

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 September 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.

4,589,241 shares of Common Stock, \$.01 par value,
as of November 8, 1995

Exhibit Index on sequentially numbered Page 11

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

QUALITY SYSTEMS, INC.
BALANCE SHEETS
ASSETS

	September 30, 1995	March 31, 1995
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 5,008,300	\$ 6,085,300
Short-term investments	1,286,700	1,237,200
Accounts receivable, net	4,721,400	2,996,500
Inventories	763,800	782,900
Deferred tax asset	104,300	199,000
Other current assets	78,200	74,300
	-----	-----
Total current assets	11,962,700	11,375,200
Equipment and improvements, net	491,700	535,300
Capitalized software costs, net	587,400	501,300
Investment, Clinitec International, Inc.	982,300	-
Cash surrender value of life insurance	270,400	185,100
Other assets	68,500	70,900
	-----	-----
Total assets	\$ 14,363,000	\$12,667,800
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,014,300	\$ 597,400
Accrued payroll and related expenses	555,100	427,100
Accrued expenses	489,000	492,400
Deferred service revenue	1,010,500	951,500
Deferred compensation	270,400	185,100
Estimated costs to complete system installations	247,000	216,500
Income taxes payable	175,600	473,400
	-----	-----
Total current liabilities	3,761,900	3,343,400
Deferred tax liability	130,200	136,800
	-----	-----
Total liabilities	3,892,100	3,480,200
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value, 20,000,000 shares authorized, 4,569,241 and 4,535,866 shares issued and outstanding respectively	45,700	45,400
Additional paid-in capital	6,169,400	5,977,600
Unrealized loss on available-for-sale securities	(56,800)	(83,000)
Retained earnings	4,312,600	3,247,600
	-----	-----
Total stockholders' equity	10,470,900	9,187,600
	-----	-----
Total liabilities and stockholders' equity	\$14,363,000	\$12,667,800
	=====	=====

QUALITY SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30, 1995	September 30, 1994	September 30, 1995	September 30, 1994
Net revenues:				
Sales of computer systems, upgrades and supplies	\$2,523,700	\$1,147,500	\$4,647,400	\$2,729,500
Maintenance and other services	1,659,600	1,646,300	3,340,300	3,137,500
	4,183,300	2,793,800	7,987,700	5,867,000
Costs and expenses:				
Cost of products and services	2,071,500	1,456,400	3,784,900	3,108,200
Selling, general and administrative	1,001,500	844,000	1,927,400	1,679,800
Research and development	301,200	386,600	656,200	716,400
	3,374,200	2,687,000	6,368,500	5,504,400
Income from operations	809,100	106,800	1,619,200	362,600
interest and investment income	100,500	132,300	204,300	120,700
Equity loss	(7,800)	-	(17,700)	-
	901,800	239,100	1,805,800	483,300
Income before income tax provision	374,000	54,000	740,800	97,800
Income tax provision				
Net income	\$ 527,800	\$ 185,100	\$1,065,000	\$ 385,500
Earnings per share:				
Primary	\$.12	\$.04	\$.23	\$.08
Fully diluted	\$.12	\$.04	\$.23	\$.08
Equivalent number of shares outstanding:				
Primary	4,699,853	4,632,295	4,678,777	4,642,913
Fully diluted	4,714,491	4,644,562	4,709,550	4,642,913

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

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

	Six Months Ended	
	September 30	
	1995	1994
Cash flows from operating activities:		
Net earnings	\$1,065,000	\$ 385,500
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization of equipment and improvements	110,700	114,800
Amortization of capitalized software costs	127,300	94,600
Realized (gains) losses from sales of short-term investments	11,200	135,200
Unrealized gains on trading securities	(33,300)	(170,600)
Equity loss	17,700	-
Deferred income taxes	88,100	-
Changes in:		
Accounts receivable	(1,724,900)	99,500
Inventories	19,100	49,100
Other current assets	(3,900)	(9,000)
Accounts payable	416,900	(171,700)
Accrued expenses	124,600	(40,800)
Deferred service revenue	59,000	60,500
Estimated costs to complete system installations	30,500	(81,600)
Income taxes payable, and taxes related to equity accounts	(179,800)	97,800
Net cash provided by operating activities	128,200	563,300
Cash flows from investing activities:		
Proceeds from sales of short-term investments	1,068,400	6,784,800
Purchases of short-term investments	(1,049,500)	(5,605,000)
Net additions to equipment and improvements, net	(67,100)	(48,700)
Additions to capitalized software costs	(213,400)	(76,700)
Investment in Clinitec	(1,000,000)	-
Change in other assets	2,400	30,200
Net cash provided by (used in) investing activities:	(1,259,200)	1,084,600
Cash flows from financing activities:		
Proceeds from exercise of stock options	54,000	44,200
Net increase (decrease) in cash and cash equivalents	(1,077,000)	1,692,100
Cash and cash equivalents, beginning of period	6,085,300	1,092,900
Cash and cash equivalents, end of period	\$5,008,300	\$2,785,000

Supplemental information - During the six months ended September 30, 1995 and 1994 the Company made income tax payments of \$832,500 and \$9,600, respectively.

