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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1997

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 registrant 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	92780
(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 XX 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.

5,974,412 shares of Common Stock, $.01 par value, as of August 8, 1997

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Financial Statements

QUALITY SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	June 30, 1997	March 31, 1997
Current Assets:		
Cash and cash equivalents	$15,858,000	$21,852,000
Short-term investments	910,000	883,000
Accounts receivable, net	8,063,000	6,574,000
Inventories	1,062,000	1,071,000
Other current assets	654,000	628,000
Total current assets	26,547,000	31,008,000
Equipment and Improvements, net	1,698,000	1,391,000
Capitalized Software Costs, net	1,216,000	1,041,000
Excess of Cost Over Net Assets of Acquired Business, net	2,789,000	2,868,000
Deferred Tax Asset	1,925,000	-
Other Assets, net	2,240,000	1,558,000
Total assets	$36,415,000	$37,866,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,500,000	$ 1,345,000
Deferred service revenue	1,612,000	1,493,000
Estimated costs to complete system installations	522,000	565,000
Other current liabilities	3,042,000	1,992,000
Total current liabilities	6,676,000	5,395,000
Deferred Tax Liability	232,000	201,000
Total liabilities	6,908,000	5,596,000
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, $0.01 par value, 20,000,000 shares authorized, 5,993,712 and 5,997,462 shares issued and outstanding, respectively	60,000	60,000
Additional paid-in capital	34,116,000	34,144,000
Accumulated deficit	(4,669,000)	(1,934,000)
Total shareholders' equity	29,507,000	32,270,000
Total liabilities and shareholders' equity	$36,415,000	$37,866,000

See notes to consolidated financial statements.

QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 1997	Three Months Ended June 30, 1996
Net Revenues:		
Sales of computer systems, upgrades and supplies	$ 4,710,000	$ 2,829,000
Maintenance and other services	2,463,000	1,926,000
	7,173,000	4,755,000
Cost of Products and Services	3,567,000	2,324,000
Gross Profit	3,606,000	2,431,000
Selling, General and Administrative Expenses	2,537,000	1,438,000
Research and Development Costs	828,000	457,000
Purchased In-Process Research and Development	4,720,000	8,300,000
Loss from Operations	(4,479,000)	(7,764,000)
Investment Income	276,000	386,000
Equity in Loss of Clinitec International, Inc.	-	(31,000)
Loss before Provision for (Benefit from) Income Taxes	(4,203,000)	(7,409,000)
Provision for (Benefit from) Income Taxes	(1,468,000)	358,000
Net Loss	$(2,735,000)	$(7,767,000)
Net Loss per Share	$(0.46)	$(1.34)
Weighted Average Number of Shares Outstanding	5,998,000	5,807,000

See notes to consolidated financial statements.

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

	Three Months Ended June 30, 1997	1996
Cash Flows from Operating Activities:		
Net loss	$(2,735,000)	$(7,767,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Purchased in-process research and development	4,720,000	8,300,000
Depreciation and amortization	396,000	206,000
Gains on short-term investments	(27,000)	(36,000)
Equity in loss of Clinitec International, Inc.	-	31,000
Deferred income taxes	(1,771,000)	98,000
Changes, net of amounts acquired, in:		
Accounts receivable	(1,292,000)	(678,000)
Inventories	9,000	197,000
Other current assets	(117,000)	90,000
Other assets	(53,000)	-
Accounts payable	101,000	(630,000)
Deferred service revenue	(42,000)	90,000
Estimated costs to complete system installations	(43,000)	27,000
Income taxes payable and taxes related to equity accounts	119,000	171,000
Other current liabilities	469,000	(10,000)
Net Cash Provided by (Used in) Operating Activities	(266,000)	89,000
Cash Flows from Investing Activities:		
Proceeds from sales of short-term investments	-	38,000
Purchases of short-term investments	-	(55,000)
Net additions to equipment and improvements	(341,000)	(129,000)
Additions to capitalized software costs	(300,000)	(49,000)
Purchase of Additional Ownership Interest in Clinitec International, Inc.	-	(4,946,000)
Purchase of Net Assets of MicroMed Healthcare Information Systems, Inc.	(5,259,000)	-
Change in other assets	200,000	(17,000)
Net Cash Used in Investing Activities	(5,700,000)	(5,158,000)
Cash Flows from Financing Activities:		
Purchase of Common Stock	$ (34,000)	$ -
Proceeds from Exercise of Stock Options	6,000	-
Net Cash Used in Financing Activities	(28,000)	-
Net Decrease in Cash and Cash Equivalents	(5,994,000)	(5,069,000)
Cash and Cash Equivalents, beginning of period	21,852,000	27,872,000
Cash and Cash Equivalents, end of period	$15,858,000	$22,803,000

Supplemental Information - During the three months ended June 30, 1997 and 1996, the Company made net income tax payments of $186,000 and $34,000, respectively.

