

**UNITED STATES**  
**SECURITIES and EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2020

or

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

Commission file number: 001-12537

**NEXTGEN HEALTHCARE, INC.**

*(Exact name of registrant as specified in its charter)*

**California**

*(State or other jurisdiction of incorporation or organization)*

**18111 Von Karman Avenue, Suite 800, Irvine, California**  
*(Address of principal executive offices)*

**95-2888568**

*(IRS Employer Identification No.)*

**92612**

*(Zip Code)*

**(949) 255-2600**

*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

| <i>Title of each class</i>            | <i>Trading Symbol</i> | <i>Name of each exchange on which registered</i> |
|---------------------------------------|-----------------------|--|
| <b>Common Stock, \$0.01 Par Value</b> | <b>NXGN</b>           | <b>NASDAQ Global Select Market</b>               |

Indicate by check mark whether the registrant (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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Small reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of outstanding shares of the Registrant's common stock as of July 28, 2020 was 66,669,360 shares.

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FOR THE THREE MONTHS ENDED JUNE 30, 2020

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

**NEXTGEN HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share data)  
(Unaudited)

|  | June 30, 2020     | March 31, 2020    |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| Current assets:  |                   |                   |
| Cash and cash equivalents  | \$ 192,323        | \$ 138,012        |
| Restricted cash and cash equivalents   | 8,032             | 2,307             |
| Accounts receivable, net   | 76,851            | 80,006            |
| Contract assets  | 13,740            | 12,529            |
| Income taxes receivable  | 579               | 856               |
| Prepaid expenses and other current assets  | 25,899            | 26,305            |
| <b>Total current assets</b>  | <b>317,424</b>    | <b>260,015</b>    |
| Equipment and improvements, net  | 18,525            | 19,836            |
| Capitalized software costs, net  | 37,853            | 37,004            |
| Operating lease assets   | 29,280            | 31,004            |
| Deferred income taxes, net   | 10,604            | 10,620            |
| Contract assets, net of current  | 2,878             | 3,007             |
| Intangibles, net   | 51,561            | 57,809            |
| Goodwill   | 267,165           | 267,165           |
| Other assets   | 34,516            | 33,656            |
| <b>Total assets</b>  | <b>\$ 769,806</b> | <b>\$ 720,116</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                   |
| Current liabilities:   |                   |                   |
| Accounts payable   | \$ 9,199          | \$ 10,521         |
| Contract liabilities   | 51,160            | 56,786            |
| Accrued compensation and related benefits  | 22,454            | 23,792            |
| Income taxes payable   | 1,373             | 148               |
| Operating lease liabilities  | 10,669            | 10,619            |
| Other current liabilities  | 43,616            | 41,352            |
| <b>Total current liabilities</b>   | <b>138,471</b>    | <b>143,218</b>    |
| Deferred compensation  | 5,988             | 5,300             |
| Line of credit   | 179,000           | 129,000           |
| Operating lease liabilities, net of current  | 36,135            | 38,823            |
| Other noncurrent liabilities   | 6,570             | 3,281             |
| <b>Total liabilities</b>   | <b>366,164</b>    | <b>319,622</b>    |
| Commitments and contingencies (Note 16)  |                   |                   |
| Shareholders' equity:  |                   |                   |
| Common stock   |                   |                   |
| \$0.01 par value; authorized 100,000 shares; issued and outstanding 66,669 and 66,134 shares at June 30, 2020 and March 31, 2020, respectively | 667               | 661               |
| Additional paid-in capital   | 286,836           | 282,857           |
| Accumulated other comprehensive loss   | (2,156)           | (2,143)           |
| Retained earnings  | 118,295           | 119,119           |
| <b>Total shareholders' equity</b>  | <b>403,642</b>    | <b>400,494</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 769,806</b> | <b>\$ 720,116</b> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**NEXTGEN HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
(In thousands, except per share data)  
(Unaudited)

|   | <b>Three Months Ended June 30,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2020</b>                        | <b>2019</b> |
| <b>Revenues:</b>  |                                    |             |
| Recurring   | \$ 119,522                         | \$ 119,447  |
| Software, hardware, and other non-recurring                               | 11,357                             | 12,414      |
| Total revenues  | 130,879                            | 131,861     |
| <b>Cost of revenue:</b>   |                                    |             |
| Recurring   | 50,429                             | 50,540      |
| Software, hardware, and other non-recurring                               | 6,041                              | 6,278       |
| Amortization of capitalized software costs and acquired intangible assets | 9,899                              | 8,413       |
| Total cost of revenue   | 66,369                             | 65,231      |
| Gross profit  | 64,510                             | 66,630      |
| <b>Operating expenses:</b>  |                                    |             |
| Selling, general and administrative                                       | 40,737                             | 40,128      |
| Research and development costs, net                                       | 18,222                             | 22,051      |
| Amortization of acquired intangible assets                                | 1,112                              | 865         |
| Impairment of assets  | —                                  | 489         |
| Restructuring costs   | 2,562                              | 1,707       |
| Total operating expenses  | 62,633                             | 65,240      |
| Income from operations  | 1,877                              | 1,390       |
| Interest income   | 6                                  | 79          |
| Interest expense  | (1,107)                            | (472)       |
| Other income (expense), net   | 16                                 | (133)       |
| Income before provision for (benefit of) income taxes                     | 792                                | 864         |
| Provision for (benefit of) income taxes                                   | 1,616                              | (380)       |
| Net income (loss)   | \$ (824)                           | \$ 1,244    |
| <b>Other comprehensive income:</b>  |                                    |             |
| Foreign currency translation, net of tax                                  | (13)                               | 54          |
| Comprehensive income (loss)   | \$ (837)                           | \$ 1,298    |
| <b>Net income (loss) per share:</b>                                       |                                    |             |
| Basic   | \$ (0.01)                          | \$ 0.02     |
| Diluted   | \$ (0.01)                          | \$ 0.02     |
| <b>Weighted-average shares outstanding:</b>                               |                                    |             |
| Basic   | 66,296                             | 65,015      |
| Diluted   | 66,296                             | 65,353      |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**NEXTGEN HEALTHCARE, INC.**  
**STATEMENTS OF CONDENSED CONSOLIDATED STOCKHOLDERS' EQUITY**  
(In thousands)  
(Unaudited)

|   | <b>Three Months Ended June 30, 2020</b> |               |   |                              |   |   |
|---|---|---------------|---|------------------------------|---|---|
|   | <b>Common Stock</b>                     |               | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive<br/>Loss</b> | <b>Total<br/>Shareholders'<br/>Equity</b> |
|   | <b>Shares</b>                           | <b>Amount</b> |   |                              |   |   |
| Balance, March 31, 2020   | 66,134                                  | 661           | 282,857                                   | 119,119                      | (2,143)   | 400,494                                   |
| Common stock issued under stock plans, net of shares withheld for taxes | 535                                     | 6             | (1,414)                                   | —                            | —   | (1,408)                                   |
| Stock-based compensation  | —                                       | —             | 5,393                                     | —                            | —   | 5,393                                     |
| Components of other comprehensive income:                               |   |               |   |                              |   |   |
| Translation adjustments   | —                                       | —             | —   | —                            | (13)  | (13)                                      |
| Net income (loss)   | —                                       | —             | —   | (824)                        | —   | (824)                                     |
| Balance, June 30, 2020  | 66,669                                  | 667           | 286,836                                   | 118,295                      | (2,156)   | 403,642                                   |

|   | <b>Three Months Ended June 30, 2019</b> |               |   |                              |   |   |
|---|---|---------------|---|------------------------------|---|---|
|   | <b>Common Stock</b>                     |               | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive<br/>Loss</b> | <b>Total<br/>Shareholders'<br/>Equity</b> |
|   | <b>Shares</b>                           | <b>Amount</b> |   |                              |   |   |
| Balance, March 31, 2019   | 64,838                                  | 648           | 264,908                                   | 111,621                      | (1,231)   | 375,946                                   |
| Common stock issued under stock plans, net of shares withheld for taxes | 545                                     | 6             | (1,311)                                   | —                            | —   | (1,305)                                   |
| Stock-based compensation  | —                                       | —             | 4,891                                     | —                            | —   | 4,891                                     |
| Components of other comprehensive income:                               |   |               |   |                              |   |   |
| Translation adjustments   | —                                       | —             | —   | —                            | 54  | 54  |
| Net income  | —                                       | —             | —   | 1,244                        | —   | 1,244                                     |
| Balance, June 30, 2019  | 65,383                                  | 654           | 268,488                                   | 112,865                      | (1,177)   | 380,830                                   |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**NEXTGEN HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

|   | <b>Three Months Ended June 30,</b> |                  |
|---|------------------------------------|------------------|
|   | <b>2020</b>                        | <b>2019</b>      |
| <b>Cash flows from operating activities:</b>  |                                    |                  |
| Net income (loss)   | \$ (824)                           | \$ 1,244         |
| <b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b> |                                    |                  |
| Amortization of capitalized software costs  | 4,763                              | 4,125            |
| Amortization of debt issuance costs   | 177                                | 177              |
| Amortization of other intangibles   | 6,248                              | 5,153            |
| Change in fair value of contingent consideration  | 25                                 | —                |
| Deferred income taxes   | 16                                 | (13)             |
| Depreciation  | 1,996                              | 2,092            |
| Excess tax deficiency (benefit) from share-based compensation                                   | 867                                | (189)            |
| Impairment of assets  | —                                  | 489              |
| Loss on disposal of equipment and improvements  | —                                  | 41               |
| Non-cash operating lease costs  | 1,683                              | 1,815            |
| Provision for bad debts   | 869                                | 606              |
| Restructuring costs, net of amounts paid  | —                                  | 1,707            |
| Share-based compensation  | 5,393                              | 4,891            |
| <b>Changes in assets and liabilities, net of amounts acquired:</b>                              |                                    |                  |
| Accounts receivable   | 2,286                              | 5,105            |
| Contract assets   | (1,082)                            | 1,396            |
| Accounts payable  | (1,391)                            | 416              |
| Contract liabilities  | (5,626)                            | (2,046)          |
| Accrued compensation and related benefits   | (1,338)                            | (9,994)          |
| Income taxes  | 635                                | 982              |
| Deferred compensation   | 688                                | 141              |
| Operating lease liabilities   | (2,596)                            | (2,286)          |
| Other assets and liabilities  | 4,883                              | 1,145            |
| <b>Net cash provided by operating activities</b>  | <b>17,672</b>                      | <b>16,997</b>    |
| <b>Cash flows from investing activities:</b>  |                                    |                  |
| Additions to capitalized software costs   | (5,612)                            | (4,735)          |
| Additions to equipment and improvements   | (616)                              | (3,689)          |
| <b>Net cash used in investing activities</b>  | <b>(6,228)</b>                     | <b>(8,424)</b>   |
| <b>Cash flows from financing activities:</b>  |                                    |                  |
| Proceeds from line of credit  | 50,000                             | —                |
| Repayments on line of credit  | —                                  | (5,000)          |
| Proceeds from issuance of shares under employee plans   | 426                                | 1,096            |
| Payments for taxes related to net share settlement of equity awards                             | (1,834)                            | (2,401)          |
| <b>Net cash provided by (used in) financing activities</b>                                      | <b>48,592</b>                      | <b>(6,305)</b>   |
| <b>Net increase in cash, cash equivalents, and restricted cash</b>                              | <b>60,036</b>                      | <b>2,268</b>     |
| <b>Cash, cash equivalents, and restricted cash at beginning of period</b>                       | <b>140,319</b>                     | <b>34,522</b>    |
| <b>Cash, cash equivalents, and restricted cash at end of period</b>                             | <b>\$ 200,355</b>                  | <b>\$ 36,790</b> |
| <b>Supplemental disclosures of cash flow information:</b>                                       |                                    |                  |
| Cash paid for income taxes  | \$ 206                             | \$ 257           |
| Cash refunds from income taxes  | 91                                 | 1,430            |
| Cash paid for interest  | 947                                | 275              |
| Cash paid for amounts included in the measurement of operating lease liabilities                | 3,133                              | 2,617            |
| Operating lease assets obtained in exchange for operating lease liabilities                     | —                                  | 5,324            |
| Accrued purchases of equipment and improvements   | 69                                 | —                |

The accompanying notes are an integral part of these condensed consolidated financial statements.

NEXTGEN HEALTHCARE, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**NEXTGEN HEALTHCARE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands, except shares and per share data)  
(Unaudited)

**1. Summary of Significant Accounting Policies**

**Principles of Consolidation.** The condensed consolidated financial statements include the accounts of NextGen Healthcare, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). Each of the terms "we," "us," or "our" as used herein refers collectively to the Company, unless otherwise stated. All intercompany accounts and transactions have been eliminated.

**Basis of Presentation.** The accompanying unaudited condensed consolidated financial statements as of June 30, 2020 and for the three months ended June 30, 2020 have been prepared in accordance with the requirements of Quarterly Report on Form 10-Q and Article 10 of the Securities and Exchange Commission Regulation S-X and therefore do not include all information and notes which would be presented were such condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements presented in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments which are necessary for a fair statement of the results of operations and cash flows for the 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.

References to amounts in the condensed consolidated financial statement sections are in thousands, except shares and per share data, unless otherwise specified.

**Use of Estimates.** In late 2019, the emergence of a novel coronavirus, or COVID-19, was reported and in January 2020, the World Health Organization ("WHO"), declared it a Public Health Emergency of International Concern. In March 2020, the WHO escalated COVID-19 as a pandemic. The extent to which COVID-19 impacts our business and financial results will depend on numerous evolving factors including, but not limited to, the magnitude and duration of COVID-19; the impact on our employees; the extent to which it will impact worldwide macroeconomic conditions, including interest rates, employment rates, and health insurance coverage; the speed of the anticipated recovery; and governmental and business reactions to the pandemic. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts of COVID-19 at June 30, 2020 and through the date of this Quarterly Report on Form 10-Q. The accounting matters assessed included, but were not limited to, our allowances for doubtful accounts and the carrying value of goodwill and other long-lived assets. While there was not a material impact to our consolidated financial statements at and for the quarter ended June 30, 2020, our future assessment of the magnitude and duration of COVID-19, as well as other factors could result in material impacts to our consolidated financial statements in future reporting periods.

**Share-Based Compensation.** The following table summarizes total share-based compensation expense included in the condensed consolidated statements of net income (loss) and comprehensive income (loss) for the three months ended June 30, 2020 and 2019:

|                                     | Three Months Ended June 30, |                 |
|-------------------------------------|-----------------------------|-----------------|
|                                     | 2020                        | 2019            |
| Costs and expenses:                 |                             |                 |
| Cost of revenue                     | \$ 424                      | \$ 463          |
| Research and development costs      | 917                         | 1,028           |
| Selling, general and administrative | 4,052                       | 3,400           |
| Total share-based compensation      | 5,393                       | 4,891           |
| Income tax benefit                  | (1,264)                     | (1,215)         |
| Decrease in net income              | <u>\$ 4,129</u>             | <u>\$ 3,676</u> |

**Recently Adopted Accounting Pronouncements.** Recently adopted accounting pronouncements are discussed below or in the notes, where applicable.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The adoption of ASU 2018-15 on April 1, 2020 did not have a material impact on our condensed consolidated financial statements.