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

QUALITY SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

September 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.

NOTE 2 - EARNINGS PER SHARE

Earnings per share for the six months ended September 30, 1995 and September 30, 1994 was computed based on the weighted average number of shares actually outstanding, plus the shares that would be outstanding, using the treasury stock method, assuming the exercise of all outstanding options which were considered to be common stock equivalents. Primary and fully diluted net earnings per share amounts are based on weighted average number of shares outstanding of 4,678,777 and 4,709,550 for September 30, 1995 respectively and 4,642,913 for both primary and fully diluted net earnings per share for September 30, 1994.

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

and Results of Operations

Results of Operations

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

September 30, 1994.

Revenues increased to \$4,183,300, for the three months ended September 30, 1995, a 50% increase over the revenues of \$2,793,800 for the three months ended September 30, 1994. Sales of computer systems, upgrades and supplies increased \$1,376,200, from \$1,147,500 in the same quarter of last year to \$2,523,700 in the current quarter. The increase was due to both increased sales of larger systems and to increased sales of upgrades. Revenues from maintenance and other services increased nominally, from \$1,646,300 in the quarter ended September 30, 1994 to \$1,659,600 in the current quarter. There was an \$87,400 increase in maintenance revenues, but revenues from time and material billings for additional services was down slightly from the same quarter of last year.

Costs of products and services, as a percentage of revenues, decreased from 52% for the quarter ended September 30, 1994 to 50% for the quarter ended September 30, 1995 due to changes in sales mix. Selling, general and administrative expenses increased from \$844,000 in the same quarter of last year to \$1,001,500 in the current quarter, due to an increase in selling expense of \$62,900 and an increase in general and administrative expense of \$94,600. However, these increases were 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 30% to 24%. Research and development expenditures decreased from \$386,600 to \$301,200 due to a redeployment of staff to capitalized software projects. The expenditures for capitalized software increased from \$26,500 in the three months ended September 30, 1994 to \$126,500 in the three months ended September 30, 1995.

Interest and investment income was \$100,500 for the quarter ended September 30, 1995 compared to investment and interest income of \$132,300 for the quarter ended September 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.

Six months ended September 30, 1995 compared to six months ended

September 30, 1994.

Revenues increased to \$7,987,700 for the six months ended September 30, 1995, a 36% increase over the revenues of \$5,867,000 for the six months ended September 30, 1994. Sales of computer systems, upgrades and supplies increased \$1,917,900, from \$2,729,500 in the prior year to \$4,647,400 in the current year, for the same reasons as discussed above. Revenues from maintenance and other services increased \$202,800, from \$3,137,500 in the prior year to \$3,340,300 in the current year, with most of the increase attributable to an increase in recurring maintenance revenues.

Costs of products and services, as a percentage of revenues, decreased from 53% for the six months ended September 30, 1994 to 47% for the six months ended September 30, 1995 and selling, general and administrative expenses decreased from 29% to 24% for the same reasons as discussed above.

Interest and investment income was \$204,300 for the six months ended September 30, 1995 compared to \$120,700 for the six months ended September 30, 1994. Current year investment results represent an annualized yield of about 6% on the Company's combined balances for cash and cash equivalents and short-term investments. Interest and investment income for the six months ended September 30, 1994 included prior year first quarter realized losses from sales of short-term investments of \$81,000 and unrealized losses from trading securities of \$10,100.

Liquidity and Capital Resources

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

	September 30, 1995	March 31, 1995	Increase (Decrease)
Cash and cash equivalents	\$5,008,300	\$6,085,300	(\$1,077,000)
Short-term investments	1,286,700	1,237,200	49,500
	-----	-----	-----
	\$6,295,000	\$7,322,500	(\$1,027,500)

The decrease of \$1,027,500 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 six months ended September 30, 1995 was \$128,200. Positive cash flows from net income of \$1,065,000, and an increase in accounts payable of \$416,900, were more than offset by an increase in accounts receivable of \$1,724,900. The increase in accounts receivable was due to technical delays in collecting \$578,000 from one large client, which was subsequently collected in October 1995, and 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:

The Exhibits listed on the accompanying Index to Exhibits on page 11 are file as part of this report.

(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 November 8, 1995

By /s/ Sheldon Razin

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

Date November 8, 1995

By /s/ Irma G. Carmona

Irma G. Carmona
Corporate Controller;
Principal Accounting Officer

INDEX TO EXHIBITS

Exhibit -----	Sequential Page No. -----
11.0 Earnings per share computation, is filed herewith	12
27.0 Financial Data Schedule, is filed herewith.	13

EXHIBIT 11.0

Earnings per share for the six months ended September 30, 1995 and September 30, 1994 was computed based on the weighted average number of shares actually outstanding, plus the shares that would be outstanding, using the treasury stock method, assuming the exercise of all outstanding options which were considered to be common stock equivalents. Primary and fully diluted net earnings per share amounts are based on weighted average number of shares outstanding of 4,678,777 and 4,709,550 for September 30, 1995 respectively and 4,642,913 for both primary and fully diluted net earnings per share for September 30, 1994.

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SEP-30-1995
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