	Three Months Ended June 30, 1997	1996
Detail of business acquired in purchase transaction:		
Purchased In-Process Research and Development	$ 4,720,000	$ 8,300,000
Fair Value of Assets Acquired (net of previous investment, if any)	1,216,000	3,999,000
Liabilities Assumed	(677,000)	(459,000)
Common Stock Issued in the Acquisition	-	(6,894,000)
Cash Paid for the Acquisition, net of cash acquired	$ 5,259,000	$ 4,946,000

See notes to consolidated financial statements.

QUALITY SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q 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, 1997. 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.

NOTE 2 - ACQUISITION OF MICROMED HEALTHCARE INFORMATION SYSTEMS, INC.

On May 15, 1997, the Company acquired substantially all of the assets of MicroMed Healthcare Information Systems, Inc. ("MicroMed"), a developer and marketer of proprietary information systems utilizing a graphical user interface client/server platform for medical group practices. The purchase price consists of an initial cash payment of $4.8 million paid at the closing of the transaction and an additional payment of up to $6.0 million due no later than June 29, 1998. The additional payment will be determined using a formula based primarily upon Revenues and Pre-Tax Operating Income of the MicroMed Business, each as defined in the related Asset Purchase Agreement, for the twelve months ending March 31, 1998. Up to 15% of the additional payment, if any, is payable in the Company's Common Stock at the sole election of the Company with the balance of any such payment payable in cash. As of the closing date of the transaction, MicroMed also had an operating loan payable to the Company in the amount of $550,000. For accounting purposes, the loan balance is considered part of the purchase price in addition to the $4.8 million payment made at the closing. The acquisition was treated as a purchase for financial reporting purposes. In connection with this treatment, the Company allocated $4.7 million of the purchase price paid at the closing of the transaction to purchased in-process research and development which was charged against operations during the quarter ending June 30, 1997.

NOTE 3 - STOCK REPURCHASE PLAN

In February 1997, the Company's Board of Directors authorized the repurchase on the open market of up to 10% of the Company's outstanding Common Stock at various times through February 1998, subject to compliance with applicable laws and regulations. The timing and amount of any repurchase is at the discretion of the Company's management. The Company's management could, in the exercise of its judgment, repurchase fewer shares than authorized. During the three months ended June 30, 1997, the Company repurchased 5,000 shares at a cost of $34,000. Since the inception of the repurchase program through August 8, 1997, 24,300 shares have been repurchased at a cost of $160,000.

NOTE 4 - INCOME TAXES

The provision for income taxes for the three months ended June 30, 1997 differs from the combined statutory rate primarily due to the effect of varying state tax rates together with the impact of non-deductible amortization of certain intangible assets acquired in the May 1996 acquisition of Clinitec International, Inc. ("Clinitec"). The MicroMed acquisition was structured as a taxable transaction while the Clinitec acquisition was tax-free at the acquisition date. Consequently, the provision for income taxes for the three months ended June 30, 1996 differs from the combined statutory rate primarily due to the $8.3 million non-deductible charge for purchased in-process research and development incurred in connection with the May 1996 acquisition of Clinitec.

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 on Form 10-Q, including discussions of the Company's product development plans and business strategies and market factors influencing the Company's results, are forward-looking statements that involve certain risks and uncertainties. Actual results may differ from those anticipated by the Company as a result of various factors, both foreseen and unforeseen, including, but not limited to, the Company's ability to continue to develop new products and increase systems sales in a market characterized by rapid technological evolution, consolidation, and competition from larger, better capitalized competitors. Many other economic, competitive, governmental and technological factors could impact the Company's ability to achieve its goals and interested persons are urged to review the risks described below, as well as in the Company's other public disclosures and filings with the Securities and Exchange Commission.

RISK FACTORS

DEPENDENCE ON PRINCIPAL PRODUCT AND NEW PRODUCT DEVELOPMENT - The Company currently derives substantially all of its net revenues from sales of its health care information systems and related services. The Company believes that a primary factor in the market acceptance of its systems has been its ability to meet the needs of users of health care information systems. The Company's future financial performance will depend in large part on the Company's ability to continue to meet the increasingly sophisticated needs of its clients through the timely development and successful introduction of new and enhanced versions of its systems and other complementary products. The Company has historically expended a significant amount of its net revenues on product development and believes that significant continuing product development efforts will be required to sustain the Company's growth.