In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 modifies certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. ASU 2018-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The adoption of ASU 2018-13 on April 1, 2020 did not have a material impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of Step two of the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective prospectively for annual and interim periods beginning after December 15, 2019, and early adoption is permitted on goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 on April 1, 2020 did not have a material impact on our condensed consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 provides new guidance regarding the measurement and recognition of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-13 using the modified retrospective transition approach on April 1, 2020 did not have a material impact on our condensed consolidated financial statements. Refer to Note 3 for additional details.

**Recent Accounting Standards Not Yet Adopted.** Recent accounting pronouncements requiring implementation in current or future periods are discussed below or in the notes, where applicable.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in ASU 2020-04 apply only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 may be applied prospectively through December 31, 2022. We are currently evaluating the effect that ASU 2020-04 may have on our contracts that reference LIBOR, such as our amended and restated revolving credit agreement (see Note 10). We have not elected to apply any of the provisions of ASU 2020-04, and we are currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. ASU 2019-12 is effective for us in the first quarter of fiscal 2022. We are currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on our condensed consolidated financial statements.

We do not believe that any other recently issued, but not yet effective accounting standards, if adopted, would have a material impact on our condensed consolidated financial statements.

## 2. Revenue from Contracts with Customers

### *Revenue Recognition and Performance Obligations*

We generate revenue from sales of licensing rights and subscriptions to our software solutions, hardware and third-party software products, support and maintenance, managed services, EDI, and other non-recurring services, including implementation, training, and consulting services. Our contracts with customers may include multiple performance obligations that consist of various combinations of our software solutions and related services, which are generally capable of being distinct and accounted for as separate performance obligations.

The total transaction price is allocated to each performance obligation within a contract based on estimated standalone selling prices. We generally determine standalone selling prices based on the prices charged to customers, except for certain software licenses that are based on the residual approach because their standalone selling prices are highly variable and certain maintenance customers that are based on substantive renewal rates. In instances where standalone selling price is not sufficiently observable, such as RCM services and software licenses included in our RCM arrangements, we estimate standalone selling price utilizing an expected cost plus a margin approach. When standalone selling prices are not observable, significant judgment is required in estimating the standalone selling price for each performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration that we expect to be entitled to in exchange for those goods or services.

We exclude sales tax from the measurement of the transaction price and record revenue net of taxes collected from customers and subsequently remitted to governmental authorities.

The following table presents our revenues disaggregated by our major revenue categories and by occurrence:

|  | Three Months Ended June 30, |                   |
|--|-----------------------------|-------------------|
|  | 2020                        | 2019              |
| <b>Recurring revenues:</b>                                   |                             |                   |
| Subscription services  | \$ 35,360                   | \$ 30,144         |
| Support and maintenance                                      | 38,547                      | 39,652            |
| Managed services   | 22,493                      | 25,681            |
| Electronic data interchange and data services                | 23,122                      | 23,970            |
| Total recurring revenues                                     | 119,522                     | 119,447           |
| <b>Software, hardware, and other non-recurring revenues:</b> |                             |                   |
| Software license and hardware                                | 4,740                       | 7,095             |
| Other non-recurring services                                 | 6,617                       | 5,319             |
| Total software, hardware and other non-recurring revenues    | 11,357                      | 12,414            |
| <b>Total revenues</b>  | <b>\$ 130,879</b>           | <b>\$ 131,861</b> |

Recurring revenues consists of subscription services, support and maintenance, managed services, and EDI and data services. Software, hardware, and other non-recurring revenues consists of revenue from sales of software license and hardware and certain non-recurring services, such as implementation, training, and consulting performed for clients who use our products.

We generally recognize revenue for our most significant performance obligations as follows:

**Subscription services.** Performance obligations involving subscription services, which include annual libraries, are satisfied over time as the customer simultaneously receives and consumes the benefits of the services throughout the contract period. Our subscription services primarily include our software-as-a-service (“SaaS”) based offerings, such as our electronic health records and practice management, mobile, patient portal, and population health management solutions. Our SaaS-based offerings may include multiple goods and services, such as providing access to our technology-based solutions together with our managed cloud hosting services. These offerings are concurrently delivered with the same pattern of transfer to our customers and are accounted for as a single performance obligation because the technology-based solutions and other goods and services included within our overall SaaS-based offerings are each individually not capable of being distinct as the customer receives benefits based on the combined offering. Our annual libraries primarily consist of providing stand-ready access to certain content, knowledgebase, databases, and SaaS-based educational tools, which are frequently updated to meet the most current standards and requirements, to be utilized in conjunction with our core solutions. We recognize revenue related to these subscription services, including annual libraries, ratably over the respective noncancelable contract term.

**Support and maintenance.** Performance obligations involving support and maintenance are satisfied over time as the customer simultaneously receives and consumes the benefits of the maintenance services provided. Our support and maintenance services may consist of separate performance obligations, such as unspecified upgrades or enhancements and technical support, which are considered stand-ready in nature and can be offered at various points during the service period. Since the efforts associated with the combined support and maintenance services are rendered concurrently and provided evenly throughout the service period, we consider the series of support and maintenance services to be a single performance obligation. Therefore, we recognize revenue related to these services ratably over the respective noncancelable contract term.

**Managed services.** Managed services consist primarily of RCM and related services, but also includes our hosting services, which we refer to as managed cloud services, transcription services, patient pay services, and certain other recurring services. Performance obligations associated with RCM services are satisfied over time as the customer simultaneously receives and consumes the benefits of the services executed throughout the contract period. The majority of service fees under our RCM arrangements are variable consideration contingent upon collections by our clients. We estimate the variable consideration which we expect to be entitled to over the noncancelable contract term associated with our RCM service arrangements. The estimate of variable consideration included in the transaction price typically involves estimating the amounts we will ultimately collect on behalf of our clients and the relative fee we charge that is generally calculated as a percentage of those collections. Inputs to these estimates include, but are not limited to, historical service fees and collections amounts, timing of historical collections relative to the timing of when claims are submitted by our clients to their respective payers, macroeconomic trends, and anticipated changes in the number of providers. Significant judgement is required when estimating the total transaction price based on the variable consideration. We may apply certain constraints when appropriate whereby we include in the transaction price estimated variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Such estimates are assessed at the contract level. RCM and related services may not be rendered evenly over the contract period as the timing of services are based on customer collections, which may vary throughout the service period. We recognize revenue for RCM based on the amount of collections received throughout the contract term as it most closely depicts our efforts to transfer our service obligations to the customer. Our managed cloud services represent a single performance obligation to provide cloud hosting services to our customers and related revenue is recognized ratably over the respective noncancelable contract term. Performance obligations related to the transcription services, patient pay services, and other recurring services are satisfied as the corresponding services are provided and revenue is recognized as such services are rendered.

**Electronic data interchange and data services.** Performance obligations related to EDI and other transaction processing services are satisfied at the point in time the services are rendered. The transfer of control occurs when the transaction processing services are delivered and the customer receives the benefits from the services provided.

**Software license and hardware.** Software license and hardware are considered point-in-time performance obligations as control is transferred to customers upon the delivery of the software license and hardware. Our software licenses are considered functional licenses, and revenue recognition generally occurs on the date of contract execution as the customer is provided with immediate access to the license. We generally determine the amount of consideration allocated to the software license performance obligation using the residual approach, except for certain RCM arrangements where the amount allocated to the software license performance obligation is determined based on estimated relative standalone selling prices. For hardware, we recognize revenue upon transfer of such hardware or devices to the customer.

**Other non-recurring services.** Performance obligations related to other non-recurring services, including implementation, training, and consulting services, are generally satisfied as the corresponding services are provided. Once the services have been provided to the customer, the transfer of control has occurred. Therefore, we recognize revenue as such services are rendered.

#### *Transaction Price Allocated to Remaining Performance Obligations*

As of June 30, 2020, the aggregate amount of transaction price related to remaining unsatisfied or partially unsatisfied performance obligations over the respective noncancelable contract term was approximately \$505,700, of which we expect to recognize approximately 8% as services are rendered or goods are delivered, 54% over the next 12 months, and the remainder thereafter.

As of June 30, 2019, the aggregate amount of transaction price related to remaining unsatisfied or partially unsatisfied performance obligations over the respective noncancelable contract term was approximately \$492,100, of which we expect to recognize approximately 10% as services are rendered or goods are delivered, 50% over the next 12 months, and the remainder thereafter.

#### *Contract Balances*

Contract balances result from the timing differences between our revenue recognition, invoicing, and cash collections. Such contract balances include accounts receivables, contract assets and liabilities, and other customer deposits and liabilities balances. Accounts receivables include invoiced amounts where the right to receive payment is unconditional and only subject to the passage of time. Contract assets, consisting of unbilled receivables, include amounts where revenue recognized exceeds the amount invoiced to the customer and the right to payment is not solely subject to the passage of time. Contract assets are generally associated with our sales of software licenses, but may also be associated with other performance obligations such as subscription services, support and maintenance, annual libraries, and professional services, where control has been transferred to our customers but the associated payments are based on future customer collections (in the case of our RCM service arrangements) or based on future milestone payment due dates. In such instances, the revenue recognized may exceed the amount invoiced to the customer and such balances are included in contract assets since our right to receive payment is not unconditional, but rather is conditional upon customer collections or the continued functionality of the software and our ongoing support and maintenance obligations. Contract liabilities consist mainly of fees invoiced or paid by our clients for which the associated services have not been performed and revenues have not been recognized. Contract assets and contract liabilities are reported in a net position on an individual contract basis at the end of each reporting period. Contract assets are classified as current or long-term on our condensed consolidated balance sheets based on the timing of when we expect to complete the related performance obligations and invoice the customer. Contract liabilities are classified as current on our condensed consolidated balance sheets since the revenue recognition associated with the related customer payments and invoicing is expected to occur within the next twelve months. During the three months ended June 30, 2020 and 2019, we recognized \$20,826 and \$19,960, respectively, of revenues that were included in the contract liability balance at the beginning of the corresponding periods.

Our contracts with customers do not include any major financing components.

#### *Costs to Obtain or Fulfill a Contract*

We capitalize all incremental costs of obtaining a contract with a customer to the extent that such costs are directly related to a contract and expected to be recoverable. Our sales commissions and related sales incentives are considered incremental costs requiring capitalization. Capitalized contract costs are amortized to expense utilizing a method that is consistent with the transfer of the related goods or services to the customer. The amortization period ranges from less than one year up to five years, based on the period over which the related goods and services are transferred, including consideration of the expected customer renewals and the related useful lives of the products.

Capitalized commissions costs were \$25,105 as of June 30, 2020, of which \$7,435 is classified as current and included as prepaid expenses and other current assets and \$17,670 is classified as long-term and included within other assets on our condensed consolidated balance sheets, based on the expected timing of expense recognition. During the three months ended June 30, 2020 and 2019, we recognized \$2,240 and \$1,662, respectively, of commissions expense. Commissions expense primarily relate to the amortization of capitalized commissions costs, which is included as a selling, general and administrative expense in the condensed consolidated statements of net income (loss) and comprehensive income (loss).

### 3. Accounts Receivable

We adopted ASU 2016-13 using the modified retrospective transition approach, which required the recognition of expected credit losses for our accounts receivable and our contract assets, consisting of unbilled receivables. The adoption of the new guidance did not have a material impact on our condensed consolidated financial statements as the expected credit loss model was not significantly different from our prior policy and methodology for determining the allowance for doubtful accounts. As part of our assessment of the adequacy of the allowance for doubtful accounts, we considered a number of factors including, but not limited to, historical credit loss experience and adjustments for certain asset-specific risk characteristics, such as bankruptcy filings, internal assessments of client credit quality, age of the client receivable balances, review of major third-party credit-rating agencies, and evaluation of external factors such as economic conditions, including the potential impacts of the COVID-19 pandemic, that may affect a client's ability to pay, or other client-specific factors.

Accounts receivable includes invoiced amounts where the right to receive payment is unconditional and only subject to the passage of time. Allowance for doubtful accounts are reported as a component of accounts receivable as summarized below:

|                                 | June 30, 2020    | March 31, 2020   |
|---------------------------------|------------------|------------------|
| Accounts receivable, gross      | \$ 80,771        | \$ 83,555        |
| Allowance for doubtful accounts | (3,920)          | (3,549)          |
| Accounts receivable, net        | <u>\$ 76,851</u> | <u>\$ 80,006</u> |

Changes in the allowance for doubtful accounts are summarized as follows:

|   |                   |
|---|-------------------|
| Balance as of March 31, 2020            | \$ (3,549)        |
| Additions charged to costs and expenses | 869               |
| Deductions                              | (1,240)           |
| Balance as of June 30, 2020             | <u>\$ (3,920)</u> |

### 4. Fair Value Measurements

The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2020 and March 31, 2020:

|  | Balance At<br>June 30, 2020 | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|--|-----------------------------|--|---|-------------------------------------|
| <b>ASSETS</b>                                    |                             |  |   |                                     |
| Cash and cash equivalents (1)                    | \$ 192,323                  | \$ 192,323   | \$ —  | \$ —                                |
| Restricted cash and cash equivalents             | 8,032                       | 8,032  | —   | —                                   |
|  | <u>\$ 200,355</u>           | <u>\$ 200,355</u>  | <u>\$ —</u>   | <u>\$ —</u>                         |
| <b>LIABILITIES</b>                               |                             |  |   |                                     |
| Contingent consideration related to acquisitions | \$ 1,925                    | \$ —   | \$ —  | \$ 1,925                            |
|  | <u>\$ 1,925</u>             | <u>\$ —</u>  | <u>\$ —</u>   | <u>\$ 1,925</u>                     |

|  | Balance At<br>March 31, 2020 | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|--|------------------------------|--|---|-------------------------------------|
| <b>ASSETS</b>                                    |                              |  |   |                                     |
| Cash and cash equivalents (1)                    | \$ 138,012                   | \$ 138,012   | \$ —  | \$ —                                |
| Restricted cash and cash equivalents             | 2,307                        | 2,307  | —   | —                                   |
|  | <u>\$ 140,319</u>            | <u>\$ 140,319</u>  | <u>\$ —</u>   | <u>\$ —</u>                         |
| <b>LIABILITIES</b>                               |                              |  |   |                                     |
| Contingent consideration related to acquisitions | \$ 1,900                     | \$ —   | \$ —  | \$ 1,900                            |
|  | <u>\$ 1,900</u>              | <u>\$ —</u>  | <u>\$ —</u>   | <u>\$ 1,900</u>                     |

(1) Cash equivalents consist primarily of money market funds.

The following table presents activity in our financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3), as of and for the three months ended June 30, 2020:

|                           | <b>Total Liabilities</b> |              |
|---------------------------|--------------------------|--------------|
| Balance at March 31, 2020 | \$                       | 1,900        |
| Fair value adjustments    |                          | 25           |
| Balance at June 30, 2020  | \$                       | <u>1,925</u> |

The contingent consideration liability as of June 30, 2020 and March 31, 2020 relates to the acquisition of Topaz Information Systems, LLC (see Note 6) and is reflected within other noncurrent liabilities in our condensed consolidated balance sheets. During the three months ended June 30, 2020, we recorded \$25 related to the accretion of the present value discount of the contingent consideration liability.

The categorization of the framework used to measure fair value of the contingent consideration liabilities were considered to be within the Level 3 valuation hierarchy due to the subjective nature of the unobservable inputs used. We assess the fair value of the contingent consideration liabilities on a recurring basis and any adjustments to fair value subsequent to the initial measurement period are reflected in the condensed consolidated statements of net income (loss) and comprehensive income (loss). Key assumptions included probability-adjusted achievement estimates of applicable bookings targets that were not observable in the market.

