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 December 31, 2019

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	**95-2888568**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
18111 Von Karman Avenue, Suite 800, Irvine, California	**92612**
(Address of principal executive offices)	*(Zip Code)*

(949) 255-2600
(Registrant’s telephone number, including area code)

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

Title of each class	*Trading Symbol*	*Name of each exchange on which registered*
Common Stock, $0.01 Par Value	**NXGN**	**NASDAQ Global Select Market**

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 ☒	Accelerated filer ☐
Non-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 January 21, 2020 was 65,701,261 shares.

NEXTGEN HEALTHCARE, INC.

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FOR THE THREE MONTHS ENDED DECEMBER 31, 2019

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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)

	December 31, 2019	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,790	$ 33,079
Restricted cash and cash equivalents	5,696	1,443
Accounts receivable, net	79,731	87,459
Contract assets	12,488	13,242
Inventory	75	120
Income taxes receivable	5,485	3,682
Prepaid expenses and other current assets	23,101	20,826
Total current assets	153,366	159,851
Equipment and improvements, net	22,004	21,404
Capitalized software costs, net	39,678	37,855
Operating lease assets	34,424	—
Deferred income taxes, net	5,088	6,194
Contract assets, net of current	3,427	3,747
Intangibles, net	64,394	52,595
Goodwill	266,741	218,771
Other assets	33,773	32,478
Total assets	$ 622,895	$ 532,895
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,411	$ 5,432
Contract liabilities	52,905	56,009
Accrued compensation and related benefits	25,309	25,663
Income taxes payable	—	64
Operating lease liabilities	10,323	—
Other current liabilities	38,931	41,064
Total current liabilities	136,879	128,232
Deferred compensation	6,198	5,905
Line of credit	37,000	11,000
Operating lease liabilities, net of current	39,297	—
Other noncurrent liabilities	3,765	11,812
Total liabilities	223,139	156,949
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Common stock		
$0.01 par value; authorized 100,000 shares; issued and outstanding 65,701 and 64,838 shares at December 31, 2019 and March 31, 2019, respectively	657	648
Additional paid-in capital	277,161	264,908
Accumulated other comprehensive loss	(1,423)	(1,231)
Retained earnings	123,361	111,621
Total shareholders' equity	399,756	375,946
Total liabilities and shareholders' equity	$ 622,895	$ 532,895

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Revenues:				
Recurring	$ 124,787	$ 117,446	$ 364,823	$ 353,770
Software, hardware, and other non-recurring	12,953	13,421	39,034	40,618
Total revenues	137,740	130,867	403,857	394,388
Cost of revenue:				
Recurring	52,197	47,997	153,065	143,322
Software, hardware, and other non-recurring	6,975	6,576	19,816	20,752
Amortization of capitalized software costs and acquired intangible assets	8,963	7,098	26,219	20,566
Total cost of revenue	68,135	61,671	199,100	184,640
Gross profit	69,605	69,196	204,757	209,748
Operating expenses:				
Selling, general and administrative	42,841	41,304	122,015	120,169
Research and development costs, net	20,026	20,682	61,866	61,181
Amortization of acquired intangible assets	964	1,027	2,694	3,316
Impairment of assets	1,948	—	4,353	—
Restructuring costs	546	—	2,428	—
Total operating expenses	66,325	63,013	193,356	184,666
Income from operations	3,280	6,183	11,401	25,082
Interest income	30	44	145	113
Interest expense	(435)	(720)	(1,294)	(2,219)
Other income (expense), net	137	(227)	214	384
Income before provision for (benefit of) income taxes	3,012	5,280	10,466	23,360
Provision for (benefit of) income taxes	(1,403)	456	(1,274)	2,794
Net income	$ 4,415	$ 4,824	$ 11,740	$ 20,566
Other comprehensive income:				
Foreign currency translation, net of tax	(103)	411	(192)	(881)
Comprehensive income	$ 4,312	$ 5,235	$ 11,548	$ 19,685
Net income per share:				
Basic	$ 0.07	$ 0.07	$ 0.18	$ 0.32
Diluted	$ 0.07	$ 0.07	$ 0.18	$ 0.32
Weighted-average shares outstanding:				
Basic	65,493	64,637	65,304	64,308
Diluted	65,664	64,776	65,516	64,499

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)

	Three and Nine Months Ended December 31, 2019					
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	Loss	Equity
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
Common stock issued under stock plans, net of shares withheld for taxes	53	—	44	—	—	44
Stock-based compensation	—	—	4,316	—	—	4,316
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(143)	(143)
Net income	—	—		6,081	—	6,081
Balance, September 30, 2019	65,436	654	272,848	118,946	(1,320)	391,128
Common stock issued under stock plans, net of shares withheld for taxes	265	3	(308)	—	—	(305)
Stock-based compensation	—	—	4,621	—	—	4,621
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(103)	(103)
Net income	—	—		4,415	—	4,415
Balance, December 31, 2019	65,701	657	277,161	123,361	(1,423)	399,756

	Three and Nine Months Ended December 31, 2018					
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Capital	Earnings	Loss	Equity
Balance, March 31, 2018	63,995	640	244,462	78,708	(400)	323,410
Common stock issued under stock plans, net of shares withheld for taxes	225	2	(204)	—	—	(202)
Stock-based compensation	—	—	3,116	—	—	3,116
Cumulative effect adjustment related to the adoption of ASC 606	—	—	—	8,419	—	8,419
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(499)	(499)
Net income	—	—	—	2,648	—	2,648
Balance, June 30, 2018	64,220	642	247,374	89,775	(899)	336,892
Common stock issued under stock plans, net of shares withheld for taxes	162	2	2,104	—	—	2,106
Stock-based compensation	—	—	4,135	—	—	4,135
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(793)	(793)
Net income	—	—	—	13,094	—	13,094
Balance, September 30, 2018	64,382	644	253,613	102,869	(1,692)	355,434
Common stock issued under stock plans, net of shares withheld for taxes	322	3	—	—	—	3
Stock-based compensation	—	—	4,698	—	—	4,698
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	411	411
Net income	—	—	—	4,824	—	4,824
Balance, December 31, 2018	64,704	647	258,311	107,693	(1,281)	365,370