There can be no assurance that the Company will be successful in its product development efforts, that the market will continue to accept the Company's existing or new products, or that products or product enhancements will be developed in a timely manner, meet the requirements of health care providers or achieve market acceptance. If new products or product enhancements do not achieve market acceptance, the Company's business, operating results and financial condition could be adversely affected. At certain times in the past, the Company has also experienced delays in purchases of its products by clients anticipating the launch of new products by the Company. There can be no assurance that material order deferrals in anticipation of new product introductions will not occur.

COMPETITION - The market for health care information systems is intensely competitive and the Company faces significant competition from a number of different sources. The electronic medical records market, in particular, is subject to rapid changes in technology and the Company expects that competition in this portion of the market will increase as new competitors enter the marketplace. In addition, several of the Company's competitors have significantly greater name recognition as well as substantially greater financial, technical, product development and marketing resources than the Company.

The industry is highly fragmented and includes numerous competitors, none of which the Company believes dominates the overall market for either group practice management or electronic medical records systems. Furthermore, the Company also competes indirectly and to varying degrees with other major health care related companies, information management companies generally, and other software developers which may more directly enter the markets in which the Company competes.

There can be no assurance that future competition or new product introductions will not have a material adverse effect on the Company's business, financial condition and results of operations. Competitive pressures and other factors, such as new product introductions by the Company or its competitors, may result in price erosion that could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company believes that once a health care provider has chosen a particular health care information system vendor, the provider will, for a period of time, be more likely to rely on that vendor for its future information system requirements. In addition, if the health care industry continues to undergo further consolidation as it has recently experienced, each sale of the Company's systems will assume even greater importance to the Company's business, financial condition and results of operations. The Company's inability to make initial sales of its systems to either newly formed groups and/or health care providers that are replacing or substantially modifying their health care information systems could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, if new systems sales do not materialize, maintenance service revenues can be expected to decrease over time due to failure to capture new maintenance revenues therefrom and to attrition of existing maintenance revenues associated with the Company's existing clients whose systems become obsolete or are replaced by competitor's products.

TECHNOLOGICAL CHANGE - The software market generally is characterized by rapid technological change, changing customer needs, frequent new product introductions and evolving industry standards. The introduction of products incorporating new technologies and the emergence of new industry standards could render the Company's existing products obsolete and unmarketable. There can be no assurance that the Company will be successful in developing and marketing new products that respond to technological changes or evolving industry standards. New product development depends upon significant research and development expenditures which depend ultimately upon sales growth. Any material weakness in revenues or research funding could impair the Company's ability to respond to technological advances in the marketplace and remain competitive. If the Company is unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, the Company's business, results of operations and financial condition will be materially adversely affected.

In response to increasing market demand, the Company is currently developing new generations of certain of its group practice management software products that will be designed for the client/server and Internet/intranet environments. There can be no assurance that the Company will successfully develop these new software products or that these products will operate successfully on the principal client/server operating systems, which include UNIX*, Microsoft Windows**, Windows NT** and Windows 95**, or that any such development, even if successful, will be completed concurrently with or prior to introduction by competitors of products designed for the client/server and Internet/intranet environments. Any such failure or delay could adversely affect the Company's competitive position or could make the Company's current practice management product line designed for the UNIX environment obsolete.

FLUCTUATION IN QUARTERLY OPERATING RESULTS - The Company's revenues and operating results have in the past fluctuated, and may in the future fluctuate, from quarter to quarter and period to period as a result of a number of factors including, without limitation: the size and timing of orders from clients; the length of sales cycles and installation processes; the ability of the Company's clients to obtain financing for the purchase of the Company's products; changes in pricing policies or price reductions by the Company or its competitors; the timing of new product announcements and product introductions by the Company or its competitors; the availability and cost of supplies; the financial stability of major clients; market acceptance of new products, applications and product enhancements; the Company's ability to develop, introduce and market new products, applications and product enhancements and to control costs; the Company's success in expanding its sales and marketing programs; deferrals of client orders in anticipation of new products, applications or product enhancements; changes in Company strategy; personnel changes; and general economic factors.

The Company's products are generally shipped as orders are received and accordingly, the Company has historically operated with minimal backlog. As a result, sales in any quarter are dependent on orders booked and shipped in that quarter and are not predictable with any degree of certainty. Furthermore, the Company's systems can be relatively large and expensive and individual systems sales can represent a significant portion of the Company's revenues for a quarter such that the loss of even one such sale can have a significant adverse impact on the Company's quarterly profitability. Clients often defer systems purchases until the Company's quarter end, so quarterly results generally cannot be predicted and frequently are not known until the quarter has concluded. The Company's initial contact with a potential customer depends in significant part on the customer's decision to replace, or substantially modify, its existing information system. How and when to implement, replace or substantially modify an information system are major decisions for health care providers. Accordingly, the sales cycle for the Company's systems can vary significantly and typically ranges from three to 12 months from initial contact to contract execution/shipment and the installation cycle is typically two to four months from contract execution/shipment to completion of installation.

