay. When you have the 13 that are--we'll call them repeat customers--what are they generally coming in for, PMS, EMR or both?

Patrick Cline: I would say both. Very often a practice management customer will add the EMR. Very often an EMR customer will add the practice management system. And then we have a number of other ancillary modules or components, digital imaging systems for imaging documents and managed care servers for managing eligibility and referral transactions between providers and payer organizations. So it may be those types of things.

We don't tend to count the very small supplemental orders. If it's an order that's three or five or ten thousand dollars, I don't count those in the contract numbers. The ones that I count are significant enough that we want to - we put them in that number.

(Andrew Shapiro): Well one more and then I'll back out to the queue again and come back to me. When you talk about being a finalist in this Microsoft contest, is there a

winner in the contest and if so, when is that done or is the contest done and we were just a finalist?

Patrick Cline: The winners have not been announced. The contests are still going on. There's activity in one of the categories for example today. So first place hasn't been determined in any of the categories. But frankly so many companies compete that being named finalist - being in the top few, they're all winners.

(Andrew Shapiro): Okay. And when do they generally complete that all?

Patrick Cline: I believe they wait until the Microsoft Healthcare Users Group meeting which is coming up here fairly shortly. But I'm not sure of the exact date.

(Andrew Shapiro): Great. And, you know, you've had exhibited accelerating growth now over NextGen. Is there any particular macro-trend or micro-trend to which you attributed that to? Is it, you know, more dollars put into advertising and brand that you're doing? Are we becoming more of a leader and known? Is it something else that it's accelerating more and more adoption industry-wide by a gain in share?

Patrick Cline: I would say a little bit of all of those things. There is a little bit more emphasis on these types of systems with the HIPAA regs. And I think there'll be more yet. We've done a very good job of advertising and marketing.

And yes, I do think we're becoming more and more known. And our studies and surveys indicate that. I think the growth that we've been managing on the sales side, that is expanding the sales force, contributes. I think there are a lot of different factors that go into it Andy.

(Andrew Shapiro): Okay. Great. Thanks a lot. A great quarter by your division.

Patrick Cline: Thank you very much.

Operator: And at this time gentlemen there are no further questions. We can pause just a moment for any questions that remain. Star 1 on your keypad if you have any questions.

You do have a question from Mr. (Neal Bradsher) with Broadwood Capital.

(Neal Bradsher): I just thought I'd jump in and ask if there's been any consideration of paying a dividend either at the management level or the board level.

Louis Silverman: Neal this is Lou. And that topic, while it's been in the newspapers of late, has not yet been a topic for our board. And I would not be able to predict whether it will be.

(Neal Bradsher): Okay. Thank you.

Operator: At this time there are no further questions. My apologies, we do have another follow-up from Shai Gerson with Corsair Capital.

(Shai Gerson): I wanted to know if there might have been any buyback discussions?

Louis Silverman: You broke up a little bit. If the question was, "Have there been any stock buybacks?" we do have a stock buyback program authorized by the board. And to date, inclusive of the December quarter, no shares have been repurchased against that authorization.

(Shai Gerson): Just how much is the authorization for?

Louis Silverman: Up to 5% of the total shares outstanding.

(Shai Gerson): Thank you.

Operator: Okay, no further questions at this time.

Louis Silverman: We'd like to thank everybody for joining us on today's call. And we'll look forward to seeing you on a future call. Thank you.

Operator: Thank you ladies and gentlemen for your participation. This does conclude the conference call and you may disconnect at this time.

END