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)

	Nine Months Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 11,740	$ 20,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of capitalized software costs	12,962	7,703
Amortization of debt issuance costs	532	532
Amortization of other intangibles	15,951	16,180
Change in fair value of contingent consideration	425	—
Deferred income taxes	38	22
Depreciation	6,453	7,721
Excess tax benefit from share-based compensation	(46)	(313)
Impairment of assets	4,353	—
Loss on disposal of equipment and improvements	41	194
Non-cash operating lease costs	6,254	—
Provision for bad debts	2,426	2,740
Provision for inventory obsolescence	6	8
Restructuring costs, net of amounts paid	257	—
Share-based compensation	13,828	11,949
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable	6,184	242
Contract assets	1,081	1,288
Inventory	39	43
Accounts payable	2,323	(783)
Contract liabilities	(4,014)	(7,804)
Accrued compensation and related benefits	(1,159)	(4,476)
Income taxes	(1,821)	2,595
Deferred compensation	293	(522)
Operating lease liabilities	(7,142)	—
Other assets and liabilities	(6,633)	(24,606)
Net cash provided by operating activities	64,371	33,279
Cash flows from investing activities:		
Additions to capitalized software costs	(14,785)	(14,853)
Additions to equipment and improvements	(6,951)	(4,108)
Payments for acquisitions, net of cash acquired	(71,605)	—
Proceeds from over-funded corporate-owned life insurance policies	2,500	—
Net cash used in investing activities	(90,841)	(18,961)
Cash flows from financing activities:		
Proceeds from line of credit	37,000	26,000
Repayments on line of credit	(11,000)	(36,000)
Proceeds from issuance of shares under employee plans	2,076	4,505
Payments for taxes related to net share settlement of equity awards	(3,642)	(2,598)
Net cash provided by (used in) financing activities	24,434	(8,093)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(2,036)	6,225
Cash, cash equivalents, and restricted cash at beginning of period	34,522	31,218
Cash, cash equivalents, and restricted cash at end of period	$ 32,486	$ 37,443
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 2,154	$ 966
Cash refunds from income taxes	1,576	442
Cash paid for interest	805	1,385
Cash paid for amounts included in the measurement of operating lease liabilities	8,494	—
Operating lease assets obtained in exchange for operating lease liabilities	5,858	—
Accrued purchases of equipment and improvements	44	181

The accompanying notes are an integral part of these 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 December 31, 2019 and for the three and nine months ended December 31, 2019 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, 2019. 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.

Significant Accounting Policies**.** We adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, effective on April 1, 2019 using the cumulative-effect adjustment transition method, as described further below. There have been no other material changes to our significant accounting policies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

Share-Based Compensation. The following table summarizes total share-based compensation expense included in the condensed consolidated statements of comprehensive income for the three and nine months ended December 31, 2019 and 2018:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Costs and expenses:				
Cost of revenue	$ 531	$ 358	$ 1,530	$ 939
Research and development costs	963	860	2,808	2,196
Selling, general and administrative	3,127	3,480	9,490	8,814
Total share-based compensation	4,621	4,698	13,828	11,949
Income tax benefit	(1,158)	(1,180)	(3,475)	(2,949)
Decrease in net income	$ 3,463	$ 3,518	$ 10,353	$ 9,000

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

In July 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-07, *Codification Updates to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33- 10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates (SEC Update)*, to amend SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC final rules on Disclosure Update and Simplification and Investment Company Reporting Modernization, and make other updates. ASU 2019-07 was effective upon issuance. The requirements of ASU 2019-07 have been implemented and did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which was intended to improve financial reporting about leasing transactions. The new guidance requires lessees to recognize on their balance sheets the assets and liabilities for the rights and obligations created by leases and to disclose key information about the leasing arrangements. We have implemented the necessary changes to our policies, processes, and internal controls over financial reporting to meet the requirements under the new guidance related to identifying and measuring right-of-use assets and lease liabilities, including related disclosures.

We adopted ASU 2016-02 and its subsequent amendments (together "ASC 842") using the cumulative-effect adjustment transition method, which is the additional transition method described within ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, issued by the FASB in July 2018, which allowed us to apply the new lease standard as of April 1, 2019, rather than the beginning of the earliest period presented. We elected the package of practical expedients that permitted us to not reassess: (1) whether any expired contracts are or contain leases; (2) the lease classification for any existing or expired leases, and (3) the initial direct costs for our existing leases.

Upon adoption of ASC 842, we recognized operating lease right-of-use assets of $38,784, operating lease liabilities of $8,873, and long-term operating lease liabilities of $42,114 on our condensed consolidated balance sheet as of April 1, 2019, and corresponding reductions to other current liabilities of $2,342 and other noncurrent liabilities of $9,861 associated with previously recognized deferred rent and remaining lease obligations. There was no cumulative-effect adjustment required to retained earnings. The adoption of ASC 842 did not have a significant effect on our condensed consolidated results of operations or cash flows. Comparative information in this Report has not been adjusted and continues to be reported under the previous lease accounting rules. Refer to Note 4 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 December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, 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 consolidated financial statements.