* UNIX is a registered trademark of AT&T Corporation.

** Microsoft Windows, Windows NT and Windows 95 are registered trademarks of Microsoft Corporation.

Because a significant percentage of the Company's expenses are relatively fixed, a variation in the timing of systems sales and installations can cause significant variations in operating results from quarter to quarter. As a result, the Company believes that interim period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, the Company's historical operating results are not necessarily indicative of future performance for any particular period.

Due to all of the foregoing factors, it is possible that in some future quarter the Company's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

PROPRIETARY TECHNOLOGY - The Company is heavily dependent on the maintenance and protection of its intellectual property and relies largely on license agreements, confidentiality procedures and employee nondisclosure agreements to protect its intellectual property. The Company's software is not patented and existing copyright laws offer only limited practical protection. There can be no assurance that the legal protections and precautions taken by the Company will be adequate to prevent misappropriation of the Company's technology or that competitors will not independently develop technologies equivalent or superior to the Company's. Further, the laws of some foreign countries do not protect the Company's proprietary rights to as great an extent as do the laws of the United States.

The Company does not believe that its operations or products infringe on the intellectual property rights of others. However, there can be no assurance that others will not assert infringement or trade secret claims against the Company with respect to its current or future products or that any such assertion will not require the Company to enter into a license agreement or royalty arrangements with the party asserting the claim. As competing health care information systems increase in complexity and overall capabilities and the functionality of these systems further overlap, providers of such systems may become increasingly subject to infringement claims. Responding to and defending any such claims may distract the attention of Company management and have a material adverse effect on the Company's business, financial condition and results of operations. In addition, claims may be brought against third parties from which the Company purchases software, and such claims could adversely affect the Company's ability to access third party software for its systems.

CLINITEC INTERNATIONAL, INC. - A principal component of the Company's business strategy is the May 1996 acquisition of Clinitec International, Inc. ("Clinitec"). The Company's future financial results will depend in part on the Company's ability to achieve market acceptance for Clinitec's products and successfully integrate Clinitec's business with the Company's. There can be no assurance that the Company will be able to successfully coordinate its business activities with those of Clinitec. Furthermore, there can be no assurance that the Company will be successful in fully integrating Clinitec's products with those of the Company or that the acquisition of Clinitec will not have an adverse effect upon the Company's operating results. In addition, Clinitec was formed in January 1994 to develop and market electronic medical records software systems. Clinitec's proprietary software products are relatively new and Clinitec has sold only a limited quantity of these products to date. There can be no assurance that Clinitec's products will achieve broad market acceptance.

MICROMED HEALTHCARE INFORMATION SYSTEMS, INC. - A principal component of the Company's business strategy is the May 1997 acquisition of MicroMed Healthcare Information Systems, Inc. ("MicroMed"). The Company's future financial results will depend in part on the Company's ability to achieve market acceptance for MicroMed's products and successfully integrate MicroMed's business with the Company's. There can be no assurance that the Company will be able to successfully coordinate its business activities with those of MicroMed. Furthermore, there can be no assurance that the Company will be successful in fully integrating MicroMed's products with those of the Company or that the acquisition of MicroMed will not have an adverse effect upon the Company's operating results. In addition, MicroMed was formed in February 1993 to develop and market medical practice management software systems. MicroMed's proprietary software products are new and MicroMed has sold only a limited quantity of these products to date. There can be no assurance that MicroMed's products will achieve broad market acceptance.

ABILITY TO MANAGE GROWTH - The Company has recently experienced a period of growth and increased personnel which has placed, and will continue to place, a significant strain on the Company's resources. The Company anticipates expanding its overall software development, marketing, sales, client management and training capacity. In the event the Company is unable to identify, hire, train and retain qualified individuals in such capacities within a reasonable time frame, such failure could have a material adverse effect on the Company. In addition, the Company's ability to manage future increases, if any, in the scope of its operations or personnel will depend on significant expansion of its research and development, marketing and sales, management and administrative, and financial capabilities. The failure of the Company's management to effectively manage expansion in its business could have a material adverse effect on the Company's business, results of operations and financial condition.

PRODUCT LIABILITY - Certain of the Company's products provide applications that relate to patient medical information. Any failure by the Company's products to provide accurate and timely information could result in claims against the Company. The Company maintains insurance to protect against claims associated with the use of its products, but there can be no assurance that its insurance coverage would adequately cover any claim asserted against the Company. A successful claim brought against the Company in excess of its insurance coverage could have a material adverse effect on the Company's business, financial condition and results of operations. Even unsuccessful claims could result in the Company's expenditure of funds in litigation and management time and resources.

