

**Paper or Electronic Medical Records?**  
**Quality Systems Inc. (NASDAQ: QSII) Has the Answer**

*March 29, 2011*

*Closing price of Quality Systems Inc. as of March 25, 2011: \$81.99*

It was a weekday morning in January of this year (2011) and I had just entered the office of my ophthalmologist.

It was 10:30 A.M. and I was a few minutes early. I approached the receptionist's desk, or more accurately the receptionists' desks, an area with several personal computers behind the counter but with a notable absence of the lateral files with their worn manila folders that one often observes in medical offices.

The absence of the lateral files suggested, I guessed, that the office of Todd Brockman, M.D. had embraced the concept of electronic records. The office manager, or whoever was in charge of expenditures to manage the flow of information that the office produced, encountered, and transmitted, was aware of the productivity improvements that electronic records could produce. Better productivity would mean more revenue and profit for the practice and enable the office to take even better care of its patients.

I was in the office of Todd Brockman, M.D. in Tulsa, for my annual examination, an examination which, believe it or not, I was actually greeting with excitement, or at least with no negative feelings.

After doing some paperwork, answering questions about the drugs I take, the allergies from which I suffer, and the surgeries I have had, one of Brockman's assistants, I remembered, would dilate my eyes and then lead me to a darkened room where I would sit in a comfortable chair watching peaceful scenes of lakes, of mountains, of beautiful homes, pictures designed to calm the patient. Bears would be walking along streams in the Alaskan wilderness, carefree dogs would be

playing with each other on a well manicured lawn fronting a house whose owner, judging from her serene expression and relaxed pose, undoubtedly had significant amounts of money invested in Union Pacific (NYSE: UNP), Kansas City Southern (NYSE: KSU), and in Stericycle (NASDAQ: SRCL), investments that made her think that everything must be all right with the world.

The marketing sophistication that had led to the installation of the big screen television and its tranquilizing videos in the post dilation room suggested an office attuned to respect the needs of the patient, an office attuned to the reality of the healthcare world of 2011, a world in which the patient had gained the power to be treated as a client and as a consumer, a consumer that demanded courteous and respectful treatment, a consumer whose comfort, money and time were important.

Brockman's receptionist was on the phone. She hung up and greeted me warmly. Yet I could tell that she was preoccupied, rushed, and a little nervous. I gave her my name. She hesitated for just a second, and then said, "Mr. Russell, we are running at least thirty minutes late. The doctor is running behind. I am sorry, but if you wish to reschedule, we can do that."

I said, "No problem, I can work, I can use the time while I wait." I always have work to do, projects and tasks that I want to do, and ideas I want to consider. Some of the ideas and the tasks mean work but I am not sure that all of it is work, if you define work as something mandatory, imposed by outside forces, and unpleasant. (Do not worry; this letter is going to be long enough,

*Quality Systems: Business Summary*

The company is the domestic leader in the automation of medical and dental practices, such as physician hospital organizations, ambulatory care centers, community health centers, and medical and dental offices.

The Company develops and markets healthcare information systems that automate certain aspects of medical and dental practices, networks of practices such as physician hospital - organizations (“PHOs”) and management service organizations (“MSOs”), ambulatory care centers, community health centers, and medical and dental schools. The Company also provides revenue cycle management (“RCM”) services through the Practice Solutions Division. *Quality Systems Inc. 10-K June 1, 2010. Page 1.*

so I will spare you an extensive philosophical discussion on what work really is.)

While I waited I called Meredith Cothran (this is the same Meredith Bohot who is now married and has worked with me, efficiently and pleasantly, and has helped our clients with many matters for more than five years) to make sure that everything was running smoothly at the office. Meredith was busily working away at her computer, but she had time to ask me how everything was going. I told her that Todd Brockman’s office had entered the electronic age. She paused, noting that when she had had an office appointment with her internist Brent Laughlin, M.D. two weeks before my appointment with Brockman, she had noticed that, when Laughlin had entered the examination room, he did not carry a clipboard with a paper chart which contained information about Meredith’s health, information that his office had collected over the course of Meredith’s visits.

Instead, Laughlin carried a small tablet computer similar in size to an iPad. He placed the tablet into a docking station, allowing him to type notes on a keyboard set up in front of the monitor. (At the start of the letter, I ought to have issued a disclaimer as follows: during the letter that I am now writing I will most likely succumb to the use of jargon, especially, computer jargon. So, “docking station,” “interface,” “portal,” and other computer jargonese may appear in this letter, appearances over which, unfortunately, I have little control.)

I, too, had noticed that electronic records played an important role in Laughlin’s office. On my last visit, I was pleasantly surprised when he looked at my medical history on his tablet and referred to visits that I had made to the Urgent Care Center owned by the St. John Health System, visits made when Laughlin’s office was closed. He noted my surprise at his access to the center’s records, saying that he receives, electronically, a summary of each visit that all of his patients make to the center. I was impressed and I told him so and he noted that his office was one of the first offices to go electronic in the state of Oklahoma.

I like Brent Laughlin and his wife, Lucia. They are down-to-earth and friendly. He is competent and always tells me what is wrong in language that I understand, and always without condescension. Besides, when he works out on the elliptical machine at the St. John Health Club he usually is reading *The Economist*, and seeing him with that magazine makes me feel as if I have a kindred spirit. I have always wanted everyone to know that I read *The Economist*, even though I could never see what real knowledge and usefulness it provided. Its very format, covering so many countries every week, is almost guaranteed, as Warren Buffet would say of a portfolio that was constructed of too many companies, one hundred or more, to have no intelligent or pragmatic focus. In other words, the magazine covers too much. Yet when I saw Brent Laughlin with *The Economist*, and knowing that one of the magazine’s strengths

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