

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-13801

QUALITY SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

California

95-2888568

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

17822 East 17th Street, Tustin, California

92680

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (714) 731-7171

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed,
since last year)

Indicate by check mark whether the issuer (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 12 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 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date.

4,535,866 shares of Common Stock, \$.01 par value,
as of August 8, 1995

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

QUALITY SYSTEMS, INC.
BALANCE SHEETS
ASSETS

	June 30,	March 31,
	1995	1995
Current assets:		
Cash and cash equivalents	\$ 5,651,700	\$ 6,085,300
Short-term investments	766,800	1,237,200
Accounts receivable, net	3,708,600	2,996,500
Inventories	842,900	782,900
Deferred tax asset	162,800	199,000
Other current assets	49,400	74,300
	-----	-----
Total current assets	11,182,200	11,375,200
Equipment and improvements, net	504,600	535,300
Capitalized software costs, net	528,800	501,300
Investment Clinitec International, Inc.	990,100	-
Cash surrender value of life insurance	229,500	185,100
Other assets	77,000	70,900
	-----	-----
Total assets	\$ 13,512,200	\$12,667,800
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 961,300	\$ 597,400
Accrued payroll and related expenses	419,700	427,100
Accrued expenses	462,000	492,400
Deferred service revenue	981,800	951,500
Deferred compensation	229,500	185,100
Estimated costs to complete system installations	227,100	216,500
Income taxes payable	354,900	473,400
	-----	-----
Total current liabilities	3,636,300	3,343,400
Deferred tax liability	129,800	136,800
	-----	-----
Total liabilities	3,766,100	3,480,200
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value, 20,000,000 shares authorized, 4,535,866 shares issued and outstanding	45,400	45,400
Additional paid-in capital	5,977,600	5,977,600
Unrealized loss on available-for-sale securities	(61,700)	(83,000)
Retained earnings	3,784,800	3,247,600
	-----	-----
Total stockholders' equity	9,746,100	9,187,600
	-----	-----
Total liabilities and stockholders' equity	\$13,512,200	\$12,667,800
	=====	=====

QUALITY SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	

	June 30,	
	1995	1994

Net revenues:		
Sales of computer systems, upgrades and supplies	\$ 2,123,700	\$ 1,582,000
Maintenance and other services	1,680,700	1,491,200
	-----	-----
	3,804,400	3,073,200

Costs and expenses:		
Cost of products and services	1,713,400	1,651,800
Selling, general and administrative	925,900	835,800
Research and development	355,000	329,800
	-----	-----
	2,994,300	2,817,400

Income from operations	810,100	255,800
Interest and investment income (loss)	103,800	(11,600)
Equity loss	(9,900)	-
	-----	-----
Income before income tax provision	904,000	244,200
Income tax provision	366,800	43,800
	-----	-----
Net income	\$ 537,200	\$ 200,400
	=====	=====
Earnings per share:		
Primary	\$.11	\$.04
Fully diluted	\$.11	\$.04
Equivalent number of shares outstanding:		
Primary	4,702,047	4,666,136
Fully diluted	4,730,540	4,666,136

The accompanying notes are an integral part of the financial statements.

QUALITY SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	June 30	
	1995	1994
Cash flows from operating activities:		
Net income	\$ 537,200	\$ 200,400
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of equipment and improvements	58,200	57,900
Amortization of capitalized software costs	59,400	46,400
Realized (gains) losses from sales of short-term investments	(56,700)	81,000
Unrealized gains on trading securities	(38,200)	(11,100)
Equity loss	9,900	-
Deferred income taxes	29,200	-
Changes in:		
Accounts receivable	(712,100)	(443,600)
Inventories	(60,000)	(99,700)
Other current assets	24,900	25,600
Accounts payable	363,900	187,900
Accrued expenses	(37,800)	(29,800)
Deferred service revenue	30,300	37,000
Estimated costs to complete system installations	10,600	(11,100)
Income taxes payable and taxes related to equity accounts	(134,800)	43,800
Net cash provided by operating activities	84,000	84,700
Cash flows from investing activities:		
Proceeds from sales of short-term investments	630,400	3,801,900
Purchases of short-term investments	(27,500)	(2,281,900)
Additions to equipment and improvements, net	(27,500)	(28,400)
Additions to capitalized software costs	(86,900)	(50,200)
Investment in Clinitec International, Inc.	(1,000,000)	-
Change in other assets	(6,100)	29,300
Net cash provided by (used in) investing activities:	(517,600)	1,470,700
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	3,400
Net increase (decrease) in cash and cash equivalents	(433,600)	1,558,800
Cash and cash equivalents, beginning of period	6,085,300	1,092,900
Cash and cash equivalents, end of period	\$5,651,700	\$2,651,700

Supplemental information - During the three months ended June 30, 1995 and 1994 the Company made income tax payments of \$472,500 and \$9,600 respectively.