There can be no assurance that the Company will not be subject to product liability claims, that such claims will not result in liability in excess of its insurance coverage, that the Company's insurance will cover such claims or that appropriate insurance will continue to be available to the Company in the future at commercially reasonable rates. Such claims could have a material adverse affect on the Company's business, financial condition and results of operations.

UNCERTAINTY IN HEALTH CARE INDUSTRY; GOVERNMENT REGULATION - The health care industry is subject to changing political, economic and regulatory influences that may affect the procurement processes and operation of health care facilities. During the past several years, the health care industry has been subject to an increase in governmental regulation of, among other things, reimbursement rates and certain capital expenditures. Certain legislators have announced that they intend to examine proposals to reform certain aspects of the U.S. health care system including proposals which may increase governmental involvement in health care, lower reimbursement rates and otherwise change the operating environment for the Company's clients. Health care providers may react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring investments, including those for the Company's systems and related services. Cost-containment measures instituted by health care providers as a result of regulatory reform or otherwise could result in greater selectivity in the allocation of capital funds. Such selectivity could have an adverse effect on the Company's ability to sell its systems and related services. The Company cannot predict what impact, if any, such proposals or health care reforms might have on its business, financial condition and results of operations.

The Company's software may be subject to regulation by the U.S. Food and Drug Administration (the "FDA") as a medical device. Such regulation could require the registration of the applicable manufacturing facility and software/hardware products, application of detailed recordkeeping and manufacturing standards, and FDA approval or clearance prior to marketing. An approval or clearance could create delays in marketing, and the FDA could require supplemental filings or object to certain of these applications.

DEPENDENCE UPON KEY PERSONNEL - The Company's future performance also depends in significant part upon the continued service of its key technical and senior management personnel, many of whom have been with the Company for a significant period of time. Because the Company has a relatively small number of employees when compared to other leading companies in the same industry, its dependence on maintaining its employees is particularly significant. The Company is also dependent on its ability to attract and retain high quality personnel, particularly highly skilled software engineers for applications development. The industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. There can be no assurance that the Company's current employees will continue to work for the Company. Loss of services of key employees could have a material adverse effect on the Company's business, results of operations and financial condition. The Company does not maintain key man life insurance on any of its employees. The Company may need to grant additional stock options to key employees and provide other forms of incentive compensation to attract and retain such key personnel.

GENERAL

Quality Systems, Inc. ("QSI") and its wholly-owned subsidiaries, Clinitec and MicroMed, (all three collectively the "Company") develop and market health care information systems that automate medical and dental group practices, physician hospital organizations ("PHOs"), management service organizations ("MSOs"), health maintenance organizations ("HMOs") and community health centers. In response to the growing need for more comprehensive, cost-effective information solutions for physician and dental practice management, the Company's systems provide clients with the ability to redesign patient care and other workflow processes, to improve productivity and reduce information processing and administrative costs and to provide multi-site access to patient information. The Company's proprietary software systems include general patient information and summary medical records, appointment scheduling, billing, insurance claims submission and processing, managed care plan implementation and referral management, treatment outcome studies, treatment planning, drug formularies, patient electronic medical records, word processing and accounting. In addition to providing fully integrated information solutions to its clients, the Company provides comprehensive hardware and software installation, maintenance and support services, system training services and electronic insurance claims submission services.

The Company currently has an installed base of more than 500 operating health care information systems serving PHOs, MSOs, HMOs, group practices, specialty practices, dental schools and other health care organizations, each of which consists of one to 120 physicians or dentists. The Company believes that as health care providers are increasingly required to reduce costs while maintaining the quality of health care, the Company will be able to capitalize on its strategy of providing fully integrated information systems and superior customer service.

QSI is a California corporation formed in 1974 and was founded with an early focus on providing information systems and services primarily for dental group practices. QSI's initial "turnkey" systems were designed to improve productivity while reducing information processing costs and personnel requirements. In the mid-1980's, QSI capitalized on the opportunity presented by the increasing pressure of cost containment on physicians and health care organizations and further expanded its information processing systems into the broader medical market. Today, QSI develops and provides integrated UNIX-based health care information systems for both the medical and dental markets. These systems operate on a stand-alone basis or in a networked environment and are expandable to accommodate client needs.

