

# ORANGE COUNTY BUSINESS JOURNAL

## Software Maker Eyes '11 for Stimulus Lift

**HEALTHCARE:** Quality Systems awaits electronic records spending

By MARK MUELLER

Irvine medical software maker Quality Systems Inc. is looking for a boost from federal stimulus spending on electronic medical records in 2011, according to the company's executives.

"We're hopeful (that) the actual dollars will start to flow in 2011," Quality's Chief Financial Officer Paul Holt said during a presentation last week at a healthcare conference in Los Angeles.

Quality Systems' software, sold through the company's NextGen and QSI units, creates electronic health records and helps healthcare providers with appointments, billing, referrals and insurance claims.



Plochocki: "We're not a flash in the pan"

Executives think federal spending will boost Quality's growth, which already has been spurred by doctors adopting electronic records on their own.

Quality Chairman Sheldon Razin has said the early 2009 stimulus package, which provides more than \$20 billion in incentives to help doctors adopt electronic records, is like pouring "gasoline on a fire."

About 80% of the healthcare industry will need to move from paper to electronic records within the next five years, Chief Executive Steven Plochocki said at a Chicago healthcare conference last week.

But federal spending on electronic records has been slow in coming, Holt said.

"We've been somewhat frustrated by the lack of final rules as to how that money's going to be distributed," he said. "We haven't seen the waterfall just yet."

Regulators are expected to issue rules covering electronic records spending by the end of June, according to Holt.

Those rules "will determine who's a

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Comments:

**Quality software for heart doctors: stimulus money comes with carrots, sticks to prompt adoption**

player and who's not in our sector," Plochocki said.

Quality's rivals include Chicago-based Allscripts-Misys Healthcare Solutions Inc., Athenahealth Inc. of Watertown, Mass., Cerner Corp. of North Kansas City, Mo., and San Francisco-based McKesson Corp., a diversified healthcare company that offers electronic records.

The government is using a "carrot and stick" to get doctors on board, Holt said.

The carrot is \$44,000 in payments per doctor, starting in 2011, to help them buy computers and software. The stick is lower Medicare payments if electronic records aren't used in "a meaningful way," he said.

Executives also touched on diversification efforts during the presentation, including the February buy of Austin, Texas-based Opus Healthcare Solutions Inc., a maker of electronic records used in hospitals.

Owning Opus allows Quality to "expand beyond the physician's office to the hospital," Holt said.

Plochocki called the Opus buy "very meaningful" and noted that its target market is made up of about 5,400 hospitals, with 300 or fewer beds, around the country.

"We're looking forward to making this a very principal part of our business," Plochocki said.

Quality's historically hot stock has cooled as the company awaits federal spending.

The software maker's shares are off 7% so far this year with a market value of \$1.7 billion as of last week. The stock saw a 40% gain last year, fueled in part by expectations for stimulus spending.

Federal spending is only part of the story, Plochocki said during his presentation last week.

"We grow. We're profitable and we've done it over a long period of time," he said. "We're not a flash in the pan."

Quality's profit for the three months through March was up 13% from a year earlier to \$13 million. Revenue rose 19% to \$78.5 million.

But the results came in shy of what Wall Street analysts were looking for on average.

The company doesn't provide specific guidance for analysts, something financial chief Holt addressed in his presentation.

"We have a policy" of not issuing guidance, he said. "Some people hate us for it. Some people love us."

The company has a hard time figuring out where it will end up in any given quarter because a lot of its sales come within the last week or two, he said.

For the three months through June, analysts on average expect Quality to post a profit of \$14.8 million, up 30% from a year earlier. They project revenue of \$81 million, up 21%.