The accompanying notes are an integral part of the financial statements.

QUALITY SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 1995 and 1994

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with the requirements of Form 10-QSB and, therefore, do not include all information and footnotes which would be presented were such financial statements prepared in accordance with generally accepted accounting principles, and should be read in conjunction with the audited financial statements presented in the Company's Annual Report for the fiscal year ended March 31, 1995. In the opinion of management, the accompanying financial statements reflect all adjustments which are necessary for a fair presentation of the results of operations for the interim 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.

Item 2. Management's Discussion and Analysis of Financial Condition

 and Results of Operations

Results of Operations

Three months ended June 30, 1995 compared to three months ended

 June 30, 1994

Revenues increased \$731,200 from \$3,073,200 in the three months ended June 30, 1994 to \$3,804,400 in the three months ended June 30, 1995, an increase of 24%. Sales of computer systems, upgrades and supplies increased \$541,700, from \$1,582,000 in the same quarter of last year to \$2,123,700 in the current quarter. The increase was due primarily to increased sales of larger systems. Revenues from maintenance and others services increased 13%, from \$1,491,200 in the quarter ended June 30, 1994 to \$1,680,700 in the current quarter. The increase was due to increases in maintenance revenues from a larger installed base and in time and material billings for additional services.

Cost of products and services, as a percentage of revenues, decreased from 54% for the quarters ended June 30, 1994 to 45% for the quarter ended June 30, 1995 due to changes in sales mix. Selling, general and administrative expenses increased from \$835,800 in the same quarter of last year to \$925,900 in the current quarter, due to an increase in selling expense. The increase in selling expense results from hiring additional sales personnel in the third quarter of the prior year. However, the increase in selling expense was more than compensated for by increased sales during the current quarter, with the result that selling, general and administrative expenses, as a percentage of revenues, decreased from 27% to 24%. Research and development expenditures increased from \$329,800 to \$355,000 as the Company maintained its commitment to continually enhance the functionality and flexibility of its systems.

Interest and investment income was \$103,800 for the quarter ended June 30, 1995 compared to a loss of \$11,600 for the quarter ended June 30, 1994. Investment results in the current quarter represent an annualized yield of about 6% on the Company's average combined balances for cash and cash equivalents and short-term investments. Interest and investment income for the quarter ended June 30, 1994 included realized losses from sales of short-term investments of \$81,000 and unrealized losses from trading securities of \$10,100, which more than offset other interest and investment income.

Liquidity and Capital Resources

A comparison of the Company's balance sheet amounts for cash and cash equivalents and for short-term investments at June 30, 1995 with the comparable balances at March 31, 1995 is as follows:

	June 30, 1995	March 31, 1995	Decrease
	-----	-----	-----
Cash and cash equivalents	\$5,651,700	\$6,085,300	(\$433,600)
Short-term investments	766,800	1,237,200	(470,400)
	-----	-----	-----
	\$6,418,500	\$7,322,500	(\$904,000)

The decrease of \$904,000 was due primarily to an acquisition of a 25% ownership position in Clinitec International, Inc. for \$1,000,000. Net cash from operating activities during the quarter ended June 30, 1995 was \$84,000. Positive cash flows from net income of \$537,200 and an increase in accounts payable of \$363,900 were largely offset by an increase in accounts receivable of \$712,100. The increase in accounts receivable was due to the increase in revenues as previously discussed.

The Company generally receives substantially all of the cash months after a computer system or enhancement is delivered. The Company structures its maintenance contracts so that billings under the contract are made on a monthly basis and in advance of the period of coverage.

The Company believes that cash generated from operations, cash on hand and short-term investments readily convertible into cash will provide sufficient liquidity to provide continued working capital for operations for the foreseeable future. Due to its available cash resources, the Company has not relied on borrowings to meet its working capital requirements.

The Company is not capital intensive and has traditionally purchased and capitalized only equipment which is to be used for in-house hardware and software development and testing efforts.

Technological improvements in the computer industry have often resulted in price declines for hardware and other electronic components which have lessened the impact of inflation.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

SIGNATURES

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

QUALITY SYSTEMS, INC.

Date August 9, 1995

By /s/ Sheldon Razin

Sheldon Razin
President and Chairman
of the Board of Directors;
Principal Executive Officer

Date August 9, 1995

By /s/ Irma G. Carmona

Irma G. Carmona
Corporate Controller;
Principal Accounting Officer