Augmenting its practice management software, QSI added Clinitec's electronic medical records software to its product line in 1995 and completed its acquisition of Clinitec in May 1996. Clinitec's principal product, NextGen*, permits scanning, annotation, retrieval and analysis of medical records in all formats, from documents to photographs and X-rays. NextGen has been developed using a client/server platform, a graphical user interface for compatibility with UNIX, Microsoft Windows, Windows NT and Windows 95 operating systems, and a relational database for flexibility in screen customization, reporting and logic flow. With the addition of NextGen, the Company is able to provide its clients with a comprehensive information management solution. NextGen, in conjunction with QSI's practice management software, was first installed at a beta site in August 1995 and is currently being installed in additional sites. The Company is also in the process of designing an alternative client/server version of its practice management products utilizing a graphical user interface with the intent of enabling a more seamless integration of the QSI and NextGen applications.

* NextGen is a registered trademark of Clinitec International, Inc.

Further augmenting its product line, the Company purchased substantially all of the assets of MicroMed in May 1997. MicroMed develops proprietary medical practice management systems that utilize a client/server platform, a graphical user interface for compatibility with Windows 95 and Windows NT operating systems, and a relational database that is ANSI SQL compliant in contrast with the Company's existing practice management systems which are primarily character based. MicroMed was formed in 1993 and, as of July 1997, MicroMed had seven installed customer sites which include a medical center with more than 70 doctors, 20 locations and nearly 100 simultaneous users.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, the percentage of net revenues represented by each item in the Company's consolidated statements of operations. The consolidated statements of operations include the operations of Clinitec from May 17, 1996, the date of Clinitec's acquisition, through June 30, 1997, and the operations of MicroMed from May 15, 1997, the date of MicroMed's acquisition, through June 30, 1997.

	Three Months Ended June 30,	
	1997	1996
Net Revenues:		
Sales of computer systems, upgrades and supplies	65.7 %	59.5 %
Maintenance and other services	34.3	40.5
	100.0	100.0
Cost of Products and Services	49.7	48.9
Gross Profit	50.3	51.1
Selling, General and Administrative Expenses	35.4	30.2
Research and Development Costs	11.5	9.6
Purchased In-Process Research and Development	65.8	174.5
Loss from Operations	(62.4)	(163.2)
Investment Income	3.8	8.1
Equity in Loss of Clinitec International, Inc.	-	(0.7)
Loss before Provision for (Benefit from) Income Taxes	(58.6)	(155.8)
Provision for (Benefit from) Income Taxes	(20.5)	7.5
Net Loss	(38.1)%	(163.3)%

For the Three-Month Periods Ended June 30, 1997 and 1996.
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After recognizing a $4.7 million charge for purchased in-process research and development in connection with the acquisition of the MicroMed business, the Company incurred a net loss of $(2.7) million, or $(0.46) per share, for the three months ended June 30, 1997. In comparison, after recognizing an $8.3 million charge for purchased in-process research and development in connection with the Clinitec acquisition, the Company incurred a net loss of $(7.8) million, or $(1.34) per share, for the three months ended June 30, 1996.

Net Revenues. Net revenues for the three months ended June 30, 1997 increased 50.9% to $7.2 million from $4.8 million for the three months ended June 30, 1996. Sales of computer systems, upgrades and supplies increased 66.5% to $4.7 million from $2.8 million while net revenues from maintenance and other services grew 27.9% to $2.5 million from $1.9 million during the comparable periods. The increase in net revenues from sales of computer systems, upgrades and supplies was principally due to an increase in such revenues for both QSI and Clinitec while the increase in maintenance and other services net revenue resulted principally from an increase in such revenues for QSI which has a larger client base than the more recently formed Clinitec. The Company's quarterly results fluctuate and there can be no assurance that similar revenue increases or revenue levels will be achieved in future quarters.

Cost of Products and Services. Costs of products and services for the three months ended June 30, 1997 increased 53.5% to $3.6 million from $2.3 million for the three months ended June 30, 1996 while costs of products and services as a percentage of net revenues increased to 49.7% from 48.9% during the comparable periods. The increase in costs of products and services in both amount and as a percentage of net revenues during the June 30, 1997 quarter as compared to the June 30, 1996 quarter results from a combination of the effects of: the increase in net revenues from sales of computer systems and upgrades; increased product development, customer service, support, and training personnel during the June 30, 1997 quarter reflecting the Company's recent growth in annual sales volumes; and, the impact of the acquisition of MicroMed. Without the acquisition of MicroMed, the costs of products and services as a percentage of net revenues would have remained relatively unchanged.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three months ended June 30, 1997 increased 76.4% to $2.5 million from $1.4 million for the three months ended June 30, 1996 primarily as a result of: the consolidation of MicroMed's selling, general and administrative expenses during the portion of the quarter ended June 30, 1997 following the acquisition of the MicroMed business; the inclusion of such Clinitec expenses for the entire quarter ended June 30, 1997 as compared to only a portion of the corresponding period ended June 30, 1996 as the Clinitec acquisition was completed in May 1996; and, an increase in QSI's and Clinitec's selling efforts, sales personnel and administrative infrastructure. In addition, primarily as a result of the less mature Clinitec and MicroMed infrastructures, selling, general and administrative expenses as a percentage of net revenues increased to 35.4% from 30.2% for the respective periods.