We believe that the fair value of other financial assets and liabilities, including accounts receivable, accounts payable, and line of credit, approximate their respective carrying values due to their nominal credit risk.

#### **Non-Recurring Fair Value Measurements**

We have certain assets, including goodwill and other intangible assets, which are measured at fair value on a non-recurring basis and are adjusted to fair value only if an impairment charge is recognized. The categorization of the framework used to measure fair value of the assets is considered to be within the Level 3 valuation hierarchy due to the subjective nature of the unobservable inputs used.

#### **5. Leases**

We have operating lease agreements for our offices in the United States and India with lease periods expiring between 2020 and 2026. ASC 842 requires the recognition of leasing arrangements on the balance sheet as right-of-use assets and liabilities pertaining to the rights and obligations created by the leased assets. We determine whether an arrangement is a lease at inception and classify it as finance or operating. All of our existing material leases are classified as operating leases. Our leases do not contain any residual value guarantees.

Right-of-use lease assets and corresponding lease liabilities are recognized at commencement date based on the present value of lease payments over the expected lease term. Since the interest rate implicit in our lease arrangements is not readily determinable, we determine an incremental borrowing rate for each lease based on the approximate interest rate on a collateralized basis with similar remaining terms and payments as of the lease commencement date to determine the present value of future lease payments. Our lease terms may include options to extend or terminate the lease. Currently, it is not reasonably certain that we will exercise those options and therefore, we utilize the initial, noncancelable, lease term to calculate the lease assets and corresponding liabilities for all our leases. We have certain insignificant short-term leases with an initial term of twelve months or less that are not recorded in our condensed consolidated balance sheets. Operating right-of-use lease assets are classified as operating lease assets on our condensed consolidated balance sheets.

Our lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for maintenance and utilities. We have applied the practical expedient to combine fixed payments for non-lease components with our lease payments for all of our leases and account for them together as a single lease component, which increases the amount of our lease assets and corresponding liabilities. Payments under our lease arrangements are primarily fixed, however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the operating lease assets and liabilities.

Operating lease costs are recognized on a straight-line basis over the lease term and included as a selling, general and administrative expense in the condensed consolidated statements of net income (loss) and comprehensive income (loss). Total operating lease costs were \$2,270 and \$2,300 for the three months ended June 30, 2020 and 2019, respectively.

Components of operating lease costs are summarized as follows:

|                             | Three Months Ended<br>June 30, 2020 | Three Months Ended<br>June 30, 2019 |
|-----------------------------|-------------------------------------|-------------------------------------|
| Operating lease costs       | \$ 2,098                            | \$ 2,163                            |
| Short-term lease costs      | —                                   | 26                                  |
| Variable lease costs        | 297                                 | 139                                 |
| Less: Sublease income       | (125)                               | (28)                                |
| Total operating lease costs | <u>\$ 2,270</u>                     | <u>\$ 2,300</u>                     |

Supplemental cash flow information related to operating leases is summarized as follows:

|  | Three Months Ended<br>June 30, 2020 | Three Months Ended<br>June 30, 2019 |
|--|-------------------------------------|-------------------------------------|
| Cash paid for amounts included in the measurement of operating lease liabilities | \$ 3,133                            | \$ 2,617                            |
| Operating lease assets obtained in exchange for operating lease liabilities      | —                                   | 5,324                               |

As of June 30, 2020, our operating leases had a weighted average remaining lease term of 4.4 years and a weighted average discount rate of 4.2%. Future minimum aggregate lease payments under operating leases as of June 30, 2020 are summarized as follows:

| <b>For the year ended March 31,</b> |    |                |
|-------------------------------------|----|----------------|
| 2021 (remaining nine months)        | \$ | 9,457          |
| 2022                                |    | 12,121         |
| 2023                                |    | 11,504         |
| 2024                                |    | 9,632          |
| 2025                                |    | 7,286          |
| Thereafter                          |    | 1,784          |
| Total future lease payments         |    | <u>51,784</u>  |
| Less interest                       |    | <u>(4,980)</u> |
| Total lease liabilities             | \$ | <u>46,804</u>  |

## 6. Business Combinations

On October 4, 2019, we completed the acquisition of Topaz Information Systems, LLC ("Topaz") pursuant to the Membership Interest Purchase Agreement, dated October 4, 2019. Topaz is based in Phoenix, AZ and provides healthcare solutions to behavioral health and social services organizations that utilize the NextGen platform. Its extensive clinical content and domain expertise has been instrumental in our ability to compete and win. By combining our companies, we are positioned to provide the platform and domain expertise to deliver integrated and collaborative care in a re-energized behavioral health market. The preliminary purchase price of Topaz is summarized in the table below. The acquisition of Topaz was funded by cash flows from operations.

On December 6, 2019, we completed the acquisition of Medfusion, Inc. ("Medfusion") pursuant to the Agreement and Plan of Merger, dated November 12, 2019. Headquartered in Cary, North Carolina, Medfusion provides software application services which enable healthcare providers to better serve its patients through enhanced communication. Services are delivered through a standard web browser and typically include features such as appointment scheduling, patient preregistration, prescription renewal, ask a clinician, website development, patient payment, and online bill payment. Medfusion is a portal and patient pay player with a focus on ambulatory services. The preliminary purchase price of Medfusion is summarized in the table below. The acquisition of Medfusion was funded by a combination of borrowings against our revolving credit agreement (see Note 10) and cash flows from operations.

On December 17, 2019, we completed the acquisition of OTTO Health, LLC ("OTTO"), pursuant to the Agreement and Plan of Merger, dated December 11, 2019. Based in Boulder, Colorado, OTTO is a telehealth platform that seamlessly integrates into electronic health records ("EHR") systems allowing providers to have video visits with their patients as part of their normal workflows. OTTO partners closely with EHR providers to create a streamlined user experience, while maintaining the EHR and practice management system as the single source of truth. The preliminary purchase price of OTTO is summarized in the table below. The acquisition of OTTO was funded by a combination of borrowings against our revolving credit agreement (see Note 10) and cash flows from operations.

We accounted for the acquisitions as business combinations using the acquisition method of accounting. The purchase price allocation of the Topaz, Medfusion, and OTTO acquisitions are deemed to be preliminary. The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The preliminary fair values of acquired assets and liabilities assumed represent management's estimate of fair value and are subject to change if additional information, such as changes to deferred taxes and post-close working capital adjustments, becomes available. We expect to finalize the purchase price allocation as soon as practicable within the measurement period, but not later than one year following the acquisition date.

Goodwill represents the excess of the purchase price over the net identifiable assets acquired and liabilities assumed. Goodwill primarily represents, among other factors, the value of synergies expected to be realized and the assemblage of all assets that enable us to create new client relationships, neither of which qualify as separate amortizable intangible assets. Goodwill arising from the acquisitions of OTTO and Topaz are considered deductible for tax purposes, and goodwill arising from the acquisition of Medfusion is not deductible for tax purposes.

The total preliminary purchase price for the acquisitions of Topaz, Medfusion, and OTTO are summarized as follows:

|  | <b>Topaz<br/>Preliminary<br/>Purchase Price</b> | <b>Medfusion<br/>Preliminary<br/>Purchase Price</b> | <b>OTTO<br/>Preliminary<br/>Purchase Price</b> |
|--|---|---|--|
| Initial preliminary purchase price   | \$ 8,000  | \$ 43,000   | \$ 22,000                                      |
| Settlement of pre-existing net liabilities   | 1,671   | 24  | 19   |
| Fair value of contingent consideration   | 1,850   | —   | —  |
| Preliminary working capital adjustment   | (344)   | (247)   | (59)   |
| <b>Total preliminary purchase price</b>  | <b>\$ 11,177</b>                                | <b>\$ 42,777</b>                                    | <b>\$ 21,960</b>                               |
| <b>Preliminary fair value of the net tangible assets acquired and liabilities assumed:</b> |   |   |  |
| Acquired cash and cash equivalents   | \$ 353  | \$ 204  | \$ 102   |
| Accounts receivable  | 1,528   | 986   | 51   |
| Prepaid expense and other assets   | 139   | 387   | 79   |
| Equipment and improvements   | 194   | 434   | —  |
| Operating lease assets   | 534   | —   | —  |
| Accounts payable   | (224)   | (1,360)   | (2)  |
| Accrued compensation and related benefits  | (155)   | (270)   | (123)  |
| Contract liabilities   | (370)   | (529)   | (11)   |
| Deferred income tax liability  | —   | (953)   | —  |
| Operating lease liabilities  | (240)   | —   | —  |
| Operating lease liabilities, net of current  | (360)   | —   | —  |
| Other liabilities  | (102)   | (496)   | (26)   |
| <b>Total preliminary net tangible assets acquired and liabilities assumed</b>              | <b>1,297</b>                                    | <b>(1,597)</b>                                      | <b>70</b>                                      |
| <b>Preliminary fair value of identifiable intangible assets acquired:</b>                  |   |   |  |
| Goodwill   | 5,380   | 23,524  | 19,490   |
| Software technology  | 4,500   | 13,800  | 2,400  |
| Customer relationships   | —   | 6,800   | —  |
| Trade names  | —   | 250   | —  |
| <b>Total preliminary identifiable intangible assets acquired</b>                           | <b>9,880</b>                                    | <b>44,374</b>                                       | <b>21,890</b>                                  |
| <b>Total preliminary purchase price</b>  | <b>\$ 11,177</b>                                | <b>\$ 42,777</b>                                    | <b>\$ 21,960</b>                               |

Under the provisions of the Topaz acquisition, we may pay up to an additional \$2,000 of cash contingent consideration in the form of an earnout, subject to Topaz achieving certain operational targets through April 2021. The initial fair value of contingent consideration of \$1,850 reflects an estimated earnout payment of \$2,000 on a present value basis and was estimated based on the weighted probability of achieving the operational targets utilizing assumptions and inputs from Topaz management. As of June 30, 2020, the fair value of the contingent consideration was \$1,925, which reflects an adjustment of \$75 related to accretion of the present value discount. Additionally, the preliminary purchase price of Topaz includes \$1,671 for the settlement of pre-existing liabilities related to pre-acquisition amounts due for products and services previously purchased from us and recognized by Topaz as accounts payable. As a result of the acquisition, these accounts payable balances were effectively settled and accounted for as additional purchase consideration.

The software technology intangible assets acquired from Topaz will be amortized over 6 years.

In connection with the Medfusion acquisition, the acquired software technology intangible assets will be amortized over 6 years, acquired customer relationships intangible assets will be amortized over 10 years, and acquired trade names intangible assets will be amortized over 5 years. The weighted average amortization period for the acquired Medfusion intangible assets is 7.3 years.

The software technology intangible assets acquired from OTTO will be amortized over 7 years.

The revenues, earnings, and pro forma effects of the Topaz, Medfusion, and OTTO acquisitions are not, and would not have been, material to our results of operations, individually and in aggregate, and the disclosure of such information is impracticable as we have already integrated certain aspects of each acquisition within our overall operations and expect for each acquisition to be fully integrated within a short timeframe.

## 7. Goodwill

We test goodwill for impairment annually during our first fiscal quarter, referred to as the annual test date. We will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting-unit level, which is defined as an operating segment or one level below an operating segment (referred to as a component). We operate as one segment. The measures evaluated by our chief operating decision maker ("CODM"), consisting of our Chief Executive Officer, to assess company performance and make decisions about the allocation of resources include consolidated revenue and consolidated operating results.

During the quarter ended June 30, 2020, we elected to bypass the optional qualitative step of the goodwill impairment assessment and proceed directly with the quantitative step, whereby we compared the fair value of our reporting unit with its carrying amount. A goodwill impairment charge, if any, would be recognized in the amount by which the reporting unit's carrying amount exceeds its fair value. If fair value exceeds the carrying amount, no impairment should be recorded.

We determined the fair value of our reporting unit utilizing the average of two valuation methods, consisting of the income approach (based upon estimates of future discounted cash flows for each reporting unit) and a market comparable approach (based upon valuation multiples of companies that operate in similar industries with similar operating characteristics). The cash flows used to determine fair value under the income approach represent Management's best estimates of projected operating results and assumed terminal growth rates that are dependent on a number of significant assumptions based on historical experience, expectations of future performance, and the expected macro-economic environment, which are subject to change given the inherent uncertainty in predicting future results. We also considered our stock price and market capitalization as a corroborative step in assessing the reasonableness of the fair values estimated for the reporting unit as part of the goodwill impairment assessment. The results of the goodwill impairment assessment established that the fair value of our reporting unit exceeded its net carrying amount, indicating that no goodwill impairment existed as of the annual test date.

We do not amortize goodwill as it has been determined to have an indefinite useful life. The carrying amount of goodwill as of June 30, 2020 and March 31, 2020 was \$267,165.

## 8. Intangible Assets

Our definite-lived intangible assets, other than capitalized software development costs, are summarized as follows:

|                          | June 30, 2020          |               |                     |                  |
|--------------------------|------------------------|---------------|---------------------|------------------|
|                          | Customer Relationships | Trade Names   | Software Technology | Total            |
| Gross carrying amount    | \$ 39,200              | \$ 250        | \$ 113,700          | \$ 153,150       |
| Accumulated amortization | (23,051)               | (29)          | (78,509)            | (101,589)        |
| Net intangible assets    | <u>\$ 16,149</u>       | <u>\$ 221</u> | <u>\$ 35,191</u>    | <u>\$ 51,561</u> |

  

|                          | March 31, 2020         |               |                     |                  |
|--------------------------|------------------------|---------------|---------------------|------------------|
|                          | Customer Relationships | Trade Names   | Software Technology | Total            |
| Gross carrying amount    | \$ 39,200              | \$ 250        | \$ 113,700          | \$ 153,150       |
| Accumulated amortization | (21,951)               | (17)          | (73,373)            | (95,341)         |
| Net intangible assets    | <u>\$ 17,249</u>       | <u>\$ 233</u> | <u>\$ 40,327</u>    | <u>\$ 57,809</u> |



Amortization expense related to customer relationships and trade names recorded as operating expenses in the condensed consolidated statements of net income (loss) and comprehensive income (loss) was \$1,112 and \$865 for the three months ended June 30, 2020 and 2019, respectively. Amortization expense related to software technology recorded as cost of revenue was \$5,136 and \$4,288 for the three months ended June 30, 2020 and 2019, respectively.

The following table summarizes the remaining estimated amortization of definite-lived intangible assets as of June 30, 2020:

|   | Estimated Remaining Amortization Expense |                  |                  |
|---|--|------------------|------------------|
|   | Operating Expense                        | Cost of Revenue  | Total            |
| For the year ended March 31, 2021 (remaining nine months) | \$ 3,336                                 | \$ 11,525        | \$ 14,861        |
| 2022  | 3,525                                    | 8,873            | 12,398           |
| 2023  | 2,820                                    | 5,154            | 7,974            |
| 2024  | 2,279                                    | 3,573            | 5,852            |
| 2025  | 1,846                                    | 3,573            | 5,419            |
| 2026 and beyond   | 2,564                                    | 2,493            | 5,057            |
| <b>Total</b>  | <b>\$ 16,370</b>                         | <b>\$ 35,191</b> | <b>\$ 51,561</b> |

## 9. Capitalized Software Costs

Our capitalized software costs are summarized as follows:

|                                | June 30, 2020    | March 31, 2020   |
|--------------------------------|------------------|------------------|
| Gross carrying amount          | \$ 78,974        | \$ 75,212        |
| Accumulated amortization       | (41,121)         | (38,208)         |
| Net capitalized software costs | <u>\$ 37,853</u> | <u>\$ 37,004</u> |

Amortization expense related to capitalized software costs was \$4,763 and \$4,125 for the three months ended June 30, 2020 and 2019, respectively, and is recorded as cost of revenue in the condensed consolidated statements of net income (loss) and comprehensive income (loss).