In August 2018, the FASB issued 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. Early adoption is permitted, including adoption in an interim period. ASU 2018-15 is effective for us in the first quarter of fiscal 2021. We are currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on our 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. Early adoption is permitted, including adoption in an interim period. ASU 2018-13 is effective for us in the first quarter of fiscal 2021, and we currently do not expect the adoption of this new standard to have a material impact on our 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. ASU 2017-04 is effective for us in the first quarter of fiscal 2021, and we currently do not expect the adoption of this new standard to have a material impact on our 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 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. ASU 2016-13 is effective for us in the first quarter of fiscal 2021, and we currently do not expect the adoption of this new standard to have a material impact on our 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 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 (formerly referred to as revenue cycle management and related 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 an arrangement 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 observable, such as 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 December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Recurring revenues:				
Subscription services	$ 33,163	$ 30,035	$ 94,718	$ 87,618
Support and maintenance	39,936	39,714	118,948	120,556
Managed services	26,830	24,251	77,730	74,048
Electronic data interchange and data services	24,858	23,446	73,427	71,548
Total recurring revenues	124,787	117,446	364,823	353,770
Software, hardware, and other non-recurring revenues:				
Software license and hardware	7,210	9,217	22,563	26,013
Other non-recurring services	5,743	4,204	16,471	14,605
Total software, hardware and other non-recurring revenues	12,953	13,421	39,034	40,618
Total revenues	$ 137,740	$ 130,867	$ 403,857	$ 394,388

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

Generally, we 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 hosting services, which we refer to as managed cloud services and 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 managed cloud services represent a single performance obligation to provide cloud hosting services to our customers. Our SaaS-based offerings may include multiple goods and services, such as providing access to our technology-based solutions together with our managed cloud 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 transcription 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. Performance obligations related to the transcription services and other recurring services are generally 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 December 31, 2019, the aggregate amount of transaction price related to remaining unsatisfied or partially unsatisfied performance obligations over the respective noncancelable contract term was approximately $488,800, of which we expect to recognize approximately 9% as services are rendered or goods are delivered, 46% 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 receivable includes invoiced amounts where the right to receive payment is unconditional and only subject to the passage of time. Contract assets 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 December 31, 2019 and 2018, we recognized $14,834 and $14,899, respectively, of revenues that were included in the contract liability balance at the beginning of the corresponding periods. During the nine months ended December 31, 2019 and 2018, we recognized $50,981 and $50,985, 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 $23,956 as of December 31, 2019, of which $6,638 is current and included as prepaid expenses and other current assets and $17,318 is long-term and included within other assets on our consolidated balance sheets, based on the expected timing of expense recognition. During the three months ended December 31, 2019 and 2018, we recognized $2,187 and $1,414, respectively, of commissions expense. During the nine months ended December 31, 2019 and 2018, we recognized $5,640 and $4,278, 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 statement of comprehensive income.

3. 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 December 31, 2019 and March 31, 2019:

	Balance At December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
ASSETS				
Cash and cash equivalents [1]	$ 26,790	$ 26,790	$ —	$ —
Restricted cash and cash equivalents	5,696	5,696	—	—
	$ 32,486	$ 32,486	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 3,275	$ —	$ —	$ 3,275
	$ 3,275	$ —	$ —	$ 3,275

	Balance At March 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
ASSETS				
Cash and cash equivalents [1]	$ 33,079	$ 33,079	$ —	$ —
Restricted cash and cash equivalents	1,443	1,443	—	—
	$ 34,522	$ 34,522	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 1,000	$ —	$ —	$ 1,000
	$ 1,000	$ —	$ —	$ 1,000

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

The contingent consideration liabilities relates to the acquisitions of Topaz Information Systems, LLC (see Note 5) and Inforth Technologies. In accordance with the provisions of the potential earnout, as amended, for the acquisition of Inforth Technologies up to an additional $4,000 of cash is payable subject to the achievement of certain bookings targets through March 31, 2020.

The contingent consideration liability for Topaz Information Systems, LLC was $1,875 as of December 31, 2019 and is reflected within other noncurrent liabilities in our condensed consolidated balance sheets. The contingent consideration liability for Inforth Technologies was $1,400 and $1,000 as of December 31, 2019 and March 31, 2019, respectively and is reflected within other current liabilities in our condensed consolidated balance sheets.

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 and comprehensive income. Key assumptions included probability-adjusted achievement estimates of applicable bookings targets that were not observable in the market. During the nine months ended December 31, 2019, we recorded $400 in fair value adjustments to the contingent consideration liability for Inforth Technologies, which is included as a component of selling, general and administrative expense in the condensed consolidated statements of net income and comprehensive income.

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. During the three and nine months ended December 31, 2019, we recorded certain impairments to our operating lease assets and equipment and improvements (see Note 16).

4. 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 comprehensive income. Total operating lease costs were $2,624 and $2,026 for the three months ended December 31, 2019 and 2018, respectively. Total operating lease costs were $7,675 and $6,081 for the nine months ended December 31, 2019 and 2018, respectively.

Components of operating lease costs are summarized as follows:

	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2019
Operating lease costs	$ 2,469	$ 7,146
Short-term lease costs	17	110
Variable lease costs	181	518
Less: Sublease income	(43)	(99)
Total operating lease costs	$ 2,624	$ 7,675

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

	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	$ 3,014	$ 8,494
Operating lease assets obtained in exchange for operating lease liabilities	534	5,858

As of December 31, 2019, our operating leases had a weighted average remaining lease term of 4.5 years and a weighted average discount rate of 4.0%. Future minimum aggregate lease payments under operating leases as of December 31, 2019 are summarized as follows:

For the year ended March 31,	
2020 (remaining three months)	$ 3,033
2021	12,176
2022	11,562
2023	10,955
2024	9,045
Thereafter	8,315
Total future lease payments	55,086
Less interest	(5,466)
Total lease liabilities	$ 49,620

Future minimum lease payments (including interest) under non-cancelable operating leases as of March 31, 2019 are summarized as follows:

For the year ended March 31,	
2020	$ 10,511
2021	10,701
2022	10,161
2023	9,660
2024	7,730
Thereafter	8,097
Total obligations and commitments	$ 56,860

As of December 31, 2019, we have entered into an office building lease in Cary, North Carolina as part of our acquisition of Medfusion, Inc. which will commence in February 2020. This lease is not reflected in the table above.