Research and Development Costs. Research and development costs for the three months ended June 30, 1997 increased 81.2% to $828,000 from $457,000 for the three months ended June 30, 1996. The increase is the result of increased research and development efforts by QSI and Clinitec as well as consolidation of MicroMed's research and development costs during the portion of the quarter ended June 30, 1997 following the purchase of the MicroMed business. Research and development costs as a percentage of net revenues increased to 11.5% as compared to 9.6% for the respective periods as a result of the increased efforts.

Purchased In-Process Research and Development. In connection with the acquisition of MicroMed in May 1997, MicroMed's in-process research and development for which technological feasibility had not been established was valued in excess of $4.7 million. After allocating the purchase price paid to identifiable tangible and certain intangible assets, the remaining unallocated portion of $4.7 million was allocated to MicroMed's in-process research and development. In accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," software development costs must be expensed until technological feasibility has been established. Accordingly, the $4.7 million value allocated to MicroMed's purchased in-process research and development was expensed during the quarter ended June 30, 1997. Correspondingly, Clinitec was acquired during the quarter ended June 30, 1996, and its in-process research and development for which technological feasibility had not been established as of the acquisition date was valued at $8.3 million which value was accordingly charged to operations during the June 30, 1996 quarter.

Investment Income and Equity in Loss of Clinitec International, Inc. Investment income for the three months ended June 30, 1997 decreased 28.5% to $276,000 from $386,000 for the three months ended June 30, 1996 primarily as a result of a decrease in average funds available for investment during the quarter ended June 30, 1997. The decrease in available funds is primarily the result of the payment made to acquire the MicroMed business in May 1997. The Company acquired a 25% ownership interest in Clinitec in May 1995 which was increased to 100% in May 1996. During the period that the Company owned 25% of Clinitec, its investment was accounted for under the equity method of accounting whereby the Company recorded its proportionate share of Clinitec's losses as equity in loss of Clinitec. Commencing in May 1996 when the Company acquired the remaining 75% of Clinitec, the Company consolidated Clinitec's results with those of its own operations. Accordingly, the Company's equity in loss of Clinitec was $(31,000) during the quarter ended June 30, 1996 with no corresponding amount in the June 30, 1997 period.

Provision for (Benefit from) Income Taxes. The benefit from income taxes for the three months ended June 30, 1997 was $(1.5) million as compared to a provision of $358,000 for the three months ended June 30, 1996. The benefit from income taxes for the three months ended June 30, 1997 differs from the combined statutory rate primarily due to the effect of varying state tax rates together with the impact of non-deductible amortization of certain intangible assets acquired in the May 1996 acquisition of Clinitec.

The MicroMed acquisition was structured as a taxable transaction while the Clinitec acquisition was tax-free at the acquisition date. Consequently, the provision for income taxes for the three months ended June 30, 1996 differs from the combined statutory rate primarily due to the non-deductible $8.3 million charge for purchased in-process research and development incurred in connection with the May 1996 acquisition of Clinitec.

LIQUIDITY AND CAPITAL RESOURCES.

Cash and cash equivalents decreased $(6.0) million for the three months ended June 30, 1997 primarily as a result of the purchase of the MicroMed business. Correspondingly, cash and cash equivalents decreased $(5.1) million for the three months ended June 30, 1996 principally as a result of the payment of the cash portion of the purchase price for the remaining 75% ownership interest in Clinitec in May 1996.

Net cash used in operating activities for the three months ended June 30, 1997 was $(266,000) consisting primarily of the Company's $(2.7) million net loss adjusted for the principal non-cash operating expenses of depreciation, amortization and the $4.7 million charge for the MicroMed purchased in-process research and development, plus an increase in other current liabilities, offset by the deferred tax benefit from the charge for purchased in-process research and development and an increase in accounts receivable. The increase in accounts receivable during the June 30, 1997 quarter resulted primarily from increased sales as compared to the three months ended March 31, 1997 and the timing of such sales during the quarter. Net cash provided by operating activities for the three months ended June 30, 1996 was $89,000 consisting primarily of the Company's $(7.8) million net loss adjusted for the principal non-cash operating expenses of depreciation, amortization and the $8.3 million charge for the Clinitec purchased in-process research and development, plus the effects of a decrease in inventories and an increase in income taxes payable offset by an increase in accounts receivable and a decrease in accounts payable.