The following table presents the remaining estimated amortization of capitalized software costs as of June 30, 2020. The estimated amortization is comprised of (i) amortization of released products and (ii) the expected amortization for products that are not yet available for sale based on their estimated economic lives and projected general release dates.

| For the year ended March 31, |                  |
|------------------------------|------------------|
| 2021 (remaining nine months) | \$ 18,200        |
| 2022                         | 12,700           |
| 2023                         | 5,800            |
| 2024                         | 1,153            |
| Total                        | <u>\$ 37,853</u> |

## 10. Line of Credit

On March 29, 2018, we entered into a \$300,000 amended and restated revolving credit agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, and certain other agents and lenders. The Credit Agreement replaces our prior \$250,000 revolving credit agreement originally entered into on January 4, 2016 ("Original Credit Agreement"). The Credit Agreement provides a subfacility of up to \$10,000 for letters of credit and a subfacility of up to \$10,000 for swing-line loans and also includes a \$100,000 accordion feature that provides us with the ability to obtain up to \$400,000 in the aggregate of revolving credit commitments and/or term loans upon satisfaction of certain conditions.

The Credit Agreement matures on March 29, 2023 and the full balance of the revolving loans and all other obligations under the agreement must be paid at that time. In addition, we are required to prepay the revolving loan balance if at any time the aggregate principal amount outstanding under the Credit Agreement exceeds the aggregate commitments thereunder. The Credit Agreement is secured by substantially all of our existing and future property. The revolving loans under the Credit Agreement will be available for letters of credit, permitted acquisitions, working capital and general corporate purposes. We were in compliance with all financial and non-financial covenants under the Credit Agreement as of June 30, 2020.

As of June 30, 2020, we had \$179,000 outstanding loans and \$121,000 of unused credit under the Credit Agreement. As of March 31, 2020, we had \$129,000 in outstanding loans under the Credit Agreement.

Interest expense related to the Credit Agreement was \$928 and \$294 for the three months ended June 30, 2020 and 2019, respectively. Amortization of deferred debt issuance costs was \$177 and \$177 for the three months ended June 30, 2020 and 2019, respectively.

#### 11. Composition of Certain Financial Statement Captions

Cash, cash equivalents, and restricted cash are summarized as follows:

|   | June 30, 2020     | March 31, 2020    |
|---|-------------------|-------------------|
| Cash and cash equivalents                   | \$ 192,323        | \$ 138,012        |
| Restricted cash and cash equivalents        | 8,032             | 2,307             |
| Cash, cash equivalents, and restricted cash | <u>\$ 200,355</u> | <u>\$ 140,319</u> |

Prepaid expenses and other current assets are summarized as follows:

|   | June 30, 2020    | March 31, 2020   |
|---|------------------|------------------|
| Prepaid expenses                          | \$ 16,285        | \$ 18,025        |
| Capitalized commissions costs             | 7,435            | 7,053            |
| Other current assets                      | 2,179            | 1,227            |
| Prepaid expenses and other current assets | <u>\$ 25,899</u> | <u>\$ 26,305</u> |

Equipment and improvements are summarized as follows:

|   | June 30, 2020    | March 31, 2020   |
|---|------------------|------------------|
| Computer equipment                        | \$ 33,769        | \$ 34,756        |
| Internal-use software                     | 17,882           | 17,796           |
| Furniture and fixtures                    | 12,735           | 12,477           |
| Leasehold improvements                    | 14,964           | 13,681           |
| Equipment and improvements, gross         | 79,350           | 78,710           |
| Accumulated depreciation and amortization | (60,825)         | (58,874)         |
| Equipment and improvements, net           | <u>\$ 18,525</u> | <u>\$ 19,836</u> |

Other assets are summarized as follows:

|                              | June 30, 2020    | March 31, 2020   |
|------------------------------|------------------|------------------|
| Capitalized commission costs | \$ 17,670        | \$ 17,537        |
| Deposits                     | 6,105            | 6,074            |
| Debt issuance costs          | 1,946            | 2,124            |
| Other noncurrent assets      | 8,795            | 7,921            |
| Other assets                 | <u>\$ 34,516</u> | <u>\$ 33,656</u> |

Accrued compensation and related benefits are summarized as follows:

|   | June 30, 2020    | March 31, 2020   |
|---|------------------|------------------|
| Accrued vacation                          | \$ 11,241        | \$ 10,469        |
| Accrued bonus                             | 8,178            | 10,396           |
| Accrued commissions                       | 1,469            | 2,087            |
| Accrued payroll                           | 1,566            | 840              |
| Accrued compensation and related benefits | <u>\$ 22,454</u> | <u>\$ 23,792</u> |

Other current liabilities are summarized as follows:

|   | June 30, 2020    | March 31, 2020   |
|---|------------------|------------------|
| Care services liabilities                             | \$ 8,032         | \$ 2,307         |
| Sales returns reserves and other customer liabilities | 7,633            | 6,395            |
| Accrued hosting costs                                 | 5,834            | 4,652            |
| Customer credit balances and deposits                 | 4,243            | 4,260            |
| Accrued employee benefits and withholdings            | 3,058            | 3,002            |
| Accrued self insurance expense                        | 2,324            | 2,054            |
| Accrued outsourcing costs                             | 2,233            | 2,378            |
| Accrued consulting and outside services               | 2,141            | 2,520            |
| Accrued EDI expense                                   | 1,981            | 3,511            |
| Accrued legal expense                                 | 1,300            | 2,119            |
| Sales tax payable                                     | 560              | 1,222            |
| Accrued royalties                                     | 527              | 3,113            |
| Other accrued expenses                                | 3,750            | 3,819            |
| Other current liabilities                             | <u>\$ 43,616</u> | <u>\$ 41,352</u> |
| Deferred payroll taxes                                | \$ 3,263         | —                |
| Contingent consideration related to acquisitions      | 1,925            | \$ 1,900         |
| Uncertain tax positions                               | 1,203            | 1,203            |
| Other liabilities                                     | 179              | 178              |
| Other noncurrent liabilities                          | <u>\$ 6,570</u>  | <u>\$ 3,281</u>  |

## 12. Income Taxes

The provision for income taxes in the three months ended June 30, 2020 was \$1,616, or an effective tax rate of 204.0%. The benefit of income taxes in the three months ended June 30, 2019 was \$380, or an effective tax rate benefit of 44.0%. The increase in the effective tax rate for the three months ended June 30, 2020 compared to the prior year was primarily due to the decrease in pre-tax book income and increase in tax benefit for research and development credits offset with additional tax expense related to higher nondeductible officer's compensation and an increase in stock option discrete items.

The deferred tax assets and liabilities are presented net in the accompanying condensed consolidated balance sheets as noncurrent. We expect to receive the full benefit of the deferred tax assets recorded, with the exception of certain state credits and state net operating loss carryforwards, for which we have recorded a valuation allowance.

### Uncertain tax positions

We had unrecognized tax benefits of \$4,748 and \$4,192 related to various federal, state and local income tax matters as of June 30, 2020 and March 31, 2020, respectively. The unrecognized benefits consisted of liabilities of \$1,103 and \$1,203 and reserves against deferred tax assets of \$3,645 and \$2,989 as of June 30, 2020 and March 31, 2020, respectively. If recognized, this amount would reduce our effective tax rate.

We are no longer subject to United States federal income tax examinations for tax years before fiscal year ended 2016. With a few exceptions, we are no longer subject to state or local income tax examinations for tax years before fiscal year ended 2015. We do not anticipate the total unrecognized tax benefits to significantly change due to the settlement of audits or the expiration of statute of limitations within the next twelve months.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, has resulted in significant changes to the U.S. federal corporate tax law. Additionally, several state and foreign jurisdictions have enacted additional legislation and or comply with federal changes. We have considered the applicable tax law changes in our current and deferred income tax expense and recognized the impact in our income tax provision, as applicable.

### 13. Earnings per Share

The dual presentation of "basic" and "diluted" earnings per share is provided below. Share amounts below are in thousands.

|   | Three Months Ended June 30, |                |
|---|-----------------------------|----------------|
|   | 2020                        | 2019           |
| <b>Earnings per share — Basic:</b>            |                             |                |
| Net income (loss)                             | \$ (824)                    | \$ 1,244       |
| Weighted-average shares outstanding — Basic   | 66,296                      | 65,015         |
| Net income (loss) per common share — Basic    | <u>\$ (0.01)</u>            | <u>\$ 0.02</u> |
| <b>Earnings per share — Diluted:</b>          |                             |                |
| Net income (loss)                             | \$ (824)                    | \$ 1,244       |
| Weighted-average shares outstanding           | 66,296                      | 65,015         |
| Effect of potentially dilutive securities     | —                           | 338            |
| Weighted-average shares outstanding — Diluted | 66,296                      | 65,353         |
| Net income (loss) per common share — Diluted  | <u>\$ (0.01)</u>            | <u>\$ 0.02</u> |

The computation of diluted net income (loss) per share does not include 2,979 and 639 options to acquire shares of common stock for the three months ended June 30, 2020 and 2019, respectively, because their inclusion would have an anti-dilutive effect on net income (loss) per share.

### 14. Share-Based Awards

#### *Employee Stock Option and Incentive Plans*

In October 2005, our shareholders approved a stock option and incentive plan (the "2005 Plan") under which 4,800,000 shares of common stock were reserved for the issuance of awards, including incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance shares, performance units (including performance options) and other share-based awards. The 2005 Plan provides that our employees and directors may, at the discretion of the Board of Directors ("Board") or a duly designated compensation committee, be granted certain share-based awards. In the case of option awards granted under the 2005 Plan, the exercise price of each option is determined based on the date of grant and expire no later than 10 years from the date of grant. Awards granted pursuant to the 2005 Plan are subject to the vesting schedule or performance metrics set forth in the agreements pursuant to which they are granted. Upon a change of control of our Company, as such term is defined in the 2005 Plan, awards under the 2005 Plan will fully vest under certain circumstances. The 2005 Plan expired on May 25, 2015. As of June 30, 2020, there were 178,270 outstanding options under the 2005 Plan.

In August 2015, our shareholders approved a stock option and incentive plan (the "2015 Plan") under which 11,500,000 shares of common stock were reserved for the issuance of awards, including incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards, performance stock awards and other share-based awards. In August 2017, our shareholders approved an amendment to our 2015 Equity Incentive Plan, (the "Amended 2015 Plan"), to, among other items, increase the number of shares of common stock reserved for issuance thereunder by 6,000,000, which was further amended in August 2019 as approved by our shareholders, to, among other items, increase the number of shares of common stock reserved for issuance thereunder by an additional 3,575,000. The Amended 2015 Plan provides that our employees and directors may, at the discretion of the Board or a duly designated compensation committee, be granted certain share-based awards. In the case of option awards granted under the Amended 2015 Plan, the exercise price of each option is determined based on the date of grant and expire no later than 10 years from the date of grant. Awards granted pursuant to the Amended 2015 Plan are subject to the vesting schedule or performance metrics set forth in the agreements pursuant to which they are granted. Upon a change of control of our Company, as such term is defined in the Amended 2015 Plan, awards under the Amended 2015 Plan will fully vest under certain circumstances. As of June 30, 2020, there were 2,761,830 outstanding options, 2,431,306 outstanding shares of restricted stock awards, 23,186 outstanding shares of performance stock awards, and 5,165,192 shares available for future grant under the Amended 2015 Plan.

The following table summarizes the stock option transactions during the three months ended June 30, 2020:

| <b>Employee Stock Options Summary</b>      | <b>Number of Shares</b> | <b>Weighted-Average Exercise Price per Share</b> | <b>Weighted-Average Remaining Contractual Life (years)</b> | <b>Aggregate Intrinsic Value (in thousands)</b> |
|--|-------------------------|--|--|---|
| Outstanding, March 31, 2020                | 3,001,350               | \$ 14.83   | 4.7  | \$ —  |
| Forfeited/Canceled                         | (15,250)                | 16.56  | 2.9  |   |
| Expired                                    | (46,000)                | 29.17  |  |   |
| Outstanding, June 30, 2020                 | <u>2,940,100</u>        | \$ 14.60   | 4.5  | \$ —  |
| Vested and expected to vest, June 30, 2020 | <u>2,807,384</u>        | \$ 14.59   | 4.5  | \$ —  |
| Exercisable, June 30, 2020                 | <u>2,111,911</u>        | \$ 14.50   | 4.2  | \$ —  |

Share-based compensation expense related to stock options was \$732 and \$974 for the three months ended June 30, 2020 and 2019, respectively.

Non-vested stock option award activity during the three months ended June 30, 2020 is summarized as follows:

| <b>Non-Vested Stock Option Award Summary</b> | <b>Number of Shares</b> | <b>Weighted-Average Grant-Date Fair Value per Share</b> |
|--|-------------------------|---|
| Outstanding, March 31, 2020                  | 1,091,672               | \$ 5.67   |
| Vested                                       | (249,183)               | 5.53  |
| Forfeited/Canceled                           | (14,300)                | 10.37   |
| Outstanding, June 30, 2020                   | <u>828,189</u>          | \$ 5.71   |

As of June 30, 2020, \$3,372 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 1.3 years. This amount does not include the cost of new options that may be granted in future periods or any changes in our forfeiture percentage. The total fair value of options vested during the three months ended June 30, 2020 and 2019 was \$1,378 and \$1,494, respectively.

Restricted stock awards activity during the three months ended June 30, 2020 is summarized as follows:

| <b>Restricted Stock</b>     | <b>Number of Shares</b> | <b>Weighted-Average Grant-Date Fair Value per Share</b> |
|-----------------------------|-------------------------|---|
| Outstanding, March 31, 2020 | 2,312,780               | \$ 16.74  |
| Granted                     | 720,186                 | 10.29   |
| Vested                      | (524,268)               | 17.18   |
| Canceled                    | (77,392)                | 17.24   |
| Outstanding, March 31, 2020 | <u>2,431,306</u>        | \$ 14.72  |

Share-based compensation expense related to restricted stock awards was \$4,039 and \$3,296 for the three months ended June 30, 2020 and 2019, respectively.

The weighted-average grant date fair value for the restricted stock awards was estimated using the market price of the common stock on the date of grant. The fair value of the restricted stock awards is amortized on a straight-line basis over the vesting period, which is generally between one to three years.

As of June 30, 2020, \$30,271 of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of 2.1 years. This amount does not include the cost of new restricted stock awards that may be granted in future periods.

On December 29, 2016, the Compensation Committee of the Board granted 123,082 performance stock awards to certain executive officers, of which 23,186 shares are currently outstanding. The performance stock awards vest in four equal increments on each of the first four anniversaries of the grant date, subject in each case to the executive officer's continued service and achievement of certain Company performance goals, including strong Company stock price performance. Share-based compensation expense related to the performance stock awards was \$61 for the three months ended June 30, 2020 and 2019.