5. 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 will be 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 9) 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 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/PM 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 9) 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/or working capital, 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:

	Topaz Preliminary Purchase Price	Medfusion Preliminary Purchase Price	OTTO Preliminary Purchase Price
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	(424)	(247)	(59)
Total preliminary purchase price	$ 11,097	$ 42,777	$ 21,960
Preliminary fair value of the net tangible assets acquired and liabilities assumed:			
Acquired cash and cash equivalents	$ 359	$ 204	$ 102
Accounts receivable	1,577	968	51
Prepaid expense and other assets	139	695	42
Equipment and improvements	194	434	—
Operating lease assets	534	—	—
Accounts payable	(250)	(1,360)	(2)
Accrued compensation and related benefits	(155)	(270)	(123)
Contract liabilities	(370)	(529)	(11)
Deferred income tax liability	—	(1,068)	—
Operating lease liabilities	(240)	—	—
Operating lease liabilities, net of current	(360)	—	—
Other liabilities	(98)	(334)	(15)
Total preliminary net tangible assets acquired and liabilities assumed	1,330	(1,260)	44
Preliminary fair value of identifiable intangible assets acquired:			
Goodwill	5,267	23,187	19,516
Software technology	4,500	13,800	2,400
Customer relationships	—	6,800	—
Trademarks	—	250	—
Total preliminary identifiable intangible assets acquired	9,767	44,037	21,916
Total preliminary purchase price	$ 11,097	$ 42,777	$ 21,960

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 December 31, 2019, the fair value of the contingent consideration was $1,875, which reflects an adjustment of $25 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 trademarks 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.

6. 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. We have not identified any events or circumstances as of December 31, 2019 that would require an interim goodwill impairment test.

We do not amortize goodwill as it has been determined to have an indefinite useful life. The carrying amount of goodwill as of December 31, 2019 was $266,741, which reflects the acquisitions of Topaz, Medfusion and OTTO (see Note 5). The carrying amount of goodwill as of March 31, 2019 was $218,771.

7. Intangible Assets

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

	December 31, 2019			
	Customer Relationships	Trademarks	Software Technology	Total
Gross carrying amount	$ 39,200	$ 250	$ 113,700	$ 153,150
Accumulated amortization	(20,515)	(4)	(68,237)	(88,756)
Net intangible assets	$ 18,685	$ 246	$ 45,463	$ 64,394

	March 31, 2019		
	Customer Relationships	Software Technology	Total
Gross carrying amount	$ 54,450	$ 94,310	$ 148,760
Accumulated amortization	(39,875)	(56,290)	(96,165)
Net intangible assets	$ 14,575	$ 38,020	$ 52,595

Amortization expense related to customer relationships and trademarks recorded as operating expenses in the condensed consolidated statements of comprehensive income was $964 and $1,027 for the three months ended December 31, 2019 and 2018, respectively. Amortization expense related to software technology recorded as cost of revenue was $4,681 and $4,288 for the three months ended December 31, 2019 and 2018, respectively.

Amortization expense related to customer relationships and trademarks recorded as operating expenses in the condensed consolidated statements of comprehensive income was $2,694 and $3,316 for the nine months ended December 31, 2019 and 2018, respectively. Amortization expense related to software technology recorded as cost of revenue was $13,257 and $12,863 for the nine months ended December 31, 2019 and 2018, respectively.

The following table summarizes the remaining estimated amortization of definite-lived intangible assets as of December 31, 2019:

	Estimated Remaining Amortization Expense		
	Operating Expense	Cost of Revenue	Total
For the year ended March 31,			
2020 (remaining three months)	$ 1,449	$ 5,136	$ 6,585
2021	4,449	16,661	21,110
2022	3,525	8,873	12,398
2023	2,820	5,154	7,974
2024	2,279	3,573	5,852
2025 and beyond	4,409	6,066	10,475
Total	**$ 18,931**	**$ 45,463**	**$ 64,394**

8. Capitalized Software Costs

Our capitalized software costs are summarized as follows:

	December 31, 2019	March 31, 2019
Gross carrying amount	$ 73,763	$ 59,782
Accumulated amortization	(34,085)	(21,927)
Net capitalized software costs	$ 39,678	$ 37,855

Amortization expense related to capitalized software costs was $4,282 and $2,811 for the three months ended December 31, 2019 and 2018, respectively, and is recorded as cost of revenue in the condensed consolidated statements of comprehensive income.

Amortization expense related to capitalized software costs was $12,962 and $7,703 for the nine months ended December 31, 2019 and 2018, respectively.

The following table presents the remaining estimated amortization of capitalized software costs as of December 31, 2019. 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,	
2020 (remaining three months)	$ 5,800
2021	19,800
2022	9,800
2023	4,278
Total	$ 39,678

9. 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 December 31, 2019.

As of December 31, 2019, we had $37,000 outstanding loans and $263,000 of unused credit under the Credit Agreement. As of March 31, 2019, we had $11,000 in outstanding loans under the Credit Agreement.

Interest expense related to the Credit Agreement was $253 and $516 for the three months ended December 31, 2019 and 2018, respectively. Amortization of deferred debt issuance costs was $177 and $177 for the three months ended December 31, 2019 and 2018, respectively.

Interest expense related to the Credit Agreement was $758 and $1,657 for the nine months ended December 31, 2019 and 2018, respectively. Amortization of deferred debt issuance costs was $532 and $532 for the nine months ended December 31, 2019 and 2018, respectively.

10. Composition of Certain Financial Statement Captions

Accounts receivable includes billed amounts where the right to receive payment is unconditional and only subject to the passage of time. Undelivered products and services are included as a component of the contract liabilities balance on the accompanying condensed consolidated balance sheets.

	December 31, 2019		March 31, 2019	
Accounts receivable, gross	$	83,270	$	93,513
Allowance for doubtful accounts		(3,539)		(6,054)
Accounts receivable, net	$	79,731	$	87,459

Inventory is comprised of computer systems and components.