Net cash used in investing activities for the three months ended June 30, 1997 was $(5.7) million consisting principally of $5.3 million, including a $550,000 operating loan made by QSI to MicroMed prior to the acquisition date, used to purchase the MicroMed business, plus additions to equipment and improvements and capitalized software. Net cash used in investing activities for the three months ended June 30, 1996 was $(5.2) million consisting principally of the payment of the $4.9 million cash portion of the May 1996 purchase price for the remaining 75% ownership interest in Clinitec, related legal costs of the acquisition, and additions to equipment and improvements and capitalized software.

Net cash used in financing activities for the three months ended June 30, 1997 was $(28,000) consisting of the purchase of 5,000 shares of the Company's Common Stock offset by proceeds from the exercise of stock options. Net cash provided by (used in) financing activities was negligible for the three months ended June 30, 1996.

In February 1997, the Company's Board of Directors authorized the repurchase on the open market of up to 10% of the Company's outstanding Common Stock at various times through February 1998, subject to compliance with applicable laws and regulations. The timing and amount of any repurchase is at the discretion of the Company's management. The Company's management could, in the exercise of its judgment, repurchase fewer shares than authorized. During the three months ended June 30, 1997, the Company repurchased 5,000 shares at a cost of $34,000. Since the inception of the repurchase program through August 8, 1997, 24,300 shares have been repurchased at a cost of $160,000.

At June 30, 1997, the Company had cash and cash equivalents of $15.9 million and short-term investments of $910,000. Short-term investments include a $668,000 investment in a fund which trades in special situation securities. There can be no assurance that the markets for these securities will not change, causing a loss of principal.

In March 1996, QSI raised $20.2 million to be used for general corporate purposes, including the financing of product sales growth, development of new products, working capital requirements, an increase in its ownership interest in Clinitec (which was completed in May 1996), and the possible acquisitions of complementary businesses and technologies. The Company continues to evaluate potential investment opportunities and in May 1997 acquired substantially all of the assets of MicroMed for an initial cash payment of $4.8 million in addition to a previously advanced $550,000 operating loan plus a potential future additional payment based upon operating results of the MicroMed business for the twelve months ending March 31, 1998. The additional payment, if any, ranges up to $6.0 million, up to 15% of which is payable at the option of QSI in Common Stock, and is due on or before June 29, 1998. Pursuant to an independent valuation of the assets acquired, it is anticipated that a significant portion of any future additional payment will be charged to operations as additional purchased in-process research and development during the quarter ending March 31, 1998.

Except for the acquisition of MicroMed and the Company's intention to expend funds on capitalized software in connection with complementary products to its existing product line (including a $215,000 payment anticipated to be made during the quarter ending September 30, 1997 to acquire rights to certain third party software) and alternative versions of certain of its products for the client/server environment to take advantage of more powerful technologies and to enable a more seamless integration of the Company's products, the Company has no other significant capital commitments and currently anticipates that additions to equipment and improvements for fiscal 1998 will be comparable to fiscal 1997.

The Company believes that its cash and cash equivalents and short-term investments on hand at June 30, 1997, together with the cash flows from operations, if any, will be sufficient to meet its working capital and capital expenditure requirements for the next year.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

The Exhibits listed on the accompanying Index to Exhibits on page 22 are filed as part of this report.

(b) Reports on Form 8-K:

The Registrant filed a Current Report on Form 8-K dated May 15, 1997 reporting the acquisition of substantially all of the assets of MicroMed Healthcare Information Systems, Inc. No financial statements or pro forma information in connection with the acquisition were required to be filed, and accordingly, no such information was filed.

SIGNATURES

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

QUALITY SYSTEMS, INC.

Date August 11, 1997 By /s/ Sheldon Razin

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

Date August 11, 1997 By /s/ Robert G. McGraw

Robert G. McGraw
Chief Financial Officer;
Principal Accounting Officer

INDEX TO EXHIBITS

EXHIBIT 11.0

The net loss per share for the three months ended June 30, 1997 was computed using the weighted average number of shares actually outstanding during the periods of 5,998,000 and 5,807,000, respectively and any common share equivalents were excluded because their impact would have been anti-dilutive.

3-MOS
MAR-31-1998
JUN-30-1997
15,858,000
910,000
8,063,000
0
1,062,000
26,547,000
1,698,000
0
36,415,000
6,676,000
0
0
0
60,000
29,447,000
36,415,000
4,710,000
7,173,000
0
3,567,000
8,085,000
0
0
(4,203,000)
(1,468,000)
(2,735,000)
0
0
0
(2,735,000)
(0.46)
(0.46)