On October 23, 2018, the Compensation Committee of the Board approved 248,140 performance stock unit awards to be granted to certain executives and non-executive members of the executive leadership team, which vest only in the event certain performance goals are achieved and with continuous service through the date the goals are certified. Approximately 34% of the performance stock units are tied to our cumulative 3-year total shareholder return, 33% are tied to our fiscal year 2021 revenue, and 33% are tied to our fiscal year 2021 adjusted earnings per share goals, each as specifically defined in the equity award agreements. The number of shares to be issued may vary between 50% and 200% of the number of performance stock units depending on performance, and no such shares will be issued if threshold performance is not achieved. The weighted-average grant date fair value of the awards related to the cumulative 3-year total shareholder return was \$17.84 per share, which was estimated using a Monte Carlo-based valuation model for the awards based on total shareholder return. The fair value of the awards related to the revenue and adjusted earnings per share goals was estimated using a probability-adjusted target achievement rate combined with the market price of the common stock on the date of grant for the awards. Share-based compensation expense related to the performance stock unit awards tied to the revenue and adjusted earnings per share goals was not significant. Share-based compensation expense related to the performance stock unit awards tied to total shareholder return was \$114 for the three months ended June 30, 2020 and 2019.

On December 26, 2019 and January 27, 2020, the Compensation Committee of the Board approved 279,587 performance stock unit awards to be granted to certain executives and non-executive members of the executive leadership team, which vest only in the event certain performance goals are achieved and with continuous service through the date the goals are certified. Approximately 80% of the performance stock units are tied to the Company's fiscal year 2021 revenue goal and 20% are tied to the Company's fiscal year 2022 revenue goal. Performance stock unit awards funded for fiscal year 2021 and fiscal year 2022 revenue performance will be modified for cumulative 3-year total shareholder return ("TSR") on the three-year grant anniversary, which is also the cliff vest date. The number of shares to be issued may vary between 50% and 150% of the number of performance stock units depending on performance, and no such shares will be issued if threshold performance is not achieved. The weighted-average grant date fair value of the awards was \$16.02 per share, which was estimated using a Monte Carlo-based valuation model for the awards based on total shareholder return and using a probability adjusted achievement rate combined with the market price of the common stock on the date of grant for the awards based on revenue targets. Share-based compensation expense related to the performance stock unit awards was \$281 for the three months ended June 30, 2020.

#### ***Employee Share Purchase Plan***

On August 11, 2014, our shareholders approved an Employee Share Purchase Plan (the "Purchase Plan") under which 4,000,000 shares of common stock were reserved for future grant. The Purchase Plan allows eligible employees to purchase shares through payroll deductions of up to 15% of total base salary at a price equal to 90% of the lower of the fair market values of the shares as of the beginning or the end of the corresponding offering period. Any shares purchased under the Purchase Plan are subject to a six-month holding period. Employees are limited to purchasing no more than 1,500 shares on any single purchase date and no more than \$25 in total fair market value of shares during any one calendar year. As of June 30, 2020, we have issued 656,568 shares under the Purchase Plan and 3,343,432 shares are available for future issuance.

Share-based compensation expense recorded for the employee share purchase plan was \$164 and \$122 for the three months ended June 30, 2020 and 2019, respectively.

#### **15. Concentration of Credit Risk**

We had cash deposits at United States banks and financial institutions which exceeded federally insured limits at June 30, 2020. We are exposed to credit loss for amounts in excess of insured limits in the event of non-performance by the institutions; however, we do not anticipate non-performance by these institutions.

#### **16. Commitments, Guarantees and Contingencies**

##### ***Commitments and Guarantees***

Our software license agreements include a performance guarantee that our software products will substantially operate as described in the applicable program documentation for a period of 365 days after delivery. To date, we have not incurred any significant costs associated with our performance guarantee or other related warranties and do not expect to incur significant warranty costs in the future. Therefore, no accrual has been made for potential costs associated with these warranties. Certain arrangements also include performance guarantees related to response time, availability for operational use, and other performance-related guarantees. Certain arrangements also include penalties in the form of maintenance credits should the performance of the software fail to meet the performance guarantees. To date, we have not incurred any significant costs associated with these warranties and do not expect to incur significant warranty costs in the future. Therefore, no accrual has been made for potential costs associated with these warranties.

We historically have accepted sales returns under limited circumstances. We estimate expected sales returns and other forms of variable consideration considering our customary business practice and contract-specific facts and circumstances, and we consider such estimated potential returns as variable consideration when allocating the transaction price to the extent it is probable that there will not be a significant reversal of cumulative revenue recognized.

Our standard sales agreements contain an indemnification provision pursuant to which we shall indemnify, hold harmless, and reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any United States patent, any copyright or other intellectual property infringement claim by any third-party with respect to our software. As we have not incurred any significant costs to defend lawsuits or settle claims related to these indemnification agreements, we believe that our estimated exposure on these agreements is currently minimal. Accordingly, we have no liabilities recorded for these indemnification obligations.

### ***Hussein Litigation***

On October 7, 2013, a complaint was filed against our Company and certain of our officers and directors in the Superior Court of the State of California for the County of Orange, captioned Ahmed D. Hussein v. Sheldon Razin, Steven Plochocki, Quality Systems, Inc. and Does 1-10, inclusive, No. 30-2013-00679600-CU-NP-CJC, by Ahmed Hussein, a former director and significant shareholder of our Company. We filed a demurrer to the complaint, which the Court granted on April 10, 2014. An amended complaint was filed on April 25, 2014. The amended complaint generally alleges fraud and deceit, constructive fraud, negligent misrepresentation and breach of fiduciary duty in connection with statements made to our shareholders regarding our financial condition and projected future performance. The amended complaint seeks actual damages, exemplary and punitive damages and costs. We filed a demurrer to the amended complaint. On July 29, 2014, the Court sustained the demurrer with respect to the breach of fiduciary duty claim, and overruled the demurrer with respect to the fraud and deceit claims. On August 28, 2014, we filed an answer and also filed a cross-complaint against Hussein, alleging that he breached fiduciary duties owed to the Company, Mr. Razin and Mr. Plochocki. Mr. Razin and Mr. Plochocki dismissed their claims against Hussein, leaving the Company as the sole plaintiff in the cross-complaint. On June 26, 2015, we filed a motion for summary judgment with respect to Hussein's claims, which the Court granted on September 16, 2015, dismissing all of Hussein's claims against us. On September 23, 2015, Hussein filed an application for reconsideration of the Court's summary judgment order, which the Court denied. Hussein filed a renewed application for reconsideration of the Court's summary judgment order on August 3, 2017. The Court again denied Hussein's application. On October 28, 2015, May 9, 2016, and August 5, 2016, Hussein filed a motion for summary judgment, motion for summary adjudication, and motion for judgment on the pleadings, respectively, seeking to dismiss our cross-complaint. The Court denied each motion. Trial on our cross-complaint began June 12, 2017. On July 26, 2017, the Court issued a statement of decision granting Hussein's motion for judgment on our cross-complaint. Final judgment over Hussein's claims and our cross-claims was entered on January 9, 2018. Hussein has noticed his appeal of the order granting summary judgment over his claims, and we noticed a cross-appeal on the court's statement of decision granting Hussein's motion for judgment on our cross-complaint. On October 8, 2019, the California State Court of Appeal for the Fourth Appellate District, Division Three, reversed the Superior Court's grant of summary judgment against Hussein's affirmative claims and affirmed the trial court's judgement after a bench trial against the Company on its breach of fiduciary duty claims against Hussein. We petitioned the California Court of Appeal to rehear the matter with respect to Hussein's affirmative claims. The Court modified its opinion but denied the Company's rehearing petition on November 7, 2019. We filed a petition for review with the Supreme Court of California on November 18, 2019, which was denied on January 15, 2020. As a result, the case has returned to the trial court for resolution. Trial is now scheduled to begin on November 6 2020. Separately, Hussein has issued an arbitration demand seeking indemnification for the fees he incurred defending against our cross-complaint. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter.

### ***Other Regulatory Matters***

Commencing in April 2017, we have received requests for documents and information from the United States Attorney's Office for the District of Vermont and other government agencies in connection with an investigation concerning the certification we obtained for our software under the United States Department of Health and Human Services' Electronic Health Record (EHR) Incentive Program. The requests for information relate to, among other things: (a) data used to determine objectives and measures under the Meaningful Use (MU) and the Physician Quality Reporting System (PQRS) programs, (b) EHR software code used in certifying our software and information, and (c) payments provided for the referral of EHR business. We continue to cooperate in this investigation. Requests and investigations of this nature may lead to future requests for information and ultimately the assertion of claims or the commencement of legal proceedings against us, as well as other material liabilities. In addition, our responses to these and any future requests require time and effort, which can result in additional cost to us. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter. Given the highly-regulated nature of our industry, we may, from time to time, be subject to subpoenas, requests for information, or investigations from various government agencies. It is our practice to respond to such matters in a cooperative, thorough and timely manner. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter.

## **17. Restructuring Plan**

In May 2020, we announced a decision to execute a reduction in our workforce of less than 3% as well as other temporary cost reductions in response to the COVID-19 pandemic. We recorded \$2,562 of restructuring costs, consisting of payroll-related costs, such as severance, outplacement costs, and continuing healthcare coverage, associated with the involuntary separation of employees pursuant to a one-time benefit arrangement, in the three months ended June 30, 2020 within operating expenses in our condensed consolidated statements of net income (loss) and comprehensive income (loss). These amounts were accrued when it was probable that the benefits would be paid, and the amounts were reasonably estimable. The payroll-related costs have been substantially paid as of June 30, 2020.

In the three months ended June 30, 2019, we recorded \$1,707 of restructuring costs, consisting primarily of payroll-related costs, such as severance, outplacement costs, and continuing healthcare coverage, associated with the involuntary separation of employees pursuant to a one-time benefit arrangement, as part of a business restructuring plan implemented in June 2019. In connection with the June 2019 restructuring plan, we also vacated portions of certain leased locations and recorded impairments of \$489 in the three months ended June 30, 2019 to our operating right-of-use assets and certain related fixed assets associated with the vacated locations, or portions thereof, in Horsham, St. Louis, and Irvine based on projected sublease rental income and estimated sublease commencement dates. The impairment analysis was performed at the asset group level and the impairment charge was estimated by comparing the fair value of each asset group based on the expected cash flows to its respective book value. We determined the discount rate for each asset group based on the approximate interest rate on a collateralized basis with similar remaining terms and payments as of the impairment date. Significant judgment was required to estimate the fair value of each asset group and actual results could vary from the estimates, resulting in potential future adjustments to amounts previously recorded.

## **18. Subsequent Events**

In July 2020, we paid down \$50,000 against the Credit Agreement and our total outstanding borrowings was \$129,000.



## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Report") and certain information incorporated herein by reference contain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this Report, other than statements that are purely historical, are forward-looking statements. Words such as "anticipate," "expect," "intend," "plan," "believe," "seek," "estimate," "will," "should," "would," "could," "may," and similar expressions also identify forward-looking statements. These forward-looking statements include, without limitation, discussions of the impact of the COVID-19 pandemic and measures taken in response thereto, as well as our product development plans, business strategies, future operations, financial condition and prospects, developments in and the impacts of government regulation and legislation and market factors influencing our results. Our expectations, beliefs, objectives, intentions and strategies regarding our future results are not guarantees of future performance and are subject to risks and uncertainties, both foreseen and unforeseen, that could cause actual results to differ materially from results contemplated in our forward-looking statements. These risks and uncertainties include, but are not limited to, our ability to continue to develop new products and increase systems sales in markets characterized by rapid technological evolution, consolidation, and competition from larger, better-capitalized competitors. Many other economic, competitive, governmental and technological factors could affect our ability to achieve our goals, and interested persons are urged to review any risks that may be described in "Item 1A. Risk Factors" as set forth herein and other risk factors appearing in our most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2020 ("Annual Report"), as supplemented by additional risk factors, if any, in our interim filings on our Quarterly Reports on Form 10-Q, as well as in our other public disclosures and filings with the Securities and Exchange Commission ("SEC"). Because of these risk factors, as well as other variables affecting our financial condition and results of operations, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. We assume no obligation to update any forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Report. Each of the terms "NextGen Healthcare," "NextGen," "we," "us," "our," or the "Company" as used throughout this Report refers collectively to NextGen Healthcare, Inc. and its wholly-owned subsidiaries, unless otherwise indicated.

This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the condensed consolidated financial statements and notes thereto included elsewhere in this Report in order to enhance your understanding of our results of operations and financial condition and should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements and related notes thereto included elsewhere in this Report. Historical results of operations, percentage margin fluctuations and any trends that may be inferred from the discussion below are not necessarily indicative of the operating results for any future period.

### Company Overview

NextGen Healthcare is a leading provider of software and services that empower ambulatory healthcare practices to manage the risk and complexity of delivering care in the rapidly evolving U.S. healthcare system. Our combination of technological breadth, depth and domain expertise makes us a preferred solution provider and trusted advisor for our clients. In addition to highly configurable core clinical and financial capabilities, our portfolio includes tightly integrated solutions that deliver on ambulatory healthcare imperatives including: population health, care management, patient outreach, telemedicine and nationwide clinical information exchange.

We serve clients across all 50 states. Our approximately 100,000 providers deliver care in nearly every medical specialty in a wide variety of practice models including accountable care organizations ("ACOs"), independent physician associations ("IPAs"), managed service organizations ("MSOs"), Veterans Service Organizations ("VSOs"), and Dental Service Organizations ("DSOs"). Our clients include some of the largest and most progressive multi-specialty groups in the country. With the recent addition of behavioral health to our strong medical and oral health capabilities, we continue to extend our share not only in Federally Qualified Health Centers ("FQHCs"), but also in the emerging integrated care market.

NextGen Healthcare has historically enhanced our offering through both organic and inorganic activities. In October 2015, we divested our former Hospital Solutions division to focus exclusively on the ambulatory marketplace. In January 2016, we acquired HealthFusion Holdings, Inc. and its cloud-based electronic health record and practice management solution. In April 2017, we acquired Entrada, Inc. and its cloud-based, mobile platform for clinical documentation and collaboration. In August 2017, we acquired EagleDream Health, Inc. and its cloud-based population health analytics solution. In January 2018, we acquired Inforth Technologies for its specialty-focused clinical content. In October 2019, we acquired Topaz Information Systems, LLC ("Topaz") for its behavioral health solutions. In December 2019, we acquired Medfusion, Inc. ("Medfusion") for its Patient Experience Platform (i.e., patient portal, self-scheduling, and patient pay) capabilities and OTTO Health, LLC ("OTTO") for its integrated virtual care solutions, notably telemedicine. The integration of these acquired technologies has made NextGen Healthcare's solutions among the most comprehensive and powerful in the market.

Our company was incorporated in California in 1974. Previously named Quality Systems, Inc., we changed our corporate name to NextGen Healthcare, Inc. in September 2018. Our principal offices are located at 18111 Von Karman Ave., Suite 800, Irvine, California, 92612, and our principal website is [www.nextgen.com](http://www.nextgen.com). We operate on a fiscal year ending on March 31.

## Industry Background, Regulatory Environment, and Market Opportunity

We believe that the trends and events described below have contributed to our consolidated results of operations and may continue to impact our future results.