Prepaid expenses and other current assets are summarized as follows:

	December 31, 2019		March 31, 2019	
Prepaid expenses	$	15,591	$	15,548
Capitalized commissions costs		6,638		4,816
Other current assets		872		462
Prepaid expenses and other current assets	$	23,101	$	20,826

Equipment and improvements are summarized as follows:

	December 31, 2019		March 31, 2019	
Computer equipment	$	33,423	$	28,923
Internal-use software		17,536		17,084
Furniture and fixtures		12,415		11,660
Leasehold improvements		15,972		15,150
Equipment and improvements, gross		79,346		72,817
Accumulated depreciation and amortization		(57,342)		(51,413)
Equipment and improvements, net	$	22,004	$	21,404

Other assets are summarized as follows:

	December 31, 2019		March 31, 2019	
Capitalized commission costs	$	17,318	$	14,781
Deposits		5,884		5,318
Debt issuance costs		2,301		2,834
Other noncurrent assets		8,270		9,545
Other assets	$	33,773	$	32,478

Accrued compensation and related benefits are summarized as follows:

	December 31, 2019		March 31, 2019	
Accrued vacation	$	9,246	$	9,893
Accrued bonus		11,632		11,598
Accrued commissions		3,410		3,418
Accrued payroll		1,021		754
Accrued compensation and related benefits	$	25,309	$	25,663

Other current liabilities are summarized as follows:

	December 31, 2019	March 31, 2019
Sales returns reserves and other customer liabilities	$ 6,575	$ 7,838
Care services liabilities	5,696	1,443
Customer credit balances and deposits	4,071	3,988
Accrued hosting costs	2,971	4,674
Accrued self insurance expense	2,823	2,225
Accrued outsourcing costs	2,444	2,128
Accrued employee benefits and withholdings	2,379	2,426
Accrued EDI expense	2,122	2,037
Contingent consideration related to acquisitions	1,400	1,000
Accrued consulting and outside services	1,380	3,874
Sales tax payable	1,123	509
Accrued legal expense	1,080	699
Accrued royalties	719	3,090
Deferred rent and related lease obligations	—	2,196
Other accrued expenses	4,148	2,937
Other current liabilities	$ 38,931	$ 41,064

11. Income Taxes

The benefit of income taxes in the three months ended December 31, 2019 was $1,403 and the provision for income taxes in the three months ended December 31, 2018 was $456. The effective tax rate benefit was 46.6% for the three months ended December 31, 2019 and the effective tax rate was 8.6% for the three months ended December 31, 2018. The decrease in the effective tax rate for the three months ended December 31, 2019 compared to the prior year period was primarily due to the increased net benefit of the research and development credits, partially offset by nondeductible stock option related expenses, nondeductible officer’s compensation, and reserves for uncertain tax position. Additionally, due to the difference in the amount of income before taxes, the impact of the rate reconciliation items on the effective tax rate was more significant in the three months ended December 31, 2019.

The benefit of income taxes in the nine months ended December 31, 2019 was $1,274 and the provision for income taxes in the nine months ended December 31, 2018 was $2,794. The effective tax rate benefit was 12.2% for the nine months ended December 31, 2019 and the effective tax rate was 12.0% for the nine months ended December 31, 2018. The decrease in the effective tax rate for the nine months ended December 31, 2019 compared to the prior year period was primarily due to the increased net benefit of the research and development credits and other one-time discrete benefits, partially offset by nondeductible stock option related expenses. Additionally, due to the difference in the amount of income before taxes, the impact of the rate reconciliation items on the effective tax rate was more significant in the nine months ended December 31, 2019.

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 $3,564 and $2,894 related to various federal, state and local income tax matters as of December 31, 2019 and March 31, 2019, respectively. The unrecognized benefits consisted of liabilities of $1,658 and $1,680 and reserves against deferred tax assets of $1,906 and $1,218 as of December 31, 2019 and March 31, 2019, 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 2015. With a few exceptions, we are no longer subject to state or local income tax examinations for tax years before fiscal year ended 2014. 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.

12. 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 December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Earnings per share — Basic:				
Net income	$ 4,415	$ 4,824	$ 11,740	$ 20,566
Weighted-average shares outstanding — Basic	65,493	64,637	65,304	64,308
Net income per common share — Basic	$ 0.07	$ 0.07	$ 0.18	$ 0.32
Earnings per share — Diluted:				
Net income	$ 4,415	$ 4,824	$ 11,740	$ 20,566
Weighted-average shares outstanding	65,493	64,637	65,304	64,308
Effect of potentially dilutive securities	171	139	212	191
Weighted-average shares outstanding — Diluted	65,664	64,776	65,516	64,499
Net income per common share — Diluted	$ 0.07	$ 0.07	$ 0.18	$ 0.32

The computation of diluted net income per share does not include 1,771 and 2,532 options to acquire shares of common stock for the three months ended December 31, 2019 and December 31, 2018, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

The computation of diluted net income per share does not include 876 and 1,913 options to acquire shares of common stock for the nine months ended December 31, 2019 and December 31, 2018, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

13. 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 December 31, 2019, there were 227,920 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 December 31, 2019, there were 2,774,330 outstanding options, 1,990,326 outstanding shares of restricted stock awards, 23,188 outstanding shares of performance stock awards, and 8,073,505 shares available for future grant under the Amended 2015 Plan.

The following table summarizes the stock option transactions during the nine months ended December 31, 2019:

Employee Stock Options Summary	**Number of Shares**	**Weighted-Average Exercise Price per Share**	**Weighted-Average Remaining Contractual Life (years)**	**Aggregate Intrinsic Value (in thousands)**
Outstanding, March 31, 2019	3,166,525	$ 15.36	5.5	$ 7,040
Exercised	(55,325)	15.87	4.6	$ 138
Forfeited/Canceled	(74,550)	23.46	1.7	
Expired	(34,400)	43.04		
Outstanding, December 31, 2019	3,002,250	$ 14.83	4.9	$ 5,075
Vested and expected to vest, December 31, 2019	2,799,809	$ 14.83	4.9	$ 4,767
Exercisable, December 31, 2019	1,781,728	$ 14.82	4.6	$ 3,217

Non-vested stock option award activity during the nine months ended December 31, 2019 is summarized as follows:

Non-Vested Stock Option Award Summary	**Number of Shares**	**Weighted-Average Grant-Date Fair Value per Share**
Outstanding, March 31, 2019	1,845,855	$ 5.52
Vested	(616,283)	5.34
Forfeited/Canceled	(9,050)	6.45
Outstanding, December 31, 2019	1,220,522	$ 5.61

As of December 31, 2019, $5,093 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 1.6 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 nine months ended December 31, 2019 and 2018 was $3,290 and $3,335, respectively.