Over the last decade, the ambulatory healthcare market has experienced significant regulatory change, which has driven the need for improved technology to enable practice transformation. Recognizing it was imperative to digitize the American health system to stem the escalating cost of healthcare and improve the quality of care being delivered, Congress enacted the Health Information Technology for Economic and Clinical Health Act in 2009 (“HITECH Act”). The legislation stimulated healthcare organizations to not only adopt electronic health records, but to use them to collect discrete data that could be used to drive quality care. This standardization supported early pay-for-reporting and pay-for-performance programs.

In 2010, the Affordable Care Act (“ACA”) established the roadmap for shifting American healthcare from volume (fee-for-service) to a value-based care (“VBC”) system that rewards improved outcomes at lower costs (fee-for-value). This was followed by the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), bipartisan legislation that further changed the way Medicare rewards clinicians for value vs. volume. Initially focused on government-funded care, the domain of the Centers for Medicare & Medicaid Services (“CMS”), these programs are now firmly established on the commercial insurance side of the industry as well.

VBC created the need for a new category of healthcare information technology (“HIT”) tools that could be used to identify and treat groups of patients, or cohorts, based on risk. Population Health Management (“PHM”) tools support these needs by identifying patient risk, engaging patients, coordinating care, and determining when interventions are needed to improve clinical and financial outcomes. According to estimates from Frost & Sullivan in May 2020, the United States PHM market is expected to reach \$9.4 billion in total revenue by 2022, representing a compound annual growth rate (“CAGR”) of 28% from 2017.

Importantly, the introduction of VBC programs was only an element of the broader approach to reducing healthcare expenditure. It was also accompanied by significant reductions in Medicare spending with a projected reduction of \$253 billion in payments by 2029, as reported by RevCycle Intelligence in October 2019. The drive to reduce costs initially led to consolidation in the healthcare system that was followed by a significant shift of care from the inpatient to lower cost outpatient setting. Ambulatory surgery centers (ASCs) have become an essential component of comprehensive, low cost distributed care. According to an October 2019 report from ResearchandMarkets, ASCs continue to perform more than half of all U.S. outpatient surgical procedures and are expected to see greater volumes as the number of outpatient procedures increases by an estimated 15% by 2028. From 2015 to 2022, the proportion of outpatient cases performed in ASCs is expected to increase across most service lines with the largest jump (10%) to occur in spine procedures. Among other factors, consumerism is set to play a major role in driving ASC volume increases, as procedures performed in ASCs cost an average of 58% less than the same procedure in a hospital outpatient department. The need to sustain revenue has made it extremely important for practices to secure their patient market share, elevating patient loyalty to a significant determinant of provider success. In addition to being loyal, groups participating in value-based contracts realized that patients also needed to be engaged in their care and interested in improving their own health. The need to attract, retain and engage patients has made patient experience one of the most important aspects of evolving care delivery in the United States. Capturing patient market share and thriving in a market driven by VBC requires both an integrated platform and a full view of the patient population’s clinical and cost data, neither of which could be accomplished without new technologies to collect and analyze multi-sourced patient data. Effectively implemented, these new technologies allow organizations to enhance financial viability while exercising the freedom to join, affiliate, integrate or interoperate in ways that maximize strategic control.

Although the HITECH Act led to the successful adoption of electronic health records, many in the healthcare industry were dissatisfied with the level of exchange of health information between different providers and across different software platforms. With the passing of the MACRA law in 2015, the U.S. Congress declared it a national objective to achieve widespread exchange of health information through interoperable certified EHR technology. Then, in December 2016, the 21st Century Cures Act (“Cures Act”) was passed and signed into law. Among many other policies, the law includes numerous provisions intended to encourage nationwide interoperability.

In March 2020, the HHS Office of the National Coordinator for Health Information Technology (“ONC”) released a final regulation which implements the key interoperability provisions included in the Cures Act. The rule calls on developers of certified EHRs to adopt standardized application programming interfaces (“APIs”) and to meet a list of other new certification and maintenance of certification requirements in order to maintain approved federal government certification status.

The ONC rule also implements the information blocking provisions of the Cures Act, including identifying reasonable and necessary activities that do not constitute information blocking. Under the Cures Act, HHS has the regulatory authority to investigate and assess civil monetary penalties of up to \$1,000,000 against certified health IT developers found to be in violation of “information blocking.”

The new regulations will require significant compliance efforts for healthcare providers, information networks, exchanges, and HIT companies. However, CURES also creates opportunities for improving care delivery and outcomes through increased data exchange between providers, and easier patient access to their own health information. Key to unlocking these benefits is the introduction of new Fast Healthcare Interoperability Resources (“FHIR”) standards. ONC’s goal is for certified HIT companies to adopt FHIR-based API standards. Meanwhile, CMS is requiring hospitals to provide electronic admission, discharge and transfer notification to other healthcare facilities, providers and designated care team members.

Through the expansion of our NextGen® Share interoperability services platform and API partner marketplace, we will address the increased demand for moving and sharing patient data from the EHR easily, quickly and securely. Interoperability improves patient experience and care coordination, enhances patient safety, and reduces costs. We are also expanding resources such as educational webinars, blogs and videos on interoperability to help educate and support healthcare providers.

In recent years, there has been incremental investment to improve the delivery of behavioral healthcare. One of the central drivers of this investment has been the opioid epidemic which claims more than 70,000 lives a year in the United States. The integrated care model previously prevalent mainly in FQHCs, a model which calls for integration of behavioral health and primary care in single care settings, has also gained momentum. Both behavioral health and the integrated care workflows require broad, purpose built, tailored HIT capabilities, many of which are supported by the NextGen platform.

Based on these trends, successful clients must undertake the following imperatives:

1. Manage patient experience and engagement
2. Align incentives and energize clinicians
3. Maximize and shape financial outcomes
4. Assume risk and drive commercial advantage
5. Optimize workflows with data exchange

## Our Strategy

We empower the accelerating transformation of ambulatory care by delivering solutions that enable groups to be successful under all models of care, including emerging value-based care in which providers assume risk while minimizing risk. We primarily serve groups that focus on delivering care in ambulatory settings, and do so across diverse practice sizes, specialties, and business constructs. In addition to traditional medical specialties, we participate actively with groups that deliver oral (dental) and behavioral healthcare, and with those that combine these in the emerging model for integrated care.

Our configurability enables groups to drive commercial advantage with creative workflows for patient access, patient-provider interactions, clinical workflows and care coordination. At the same time, our automation helps drive variability and cost out of the back office by accommodating exacting regulatory, billing and reporting requirements. We embrace both the art and science of delivering healthcare in the transforming U.S. healthcare system.

We believe that the ability to interoperate in a complex, heterogeneous healthcare ecosystem is one of the keys to providing great care and healthy financial outcomes. Because we interoperate with the major stakeholders across the U.S. healthcare system and power many of the nation's Health Information Exchanges ("HIEs"), we help keep patient data more secure, promote continuity of care, lower the cost of care delivery and perhaps most importantly improve the patient experience.

We recognize that patient experience drives patient engagement and that engaged patients have better outcomes. Consequently, much of our activity over the last few years has been informed by the emergence of the patient as an active, involved consumer. Our solutions help our clients create a holistic, personalized care experience that drive loyalty and satisfaction.

We surround our technical solutions with implementation and optimization services and provide business process outsourcing with managed hosting and revenue cycle management services. With some of our most sophisticated clients, we have been asked to share the breadth of our experience as they shape their strategies. We believe that this sort of engagement, acting as a virtual extension of our clients' leadership teams, is an important step along our journey to becoming a trusted advisor.

As one of the leading healthcare information technology players in the U.S. ambulatory marketplace, we plan to continue investing in our current capabilities as well as building and/or acquiring new capabilities as we guide our clients through the market's transformation. We expect to continue to empower the transformation of care through the following strategic priorities:

- Be a learning organization and transform ahead of the industry
- Be a trusted advisor for our customers and prospects
- Deliver breadth, depth and configurability to enable our clients to effectively execute their strategies
- Use automation to drive variability and cost from our clients' operations
- Drive real innovation in patient experience and patient-provider interactions
- Help our clients be recognized as interoperability leaders in their regions and areas of specialty
- Integrate new capabilities (whether organic or inorganic) more quickly and successfully than others.

## COVID-19 Update

In late 2019, the emergence of a novel coronavirus, or COVID-19, was reported and in January 2020, the World Health Organization (“WHO”), declared it a Public Health Emergency of International Concern. In March 2020, the WHO escalated COVID-19 as a pandemic. We proactively responded to the pandemic by creating an executive task force to monitor the COVID-19 situation daily and immediately restricted non-essential travel and migrated to a fully remote workforce while maintaining complete operational effectiveness. Shortly thereafter, and in line with guidance provided by government agencies and international organizations, we restricted all travel, mandated a work-from-home policy across our global workforce, and moved all in-person client-facing events to virtual ones.

Since the COVID-19 pandemic began, millions of cases and hundreds of thousands of deaths have been reported globally. In addition to the socioeconomic disruption caused by the pandemic, both treatment and suppression measures stressed the very fabric of the U.S. healthcare system in some geographies, exacerbating some of the existing challenges with capacity, balance and reimbursement. Among the measures to slow the spread of the disease and flatten the curve in line with healthcare system capacity was social/physical distancing. The need to access care while still social distancing was addressed early on with the limited use of virtual visits and was energized when the federal government reduced regulatory barriers and addressed payment parity between virtual and in-person visits. With these tailwinds, telemedicine quickly became regarded as a safer way for patients and providers to engage each other while also relieving economic pressure on the medical practice. We believe that the uptake of telemedicine will transcend COVID-19 and that virtual visits will become a permanent and important change in the way care is delivered. Keeping patients out of the transit system, out of the waiting room and away from other sick patients is simply good medicine.

We also believe that ambulatory practices will emerge from the pandemic with a clearer appreciation of the importance of business continuity and will turn to NextGen more often for managed services. Consequently, we expect to see increased subscription of our revenue cycle management services, managed hosting, and our emerging capabilities for managed clinical and administrative services.

Since the mid-March 2020 timing of government orders to shelter in place and restrict non-essential medical services, the COVID-19 pandemic has caused declines in patient volume. This has negatively impacted our revenue in the fourth quarter of 2020, most notably for purchases of software and hardware. The impact of the disruption will continue to heavily impact the first half of fiscal 2021 primarily in managed services and EDI, which are volume driven, and purchases of software and hardware due to client management being focused on business continuity. Assuming the impact of the pandemic and related restrictive measures begin to subside late in the fiscal first half, we expect that patient volume and thus revenue will likely return to more normal levels throughout late fiscal 2021. Based on our overall financial health and the opportunity in front of us, we have made some important decisions on how to approach the first two quarters of fiscal 2021, which include executing cost reductions with a primary goal of mitigating COVID-19 based impacts to earnings. Most of these cost reductions are temporary as we believe that preserving our employee base, organizational momentum, and robust capabilities for the near future will be a win for the Company and our shareholders. The net effect of the aforementioned actions will result in earnings being down markedly and negative free cash flow (calculated as net cash provided by operating activities, less net of cash used for the additions of capitalized software costs and equipment and improvements) in the first half of the fiscal year. We believe we will be well positioned to weather the initial storm and increase earnings, revenue, and opportunity as volume begins to return in the second half of the year.

The broader implications of the global emergence of COVID-19 on our business, operating results, and overall financial performance remain uncertain and it depends on certain developments, including the duration and spread of the outbreak, impact on our clients and our sales cycles, impact on our partners or employees, and impact on the economic environment and financial markets, all of which are uncertain and cannot be predicted. We are conducting business as usual with certain modifications to employee travel, employee work locations, and marketing events, among other modifications. We have observed other companies taking precautionary and preemptive actions to address COVID-19, and the effects it has had and is expected to have on business and the economy. We expect that our customers and potential customers will take actions to reduce operating expenses and moderate cash flows, including by delaying sales and requesting extended billing and payment terms. We will continue to actively monitor the situation and may take further actions that we determine are in the best interests of our employees, customers, partners, suppliers, and shareholders.

## Results of Operations

The following table sets forth the percentage of revenue represented by each item in our condensed consolidated statements of net income (loss) and comprehensive income (loss) for the three months ended June 30, 2020 and 2019 (certain percentages below may not sum due to rounding):

|   | Three Months Ended June 30, |              |
|---|-----------------------------|--------------|
|   | 2020                        | 2019         |
| <b>Revenues:</b>  |                             |              |
| Recurring   | 91.3%                       | 90.6%        |
| Software, hardware, and other non-recurring                               | 8.7                         | 9.4          |
| Total revenues  | <u>100.0</u>                | <u>100.0</u> |
| <b>Cost of revenue:</b>   |                             |              |
| Recurring   | 38.5                        | 38.3         |
| Software, hardware, and other non-recurring                               | 4.6                         | 4.8          |
| Amortization of capitalized software costs and acquired intangible assets | 7.6                         | 6.4          |
| Total cost of revenue   | <u>50.7</u>                 | <u>49.5</u>  |
| Gross profit  | 49.3                        | 50.5         |
| <b>Operating expenses:</b>  |                             |              |
| Selling, general and administrative                                       | 31.1                        | 30.4         |
| Research and development costs, net                                       | 13.9                        | 16.7         |
| Amortization of acquired intangible assets                                | 0.8                         | 0.7          |
| Impairment of assets  | 0.0                         | 0.4          |
| Restructuring costs   | 2.0                         | 1.3          |
| Total operating expenses  | <u>47.9</u>                 | <u>49.5</u>  |
| Income from operations  | 1.4                         | 1.1          |
| Interest income   | 0.0                         | 0.1          |
| Interest expense  | (0.8)                       | (0.4)        |
| Other income (expense), net   | 0.0                         | (0.1)        |
| Income before provision for (benefit of) income taxes                     | 0.6                         | 0.7          |
| Provision for (benefit of) income taxes                                   | 1.2                         | (0.3)        |
| Net income (loss)   | <u>(0.6)%</u>               | <u>0.9%</u>  |

## Revenues

The following table presents our disaggregated revenues for the three months ended June 30, 2020 and 2019 (in thousands):

|  | Three Months Ended June 30, |                   |
|--|-----------------------------|-------------------|
|  | 2020                        | 2019              |
| <b>Recurring revenues:</b>                                   |                             |                   |
| Subscription services  | \$ 35,360                   | \$ 30,144         |
| Support and maintenance                                      | 38,547                      | 39,652            |
| Managed services   | 22,493                      | 25,681            |
| Electronic data interchange and data services                | 23,122                      | 23,970            |
| Total recurring revenues                                     | <u>119,522</u>              | <u>119,447</u>    |
| <b>Software, hardware, and other non-recurring revenues:</b> |                             |                   |
| Software license and hardware                                | 4,740                       | 7,095             |
| Other non-recurring services                                 | 6,617                       | 5,319             |
| Total software, hardware and other non-recurring revenues    | <u>11,357</u>               | <u>12,414</u>     |
| Total revenues   | <u>\$ 130,879</u>           | <u>\$ 131,861</u> |
| Recurring revenues as a percentage of total revenues         | 91.3%                       | 90.6%             |

We generate revenue from sales of licensing rights and subscriptions to our software solutions, hardware and third-party software products, support and maintenance, managed services, electronic data interchange ("EDI") and data services, and other non-recurring services, including implementation, training, and consulting services performed for clients who use our products.

Revenue for the three months ended June 30, 2020 decreased \$1.0 million compared to the prior year, driven mostly by a \$1.1 million decrease in software, hardware and other non-recurring revenues, including a \$2.4 million decrease in software license and hardware revenue due to lower software bookings from the impact of the COVID-19 pandemic and our transition to a recurring subscription-based model, partially offset by a \$1.3 million increase in other non-recurring services related to the completion of professional services projects. Recurring revenues increased \$0.1 million, driven by a \$5.2 million increase in subscription services, partially offset by \$3.2 million lower managed services, \$1.1 million lower support and maintenance, and \$0.8 million lower EDI and data services. The increase in subscription services was primarily due to growth in subscriptions associated with patient experience and telehealth platforms, including the incremental revenues from the acquisitions of Medfusion and OTTO, our population health and analytics, core NextGen, and NextGen Office cloud-based solutions. The decrease in managed services and EDI and data services was primarily the result of lower patient volumes directly associated with the COVID-19 pandemic. Support and maintenance decrease due to client attrition and our transition to a recurring subscription-based model.

Bookings reflect the estimated annual value of our executed contracts and are believed to provide a broad indicator of the general direction and progress of the business. Total bookings on a comparable basis, adjusted to include the effect of pre-acquisition bookings, were \$25.6 million for the three months ended June 30, 2020 compared to \$32.3 million in the prior year, reflecting a decrease in software and non-recurring services bookings, partially offset by higher subscriptions bookings. In May 2020, we announced a move to reduce our perpetual license revenue in favor of recurring subscription revenue.

### Cost of Revenue and Gross Profit

The following table presents our cost of revenue and gross profit for the three months ended June 30, 2020 and 2019 (in thousands):

|   | <b>Three Months Ended June 30,</b> |                  |
|---|------------------------------------|------------------|
|   | <b>2020</b>                        | <b>2019</b>      |
| <b>Cost of revenue:</b>   |                                    |                  |
| Recurring   | \$ 50,429                          | \$ 50,540        |
| Software, hardware, and other non-recurring                               | 6,041                              | 6,278            |
| Amortization of capitalized software costs and acquired intangible assets | 9,899                              | 8,413            |
| <b>Total cost of revenue</b>  | <b>\$ 66,369</b>                   | <b>\$ 65,231</b> |
| <b>Gross profit</b>   | <b>\$ 64,510</b>                   | <b>\$ 66,630</b> |
| Gross margin %  | 49.3%                              | 50.5%            |

Cost of revenue consists primarily of compensation expense, including share-based compensation, for personnel that deliver our products and services. Cost of revenue also includes amortization of capitalized software costs and acquired technology, third party consultant and outsourcing costs, costs associated with our EDI business partners and clearinghouses, hosting service costs, third party software costs and royalties, and other costs directly associated with delivering our products and services. Refer to Note 8, "Intangible Assets" and Note 9, "Capitalized Software Costs" of our notes to consolidated financial statements included elsewhere in this Report for additional information on current period amortization of capitalized software costs and acquired technology and an estimate of future expected amortization.

As noted above, we announced in May 2020 a move to reduce our perpetual license revenue in favor of recurring subscription revenue, which will impact our gross margin percentages as we will book less high-margin perpetual licenses than we have historically, but ultimately it will produce high-margin recurring revenue. When combined with incremental amortization of capitalized software costs and acquired intangible assets, it will further reduce our expected gross margin percentage.

Share-based compensation expense included in cost of revenue was \$0.4 million and \$0.5 million for the three months ended June 30, 2020 and 2019, respectively.

Gross profit for the three months ended June 30, 2020 decreased \$2.1 million compared to the prior year period due to \$1.0 million lower revenues, consisting mostly of lower software, hardware and other non-recurring revenue, as discussed above and a \$1.5 million increase in amortization of acquired intangible assets mostly related to our acquisitions of Topaz, Medfusion, and OTTO, higher amortization of previously capitalized software costs from the general release of development projects, and higher subscriptions services costs, offset by lower managed services and EDI and data services costs due to lower transactional volume. As a result, our gross margin decreased to 49.3% for the three months ended June 30, 2020 compared to 50.5% in the prior year.

## Selling, General and Administrative Expense

The following table presents our selling, general and administrative expense for the three months ended June 30, 2020 and 2019 (in thousands):

|   | Three Months Ended June 30, |           |
|---|-----------------------------|-----------|
|   | 2020                        | 2019      |
| Selling, general and administrative                             | \$ 40,737                   | \$ 40,128 |
| Selling, general and administrative, as a percentage of revenue | 31.1%                       | 30.4%     |

Selling, general and administrative expense consist of compensation expense, including share-based compensation, for management and administrative personnel, selling and marketing expense, facilities costs, depreciation, professional service fees, including legal and accounting services, legal settlements, acquisition and transaction-related costs, and other general corporate and administrative expenses.

Share-based compensation expense included in selling, general and administrative expenses was \$4.1 million and \$3.4 million for the three months ended June 30, 2020 and 2019, respectively. The increase in share-based compensation for the three months ended June 30, 2020 compared to the same prior year periods is due to increased utilization of share-based awards to incentivize our executives and employees. Refer to Note 14, "Share-Based Awards" of our notes to condensed consolidated financial statements included elsewhere in this Report for additional information of our share-based awards and related incentive plans.

Selling, general and administrative expenses increased \$0.6 million for the three months ended June 30, 2020 compared to the prior year period, driven by higher legal fees, higher share-based compensation expenses noted above, and incremental personnel costs from our acquisitions, partially offset by decreases in travel and conferences and infrastructure expenses.

## Research and Development Costs, net

The following table presents our net research and development costs, capitalized software costs, and gross expenditures prior to capitalization, for the three months ended June 30, 2020 and 2019 (in thousands):

|  | Three Months Ended June 30, |           |
|--|-----------------------------|-----------|
|  | 2020                        | 2019      |
| Gross expenditures   | \$ 23,834                   | \$ 26,786 |
| Capitalized software costs                                       | (5,612)                     | (4,735)   |
| Research and development costs, net                              | \$ 18,222                   | \$ 22,051 |
| Research and development costs, as a percentage of revenue       | 13.9%                       | 16.7%     |
| Capitalized software costs as a percentage of gross expenditures | 23.5%                       | 17.7%     |

Gross research and development expenditures, including costs expensed and costs capitalized, consist of compensation expense, including share-based compensation for research and development personnel, certain third-party consultant fees, software maintenance costs, and other costs related to new product development and enhancement to our existing products.

The healthcare information systems and services industry is characterized by rapid technological change, requiring us to engage in continuing investments in our research and development to update, enhance and improve our systems. This includes expansion of our software and service offerings that support pay-for-performance initiatives around accountable care organizations, bringing greater ease of use and intuitiveness to our software products, enhancing our managed cloud and hosting services to lower our clients' total cost of ownership, expanding our interoperability and enterprise analytics capabilities, and furthering development and enhancements of our portfolio of specialty-focused templates within our electronic health records software.

The capitalization of software development costs results in a reduction to our reported net research and development costs. Our software capitalization rate, or capitalized software costs as a percentage of gross expenditures, has varied historically and may continue to vary based on the nature and status of specific projects and initiatives in progress. Although changes in software capitalization rates have no impact on our overall cash flows, it results in fluctuations in the amount of software development costs that may be capitalized or expensed up front and the amount of net research and development costs reported in our consolidated statements of net income (loss) and comprehensive income (loss), and ultimately also affects the future amortization of our previously capitalized software development costs. Refer to Note 9, "Capitalized Software Costs" of our notes to consolidated financial statements included elsewhere in this Report for additional information on current period amortization of capitalized software costs and an estimate of future expected amortization.

Share-based compensation expense included in research and development costs was \$0.9 million and \$1.0 million for the three months ended June 30, 2020 and 2019, respectively.

Net research and development costs for the three months ended June 30, 2020 decreased \$3.8 million compared to the prior year period due to \$2.9 million lower gross expenditures and \$0.9 million higher capitalization of software costs. The decrease in gross expenditures was driven primarily by lower personnel costs associated with our business restructuring plan and lower travel costs. Our software capitalization rate fluctuates due to differences in the nature and status of our projects and initiatives during a given year, which affects the amount of development costs that may be capitalized.

### Amortization of Acquired Intangible Assets

The following table presents our amortization of acquired intangible assets for the three months ended June 30, 2020 and 2019 (in thousands):

|  | <b>Three Months Ended June 30,</b> |             |
|--|------------------------------------|-------------|
|  | <b>2020</b>                        | <b>2019</b> |
| Amortization of acquired intangible assets | \$ 1,112                           | \$ 865      |

Amortization of acquired intangible assets included in operating expense consist of the amortization related to our customer relationships and trade names intangible assets acquired as part of our business combinations. Refer to Note 8, "Intangible Assets" of our notes to consolidated financial statements included elsewhere in this Report for an estimate of future expected amortization.

Amortization of acquired intangible assets for the three months ended June 30, 2020 increased \$0.2 million compared to the prior year due to additional amortization of the customer relationships and trade names intangible assets acquired from Medfusion.

### Restructuring Costs and Impairment of Assets

In May 2020, we announced a decision to execute a reduction in our workforce of less than 3% as well as other temporary cost reductions in response to the COVID-19 pandemic. We recorded \$2.6 million of restructuring costs, consisting of payroll-related costs, such as severance, outplacement costs, and continuing healthcare coverage, associated with the involuntary separation of employees pursuant to a one-time benefit arrangement, in the three months ended June 30, 2020 within operating expenses in our condensed consolidated statements of net income (loss) and comprehensive income (loss). These amounts were accrued when it was probable that the benefits would be paid, and the amounts were reasonably estimable. The payroll-related costs have been substantially paid as of June 30, 2020.

In the three months ended June 30, 2019, we recorded \$1.7 million of restructuring costs, consisting primarily of payroll-related costs, such as severance, outplacement costs, and continuing healthcare coverage, associated with the involuntary separation of employees pursuant to a one-time benefit arrangement, as part of a business restructuring plan implemented in June 2019. In connection with the June 2019 restructuring plan, we also vacated portions of certain leased locations and recorded impairments of \$0.5 million in the three months ended June 30, 2019 to our operating right-of-use assets and certain related fixed assets associated with the vacated locations, or portions thereof, in Horsham, St. Louis, and Irvine based on projected sublease rental income and estimated sublease commencement dates. The impairment analysis was performed at the asset group level and the impairment charge was estimated by comparing the fair value of each asset group based on the expected cash flows to its respective book value. We determined the discount rate for each asset group based on the approximate interest rate on a collateralized basis with similar remaining terms and payments as of the impairment date. Significant judgment was required to estimate the fair value of each asset group and actual results could vary from the estimates, resulting in potential future adjustments to amounts previously recorded.

### Interest and Other Income and Expense

The following table presents our interest expense for the three months ended June 30, 2020 and 2019 (in thousands):

|                             | <b>Three Months Ended June 30,</b> |             |
|-----------------------------|------------------------------------|-------------|
|                             | <b>2020</b>                        | <b>2019</b> |
| Interest income             | \$ 6                               | \$ 79       |
| Interest expense            | (1,107)                            | (472)       |
| Other income (expense), net | 16                                 | (133)       |

Interest expense relates to our revolving credit agreement and the related amortization of deferred debt issuance costs. Refer to Note 10, "Line of Credit" of our notes to condensed consolidated financial statements included elsewhere in this Report for additional information.



The changes in interest expense is primarily caused by fluctuations in outstanding balances under our revolving credit agreement and the related amortization of debt issuance costs. As of June 30, 2020, we had \$179.0 million of outstanding balances under the revolving credit agreement, compared to an outstanding balance of \$129.0 million as of March 31, 2020 and \$6.0 million as of June 30, 2019, resulting in higher interest expense for the three months ended June 30, 2020 compared to the prior year. The fluctuations of other income and expense compared to the prior year period is primarily due to changes to the India foreign exchange rates.

### Provision for (Benefit of) Income Taxes

The following table presents our provision for (benefit of) income taxes for the three months ended June 30, 2020 and 2019 (in thousands):

|   | Three Months Ended June 30, |          |
|---|-----------------------------|----------|
|   | 2020                        | 2019     |
| Provision for (benefit of) income taxes | \$ 1,616                    | \$ (380) |
| Effective tax rate                      | 204.0%                      | 44.0%    |

The increase in the effective tax rate for the three months ended June 30, 2020 compared to the prior year was primarily due to the decrease in pre-tax book income and increase tax benefit in research and development credits offset with additional tax expense related to higher nondeductible officer's compensation and an increase in stock option discrete items.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, has resulted in significant changes to the U.S. federal corporate tax law. Additionally, several state and foreign jurisdictions have enacted additional legislation and or comply with federal changes. We have considered the applicable tax law changes in our current and deferred income tax expense and recognized the impact in our income tax provision, as applicable.

### Net Income (Loss)

The following table presents our net income and loss (in thousands) and net income (loss) per share and for the three months ended June 30, 2020 and 2019:

|                              | Three Months Ended June 30, |          |
|------------------------------|-----------------------------|----------|
|                              | 2020                        | 2019     |
| Net income (loss)            | \$ (824)                    | \$ 1,244 |
| Net income (loss) per share: |                             |          |
| Basic                        | \$ (0.01)                   | \$ 0.02  |
| Diluted                      | \$ (0.01)                   | \$ 0.02  |

As a result of the foregoing changes in revenue and expense, net income (loss) for the three months ended June 30, 2020 decreased \$2.1 million compared to the prior year period.

### Liquidity and Capital Resources

The following table presents selected financial statistics and information for the three months ended June 30, 2020 and 2019 (in thousands):

|  | Three Months Ended June 30, |            |
|--|-----------------------------|------------|
|  | 2020                        | 2019       |
| Cash and cash equivalents                        | \$ 192,323                  | \$ 28,607  |
| Unused portion of revolving credit agreement (1) | 121,000                     | 294,000    |
| Total liquidity                                  | \$ 313,323                  | \$ 322,607 |
| Net income (loss)                                | \$ (824)                    | \$ 1,244   |
| Net cash provided by operating activities        | \$ 17,672                   | \$ 16,997  |

(1) As of June 30, 2020, we had \$179.0 million of outstanding loans under our \$300.0 million revolving credit agreement.

Our outstanding borrowings under our revolving credit agreement was \$179.0 million as of June 30, 2020 compared to \$129.0 million as of March 31, 2020 and \$6.0 million as of June 30, 2019.

Our principal sources of liquidity are our cash generated from operations, driven mostly by our net income and working capital management, our cash and cash equivalents, and our revolving credit agreement.

We believe that our cash and cash equivalents on hand at June 30, 2020, together with our cash flows from operating activities and liquidity provided by our revolving credit agreement, will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months. Due to the ongoing uncertainties of the impact of the COVID-19 pandemic on the industry in which we operate, we had proactively implemented certain precautionary measures, including cost containment and strengthening our cash position by increasing the outstanding borrowings under our revolving credit agreement. We borrowed an additional \$50.0 million under our revolving credit agreement in April 2020 and subsequently paid down \$50.0 million in July 2020 based on the reassessment of our short-term cash flow and working capital requirements. The impact of COVID-19 is rapidly evolving and widespread, and therefore, it is not possible to fully identify, measure, and predict the various impacts that COVID-19 may have on our financial condition, results of operations, cash flows, and liquidity requirements. We will continue to assess the potential effects of the COVID-19 pandemic on our business and actively manage our response accordingly.

### Cash and Cash Equivalents

As of June 30, 2020, our cash and cash equivalents balance of \$192.3 million compares to \$138.0 million as of March 31, 2020.