Restricted stock awards activity during the nine months ended December 31, 2019 is summarized as follows:

Restricted Stock	**Number of Shares**	**Weighted-Average Grant-Date Fair Value per Share**
Outstanding, March 31, 2019	1,715,958	$ 16.29
Granted	1,082,148	17.90
Vested	(656,590)	16.45
Canceled	(151,190)	16.92
Outstanding, December 31, 2019	1,990,326	$ 17.07

Share-based compensation expense related to restricted stock awards was $3,364 and $3,168 for the three months ended December 31, 2019 and 2018, respectively. Share-based compensation expense related to restricted stock awards was $10,373 and $7,921 for the nine months ended December 31, 2019 and 2018, 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 December 31, 2019, $26,334 of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of 1.9 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 23,188 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 $62 and $185 for the three and nine months ended December 31, 2019, respectively. Share-based compensation expense related to the performance stock awards was $74 and $215 for the three and nine months ended December 31, 2018, respectively.

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 was $17.84 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 and earnings per share targets. Share-based compensation expense related to the performance stock unit awards was not significant.

On December 26, 2019, the Compensation Committee of the Board approved 160,028 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. Share-based compensation expense related to the performance stock unit awards was not significant.

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 December 31, 2019, we have issued 547,444 shares under the Purchase Plan and 3,452,556 shares are available for future issuance.

Share-based compensation expense recorded for the employee share purchase plan was $105 and $123 for the three months ended December 31, 2019 and 2018, respectively. Share-based compensation expense recorded for the employee share purchase plan was $336 and $355 for the nine months ended December 31, 2019 and 2018, respectively.

14. Concentration of Credit Risk

We had cash deposits at United States banks and financial institutions which exceeded federally insured limits at December 31, 2019. 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.

15. 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 have dismissed their claims against Hussein, leaving QSI 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 will return to the trial court for resolution. A schedule for proceedings before the trial court has not yet been established. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Shareholder Derivative Litigation

On September 28, 2017, a complaint was filed against our Company and certain of our current and former officers and directors in the United States District Court for the Central District of California, captioned Kusumam Koshy, derivatively on behalf of Quality Systems Inc. vs. Craig Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenzweig, Paul A. Holt, and Quality Systems, Inc., No. 8:17-cv-01694, by Kusumam Koshy, a purported shareholder of ours. The complaint alleges breach of fiduciary duties and abuse of control, as well as unjust enrichment and insider selling by individual directors arising out of the allegations described above under the caption “Hussein Litigation” and a related, now-settled, federal securities class action, as well as the Company’s adoption of revised indemnification agreements, and the resignation of certain officers of the Company. The complaint seeks restitution and disgorgement, court costs and attorneys’ fees, and enhanced corporate governance reforms and internal control procedures. On January 12, 2018, Defendants filed a motion to dismiss the derivative complaint. On July 25, 2018, the Court dismissed the complaint with prejudice. On August 24, 2018, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. Briefing was completed in May 2019 and a hearing on the appeal was held on December 12, 2019. On December 19, 2019, the Ninth Circuit affirmed the District Court’s dismissal in its entirety. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim until plaintiff exhausts her appellate remedies.

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.

16. Restructuring Plan

In June 2019, we implemented a business restructuring plan as part of our continued efforts to preserve and grow the value of the Company through client-focused innovations while reducing our cost structure. As part of the restructuring, we reduced our total workforce by approximately 4% primarily within the research and development function and intend to expand on our research and development resources in India. We recorded $546 and $2,428 of restructuring costs in the three and nine months ended December 31, 2019, respectively, within operating expenses in our condensed consolidated statements of comprehensive income. The restructuring costs consisted 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. These amounts were accrued when it was probable that the benefits would be paid, and the amounts were reasonably estimable. As of December 31, 2019, the remaining liability associated with payroll-related costs was $257, which we expect to be substantially paid during the fourth quarter of fiscal 2020.

In connection with the restructuring plan, we also vacated portions of certain leased locations and recorded impairments of $1,948 and $4,353 in the three and nine months ended December 31, 2019, respectively, to our operating right-of-use assets and certain related fixed assets associated with the vacated locations, or portions thereof, in North Canton, San Diego, Horsham, St. Louis, Irvine, and Atlanta, based on projected sublease rental income and estimated sublease commencement dates. We are actively marketing each of these vacated locations for sublease. 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.

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 our product development plans, business strategies, future operations, financial condition and prospects, developments in and the impacts of government regulation and legislation, including, without limitation, The American Recovery and Reinvestment Act, the Patient Protection and Affordable Care Act, and the Medicare Access and CHIP Reauthorization Act of 2015, uncertainties related to the future impact of United States tax reform, 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, 2019 (“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.

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 ambulatory-focused healthcare software and services solutions. In pursuit of our mission to empower the transformation of ambulatory care, we provide innovative technology-based solutions that help our clients succeed while they are managing more complexity and assuming greater financial risk.

Our clients span the ambulatory care market from small single specialty practices to larger multi-specialty organizations. We have fully integrated our solutions so that our clients are able to provide their patients with comprehensive services utilizing a single platform. Our highly interoperable platform allows ambulatory practices to thrive especially in complex, heterogeneous healthcare communities where frictionless clinical data exchange is required to coordinate and optimize patient care.

NextGen Healthcare has historically enhanced our solutions 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 capabilities and OTTO Health, LLC (“OTTO”) for its integrated virtual care solutions. The integration of these acquired technologies have made NextGen Healthcare’s solutions among the most comprehensive and powerful in the market.

The Company was incorporated in California in 1974. Previously named Quality Systems, Inc., the Company changed its 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. We operate on a fiscal year ending on March 31.

Trends and Events in Our Business

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 practice transformation and technology advancements. Recognizing that 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. The United States PHM market was estimated at $3.1 billion in 2018 and is expected to more than double by 2022.

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 $218 billion in payments by 2028, as reported by RevCycle Intelligence. 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 the outpatient setting as more care is being moved to this lower cost environment. Ambulatory care settings have become an essential component of comprehensive, low cost distributed care. In 2018, outpatient volumes reached over 3.5 billion encounters and are forecasted to grow 15% by 2028, as reported by Becker's Health IT and CIO Report. The independent physicians' practices segment is expected to generate more revenue than non-affiliated hospitals as it accepts electronic health records integrated PHM programs for better primary and follow-up care, as reported by Frost & Sullivan. The need to sustain revenue has made it extremely important for practices to secure their patient market share, elevating patient loyalty to be a significant determinant of provider success. 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.

In order to maintain financial success with shifting reimbursement rules and shrinking reimbursement, we believe demand for managed services, including revenue cycle management ("RCM") services, hosting, transcription and scribe services, aligned and integrated with clinical technology solutions, will increase in the coming years.

Based on these trends, successful clients must undertake the following imperatives: 1) ensure healthy predictable financial outcomes, 2) provide high quality care at a lower cost in a risk-bearing environment, 3) ensure engaged and loyal patients, and 4) optimize clinician productivity while deploying HIT solutions, 5) support frictionless interoperability.

Our Strategy

We strive to be the trusted partner for clients of all sizes, integrating services and software into a consolidated solution that enables an efficient and effective caregiver and patient experience while driving positive financial outcomes. As a healthcare information technology and services company, we plan to continue investing in our current capabilities as well as building and/or acquiring new capabilities as we guide our clients through an evolving healthcare marketplace that is transitioning from fee-for-service to fee-for-value reimbursement models. With approximately 90,000 providers using our solutions, we are enabling care and believe we can truly transform the delivery of care through the following strategic priorities:

- ***Focus on the ambulatory client segment.*** In October 2015, we sold our former Hospital Solutions division to focus on our core ambulatory clients. Further, a recent operational reorganization better allows us to serve the needs of our ambulatory clients through a simpler, more nimble, and focused organization. We believe it is essential to protect, build and sell new capabilities within our ambulatory client segment. We are focused on our core by increasing quality and the serviceability of our solutions. We intend to continue to enhance the capabilities of our NextGen Ambulatory flagship product. At the same time, we intend to expand the capability of the highly scalable, pure cloud-based and mobile-enabled NextGen® Office platform.
- ***Platform as a service.*** With the introduction of our API 2.0 framework and our continued leverage of the Mirth interoperability platform, we will continue our evolution to plug and play extensibility and information sharing that allows our customers to innovate and deploy high-fidelity extensions to our core applications without the costs, risks (security, performance, etc.) or complexity commonly associated with direct binding. We have also introduced platform-enabled automation capabilities to empower our clients to drive cost out of their processes while supporting their needs to implement the highly personalized workflows that are required to support value based care. Our acquisition of Entrada and its cloud-based, mobile application in April 2017 demonstrates our commitment to innovation that becomes essential for practitioners by improving their clinical productivity with documentation support services that seamlessly integrate into their electronic health record. We believe there is significant opportunity to extend the solutions we offer existing and new clients through value-added services such as RCM and EDI.
- ***Population health software and services.*** We are migrating into applications, analytics and services that will enable our clients to proactively manage the health of patient populations. We are establishing strong development partnerships with our most innovative customers who are actively participating in shared-risk contracts, and working together with them to create progressive population health capabilities. We support extraordinary information sharing capabilities vital to managing patient populations through our interoperability offerings.

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. 2016-02, *Leases (Topic 842)* and its subsequent amendments (together “ASC 842”) during the quarter ended June 30, 2019 using the transition approach provided for under ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which allowed us to apply the new lease standard as of April 1, 2019, rather than the beginning of the earliest period presented. ASC 842 supersedes ASC 840 and requires the recognition of leased arrangements on the balance sheet as right-of-use assets and liabilities pertaining to the rights and obligations created by the leased assets. Refer to Note 4, "Leases" of our notes to condensed consolidated financial statements included elsewhere in this Report for additional information regarding our adoption of ASC 842.

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, 2019.

Results of Operations

The following table sets forth the percentage of revenue represented by each item in our condensed consolidated statements of comprehensive income for the three and nine months ended December 31, 2019 and 2018 (certain percentages below may not sum due to rounding):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Revenues:				
Recurring	90.6%	89.7%	90.3%	89.7%
Software, hardware, and other non-recurring	9.4	10.3	9.7	10.3
Total revenues	100.0	100.0	100.0	100.0
Cost of revenue:				
Recurring	37.9	36.7	37.9	36.3
Software, hardware, and other non-recurring	5.1	5.0	4.9	5.3
Amortization of capitalized software costs and acquired intangible assets	6.5	5.4	6.5	5.2
Total cost of revenue	49.5	47.1	49.3	46.8
Gross profit	50.5	52.9	50.7	53.2
Operating expenses:				
Selling, general and administrative	31.1	31.6	30.2	30.5
Research and development costs, net	14.5	15.8	15.3	15.5
Amortization of acquired intangible assets	0.7	0.8	0.7	0.8
Impairment of assets	1.4	0.0	1.1	0.0
Restructuring costs	0.4	0.0	0.6	0.0
Total operating expenses	48.2	48.2	47.9	46.8
Income from operations	2.4	4.7	2.8	6.4
Interest income	0.0	0.0	0.0	0.0
Interest expense	(0.3)	(0.6)	(0.3)	(0.6)
Other income (expense), net	0.1	(0.2)	0.1	0.1
Income before provision for (benefit of) income taxes	2.2	4.0	2.6	5.9
Provision for (benefit of) income taxes	(1.0)	0.3	(0.3)	0.7
Net income	3.2%	3.7%	2.9%	5.2%

Revenues

The following table presents our disaggregated revenues for the three and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Recurring revenues:				
Subscription services	$ 33,163	$ 30,035	$ 94,718	$ 87,618
Support and maintenance	39,936	39,714	118,948	120,556
Managed services	26,830	24,251	77,730	74,048
Electronic data interchange and data services	24,858	23,446	73,427	71,548
Total recurring revenues	124,787	117,446	364,823	353,770
Software, hardware, and other non-recurring revenues:				
Software license and hardware	7,210	9,217	22,563	26,013
Other non-recurring services	5,743	4,204	16,471	14,605
Total software, hardware and other non-recurring revenues	12,953	13,421	39,034	40,618
Total revenues	$ 137,740	$ 130,867	$ 403,857	$ 394,388
Recurring revenues as a percentage of total revenues	90.6%	89.7%	90.3%	89.7%

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.