We may continue to use a portion of our funds as well as available financing from our revolving credit agreement for future acquisitions or other similar business activities, although the specific timing and amount of funds to be used is not currently determinable. We intend to expend some of our available funds for the development of products complementary to our existing product line as well as new versions of certain of our products. These developments are intended to take advantage of more powerful technologies and to increase the integration of our products.

Our investment policy is determined by our Board of Directors. Excess cash, if any, may be invested in very liquid short-term assets including tax exempt and taxable money market funds, certificates of deposit and short-term municipal bonds with average maturities of 365 days or less at the time of purchase. Our Board of Directors continues to review alternate uses for our cash including an expansion of our investment policy and other items. Any or all of these programs could significantly impact our investment income in future periods.

### Cash Flows from Operating Activities

The following table summarizes our condensed consolidated statements of cash flows for the three months ended June 30, 2020 and 2019 (in thousands):

|  | <b>Three Months Ended June 30,</b> |                  |
|--|------------------------------------|------------------|
|  | <b>2020</b>                        | <b>2019</b>      |
| Net income (loss)                              | \$ (824)                           | \$ 1,244         |
| Non-cash expenses                              | 22,037                             | 20,894           |
| Cash from net income (loss), as adjusted       | \$ 21,213                          | \$ 22,138        |
| Change in contract assets and liabilities, net | (6,708)                            | (650)            |
| Change in accounts receivable                  | 2,286                              | 5,105            |
| Change in other assets and liabilities         | 881                                | (9,596)          |
| Net cash provided by operating activities      | <u>\$ 17,672</u>                   | <u>\$ 16,997</u> |

For the three months ended June 30, 2020, cash provided by operating activities increased \$0.7 million compared to the prior year, driven by a \$10.5 million increase in cash from changes in other assets and liabilities, partially offset by decreases of \$6.1 million from net changes in contract assets and liabilities, \$2.8 million from changes in accounts receivable, and \$0.9 million from changes in net income (loss) as adjusted for non-cash expenses. The increase in cash from net changes in other assets and liabilities is primarily due to an increase in the deferral of payroll taxes in the three months ended June 30, 2020 and higher payments of cash incentive bonuses and commissions in the prior year. The decrease in cash associated with net changes in contract assets and liabilities is primarily due to a lower level of maintenance invoicing as a result of client attrition. The change in accounts receivable decreased as collections in the three months ended June 30, 2020 was negatively impacted by the COVID-19 pandemic in comparison to stronger collections in the prior year. Net income (loss) for the three months ended June 30, 2020 decreased \$2.1 million compared to the prior year, as described above under the heading "Net Income (Loss)".

### Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended June 30, 2020 was \$6.2 million compared with \$8.4 million in the prior year. The \$2.2 million decrease in net cash used in investing activities is due to a \$3.1 million decrease in additions to equipment and improvements, offset by a \$0.9 million increase in additions to capitalized software costs.

## Cash Flows from Financing Activities

Net cash provided by financing activities for the three months ended June 30, 2020 was \$48.6 million cash provided compared with \$6.3 million cash used in the prior year. The \$54.9 million increase in cash provided by financing activities is due to additional borrowings of \$50.0 million on our line of credit in the three months ended June 30, 2020, compared to \$5.0 million in principal repayments in the prior year and \$0.6 million lower payments of taxes related to net share settlement of equity awards, partially offset by \$0.7 million lower proceeds from the issuance of shares under employee plans.

## Contractual Obligations

We have minimum purchase commitments of \$27.8 million related to payments due under certain non-cancelable agreements to purchase goods and services.

The following table summarizes our significant contractual obligations at June 30, 2020 and the effect that such obligations are expected to have on our liquidity and cash in future periods (in thousands):

| Contractual Obligations                                   | For the year ended March 31, |                                       |                  |                   |                 |                 |                    |
|---|------------------------------|---------------------------------------|------------------|-------------------|-----------------|-----------------|--------------------|
|   | Total                        | 2021<br>(remaining<br>nine<br>months) | 2022             | 2023              | 2024            | 2025            | 2026 and<br>beyond |
| Operating lease obligations                               | \$ 40,676                    | \$ 7,066                              | \$ 9,186         | \$ 9,249          | \$ 7,955        | \$ 5,948        | \$ 1,272           |
| Remaining lease obligations for vacated properties<br>(1) | 11,108                       | 2,391                                 | 2,935            | 2,255             | 1,677           | 1,338           | 512                |
| Line of credit obligations (Note 10)                      | 179,000                      | —                                     | —                | 179,000           | —               | —               | —                  |
| Total   | <u>\$ 230,784</u>            | <u>\$ 9,457</u>                       | <u>\$ 12,121</u> | <u>\$ 190,504</u> | <u>\$ 9,632</u> | <u>\$ 7,286</u> | <u>\$ 1,784</u>    |

(1) Remaining lease obligations for vacated properties relates to remaining lease obligations at certain locations, including Brentwood, Solana Beach, North Canton, Phoenix and portions of Atlanta, Irvine, Horsham, San Diego and St. Louis, that we have vacated and are actively marketing the locations for sublease as part of our reorganization efforts. Refer to Note 17, "Restructuring Plan" of our notes to consolidated financial statements included elsewhere in this Report for additional information. Total obligations have not been reduced by projected sublease rentals or by minimum sublease rentals of \$0.9 million due in future periods under non-cancelable subleases.

The deferred compensation liability as of June 30, 2020 was \$6.0 million, which is not included in the table above as the timing of future benefit payments to employees is not determinable.

The uncertain tax position liability as of June 30, 2020 was \$4.7 million, which is not included in the table above as the timing of expected payments is not determinable.

## New Accounting Pronouncements

Refer to Note 1, "Summary of Significant Accounting Policies" of our notes to condensed consolidated financial statements included elsewhere in this Report for a discussion of new accounting standards.

## Critical Accounting Policies and Estimates

The discussion and analysis of our condensed consolidated financial statements and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenue and expenses, and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends, and other factors we believe to be reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. On a regular basis, we review the accounting policies and update our assumptions, estimates, and judgments, as needed, to ensure that our condensed consolidated financial statements are presented fairly and in accordance with GAAP. Actual results could differ materially from our estimates under different assumptions or conditions. To the extent that there are material differences between our estimates and actual results, our financial condition or results of operations will be affected.

We describe our significant accounting policies in Note 1, "Summary of Significant Accounting Policies," of our notes to consolidated financial statements included in our Annual Report. We discuss our critical accounting policies and estimates in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report.

We adopted Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, using the modified retrospective transition approach, which required the recognition of expected credit losses for our accounts receivable and our contract assets. Refer to Note 3, "Accounts Receivable" of our notes to condensed consolidated financial statements included elsewhere in this Report for additional information.

There have been no other material changes in our significant accounting policies or critical accounting policies and estimates since the fiscal year ended March 31, 2020.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As of June 30, 2020, we were subject to minimal market risk on our cash and cash equivalents as we maintained our balances in very liquid funds with maturities of 90 days or less at the time of purchase.

As of June 30, 2020, we had \$179.0 million of outstanding loans under our revolving credit agreement. The revolving borrowings under our revolving credit agreement bear interest at our option of either, (a) for base rate loans, a base rate based on the highest of (i) 0%, (ii) the rate of interest publicly announced by the administrative agent as its prime rate in effect at its principal office in New York City, (iii) the overnight bank funding rate (not to be less than zero) as determined by the Federal Reserve Bank of New York plus 0.50% or (iv) the LIBOR-based rate for one, two, three or nine months Eurodollar deposits plus 1%, and (b) for Eurodollar loans, the LIBOR-based rate for one, two, three or nine months (as selected by us) Eurodollar deposits plus 1.00%, plus, in each case, an applicable margin based on our total leverage ratio from time to time, ranging from 0.50% to 1.50% for base rate loans, and from 1.50% to 2.50% for Eurodollar loans. Accordingly, we are exposed to interest rate risk, primarily changes in LIBOR, due to our loans under the revolving credit agreement. A one hundred basis point (1.00%) change in the interest rate on our outstanding loans as of June 30, 2020 would result in a corresponding change in our annual interest expense of approximately \$1.8 million. Refer to Note 10, "Line of Credit" of our notes to condensed consolidated financial statements included elsewhere in this Report for additional information.

As of June 30, 2020, we had international operations that exposed us to the risk of fluctuations in foreign currency exchange rates against the United States dollar. However, the impact of foreign currency fluctuations has not been material to our financial position or operating results.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934, as amended, the "Exchange Act") as of June 30, 2020, the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). They have concluded that, as of the Evaluation Date, these disclosure controls and procedures were effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis. The Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission. They have also concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act are accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

During the quarter ended June 30, 2020, there were no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 1. LEGAL PROCEEDINGS.*****Hussein Litigation***

On October 7, 2013, a complaint was filed against our Company and certain of our officers and directors in the Superior Court of the State of California for the County of Orange, captioned Ahmed D. Hussein v. Sheldon Razin, Steven Plochocki, Quality Systems, Inc. and Does 1-10, inclusive, No. 30-2013-00679600-CU-NP-CJC, by Ahmed Hussein, a former director and significant shareholder of our Company. We filed a demurrer to the complaint, which the Court granted on April 10, 2014. An amended complaint was filed on April 25, 2014. The amended complaint generally alleges fraud and deceit, constructive fraud, negligent misrepresentation and breach of fiduciary duty in connection with statements made to our shareholders regarding our financial condition and projected future performance. The amended complaint seeks actual damages, exemplary and punitive damages and costs. We filed a demurrer to the amended complaint. On July 29, 2014, the Court sustained the demurrer with respect to the breach of fiduciary duty claim, and overruled the demurrer with respect to the fraud and deceit claims. On August 28, 2014, we filed an answer and also filed a cross-complaint against Hussein, alleging that he breached fiduciary duties owed to the Company, Mr. Razin and Mr. Plochocki. Mr. Razin and Mr. Plochocki dismissed their claims against Hussein, leaving the Company as the sole plaintiff in the cross-complaint. On June 26, 2015, we filed a motion for summary judgment with respect to Hussein's claims, which the Court granted on September 16, 2015, dismissing all of Hussein's claims against us. On September 23, 2015, Hussein filed an application for reconsideration of the Court's summary judgment order, which the Court denied. Hussein filed a renewed application for reconsideration of the Court's summary judgment order on August 3, 2017. The Court again denied Hussein's application. On October 28, 2015, May 9, 2016, and August 5, 2016, Hussein filed a motion for summary judgment, motion for summary adjudication, and motion for judgment on the pleadings, respectively, seeking to dismiss our cross-complaint. The Court denied each motion. Trial on our cross-complaint began June 12, 2017. On July 26, 2017, the Court issued a statement of decision granting Hussein's motion for judgment on our cross-complaint. Final judgment over Hussein's claims and our cross-claims was entered on January 9, 2018. Hussein has noticed his appeal of the order granting summary judgment over his claims, and we noticed a cross-appeal on the court's statement of decision granting Hussein's motion for judgment on our cross-complaint. On October 8, 2019, the California State Court of Appeal for the Fourth Appellate District, Division Three, reversed the Superior Court's grant of summary judgment against Hussein's affirmative claims and affirmed the trial court's judgement after a bench trial against the Company on its breach of fiduciary duty claims against Hussein. We petitioned the California Court of Appeal to rehear the matter with respect to Hussein's affirmative claims. The Court modified its opinion but denied the Company's rehearing petition on November 7, 2019. We filed a petition for review with the Supreme Court of California on November 18, 2019, which was denied on January 15, 2020. As a result, the case has returned to the trial court for resolution. Trial is now scheduled to begin on November 6 2020. Separately, Hussein has issued an arbitration demand seeking indemnification for the fees he incurred defending against our cross-complaint. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter.

***Other Regulatory Matters***

Commencing in April 2017, we have received requests for documents and information from the United States Attorney's Office for the District of Vermont and other government agencies in connection with an investigation concerning the certification we obtained for our software under the United States Department of Health and Human Services' Electronic Health Record (EHR) Incentive Program. The requests for information relate to, among other things: (a) data used to determine objectives and measures under the Meaningful Use (MU) and the Physician Quality Reporting System (PQRS) programs, (b) EHR software code used in certifying our software and information, and (c) payments provided for the referral of EHR business. We continue to cooperate in this investigation. Requests and investigations of this nature may lead to future requests for information and ultimately the assertion of claims or the commencement of legal proceedings against us, as well as other material liabilities. In addition, our responses to these and any future requests require time and effort, which can result in additional cost to us. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter. Given the highly-regulated nature of our industry, we may, from time to time, be subject to subpoenas, requests for information, or investigations from various government agencies. It is our practice to respond to such matters in a cooperative, thorough and timely manner. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter.

**ITEM 1A. RISK FACTORS.**

Our business is subject to many risks and uncertainties, which may materially and adversely affect our future business, prospects, financial condition and results of operations. These risk factors are disclosed in "Item 1A. Risk Factors" in our Annual Report.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**ITEM 5. OTHER INFORMATION.**

None.

ITEM 6. EXHIBITS.

| Exhibit Number | Exhibit Description   | Filed Herewith | Incorporated by Reference |         |             |
|----------------|---|----------------|---------------------------|---------|-------------|
|                |   |                | Form                      | Exhibit | Filing Date |
| 31.1           | <a href="#">Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> | X              |                           |         |             |
| 31.2           | <a href="#">Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a> | X              |                           |         |             |
| 32.1           | <a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>                    | X              |                           |         |             |
| 101.INS**      | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.  |                |                           |         |             |
| 101.SCH**      | Inline XBRL Taxonomy Extension Schema Document  |                |                           |         |             |
| 101.CAL**      | Inline XBRL Taxonomy Extension Calculation Linkbase Document  |                |                           |         |             |
| 101.DEF**      | Inline XBRL Taxonomy Extension Definition Linkbase Document   |                |                           |         |             |
| 101.LAB**      | Inline XBRL Taxonomy Extension Label Linkbase Document  |                |                           |         |             |
| 101.PRE**      | Inline XBRL Taxonomy Extension Presentation Linkbase Document   |                |                           |         |             |
| 104            | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, has been formatted in Inline XBRL.   |                |                           |         |             |

\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities and Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**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.

NEXTGEN HEALTHCARE, INC.

Date: July 30, 2020

By: /s/ John R. Frantz  
John R. Frantz  
Chief Executive Officer (Principal Executive Officer)

Date: July 30, 2020

By: /s/ James R. Arnold, Jr.  
James R. Arnold, Jr.  
Chief Financial Officer (Principal Financial Officer)

Date: July 30, 2020

By: /s/ David Ahmadzai  
David Ahmadzai  
Chief Accounting Officer (Principal Accounting Officer)



**Certification of Principal Executive Officer Required by  
Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,  
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, John R. Frantz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NextGen Healthcare, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By: /s/ John R. Frantz

John R. Frantz  
Chief Executive Officer  
(Principal Executive Officer)

**Certification of Principal Financial Officer Required by  
Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,  
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James R. Arnold, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NextGen Healthcare, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By: /s/ James R. Arnold, Jr.

James R. Arnold, Jr.  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of NextGen Healthcare, Inc. (the "Company") for the quarterly period ended June 30, 2020 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2020

By: /s/ John R. Frantz

John R. Frantz  
Chief Executive Officer  
(Principal Executive Officer)

Date: July 30, 2020

By: /s/ James R. Arnold, Jr.

James R. Arnold, Jr.  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.