Consolidated revenue for the three months ended December 31, 2019 increased $6.9 million compared to the prior year period due to a $7.4 million increase in recurring revenues, partially offset by a $0.5 million decrease in software, hardware and other non-recurring revenues. Consolidated revenue for the nine months ended December 31, 2019 increased $9.5 million compared to the prior year period due to a $11.1 million increase in recurring revenues, partially offset by a $1.6 million decrease in software, hardware and other non-recurring revenues. The increase in recurring revenues for the three and nine months ended December 31, 2019 compared to the prior year period was primarily driven by subscription services revenue related to our acquisitions of Topaz and Medfusion during the quarter and higher subscriptions associated with our population health and analytics and NextGen Office cloud-based solutions. Our managed services revenue increased due to higher revenues from both revenue cycle management and managed cloud services. The increase in our EDI and data services revenue was due mostly to growth in the transaction volume. The decrease in support and maintenance revenue for the nine months ended December 31, 2019 compared to 2019 was due to higher client attrition. The decrease in software, hardware, and other non-recurring revenues for the three and nine months ended December 31, 2019 compared to the prior year period was primarily due to lower software bookings, partially offset by an increase in professional services revenue.

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 decreased to $30.6 million for the three months ended December 31, 2019 compared to $32.8 million in the prior year primarily due to a lower software and professional services bookings, partially offset by higher subscriptions bookings.

Total bookings were $98.9 million and $98.0 million for the nine months ended December 31, 2019 and 2018, respectively.

Cost of Revenue and Gross Profit

The following table presents our consolidated cost of revenue and gross profit for the three and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Cost of revenue:				
Recurring	$ 52,197	$ 47,997	$ 153,065	$ 143,322
Software, hardware, and other non-recurring	6,975	6,576	19,816	20,752
Amortization of capitalized software costs and acquired intangible assets	8,963	7,098	26,219	20,566
Total cost of revenue	$ 68,135	$ 61,671	$ 199,100	$ 184,640
Gross profit	$ 69,605	$ 69,196	$ 204,757	$ 209,748
Gross margin %	50.5%	52.9%	50.7%	53.2%

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 7, "Intangible Assets" and Note 8, "Capitalized Software Costs" of our notes to condensed 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.

Share-based compensation expense included in cost of revenue was $0.5 million and $0.4 million for the three months ended December 31, 2019 and 2018. Share-based compensation expense included in cost of revenue was $1.5 and $0.9 million for the nine months ended December 31, 2019 and 2018.

Gross profit for the three months ended December 31, 2019 increased $0.4 million compared to the prior year period due to a $6.9 million increase in revenues as discussed above, offset by a $6.5 million increase in cost of revenue. Our gross margin decreased to 50.5% for the three months ended December 31, 2019 compared to 52.9% in the prior year.

Gross profit for the nine months ended December 31, 2019 decreased $5.0 million compared to the prior year period due to a $14.5 million increase in cost of revenue, partially offset by a $9.5 million increase in revenues as discussed above. Our gross margin decreased to 50.7% for the nine months ended December 31, 2019 compared to 53.2% in the prior year.

The increase in cost of revenue for the three and nine months ended December 31, 2019 compared to the prior year period is primarily due to higher amortization of previously capitalized software costs, higher third party outsourcing costs and personnel costs related to our delivering our managed services, higher hosting services costs, an increase in cost of subscription services associated with higher related subscription services revenues, and an increase in direct EDI costs associated with higher transaction volume, partially offset by lower personnel costs related to delivering our support and maintenance services. The decline in gross margin was primarily driven by the higher amortization of previously capitalized software costs.

Selling, General and Administrative Expense

The following table presents our consolidated selling, general and administrative expense for the three and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Selling, general and administrative	$ 42,841	$ 41,304	$ 122,015	$ 120,169
Selling, general and administrative, as a percentage of revenue	31.1%	31.6%	30.2%	30.5%

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

Share-based compensation expense included in selling, general and administrative expenses was $3.1 million and $3.5 million for the three months ended December 31, 2019 and 2018, respectively. Share-based compensation expense included in selling, general and administrative expenses was $9.5 million and $8.8 million for the nine months ended December 31, 2019 and 2018, respectively. The increase in share-based compensation for the nine months ended December 31, 2019 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 13, "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 $1.5 million for the three months ended December 31, 2019 compared to the prior year period primarily due to a $1.6 million higher acquisition costs related to acquisitions of Topaz, Medfusion, and OTTO.

Selling, general and administrative expenses increased $1.8 million for the nine months ended December 31, 2019 compared to the prior year period due to the $5.7 million net benefit recorded in the prior year from insurance recoveries related to the settlement of the Federal Securities Class Action complaint, offset by $2.9 lower employee severance and exit costs and lower salaries and benefits due to a reduction in employee headcount as a result of our business restructuring plan announced earlier in the year, and a net decrease in all other costs.

Research and Development Costs, net

The following table presents our consolidated net research and development costs, capitalized software costs, and gross expenditures prior to capitalization, for the three and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Gross expenditures	$ 24,910	$ 25,156	$ 76,651	$ 76,034
Capitalized software costs	(4,884)	(4,474)	(14,785)	(14,853)
Research and development costs, net	$ 20,026	$ 20,682	$ 61,866	$ 61,181
Research and development costs, as a percentage of revenue	14.5%	15.8%	15.3%	15.5%
Capitalized software costs as a percentage of gross expenditures	19.6%	17.8%	19.3%	19.5%

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. We intend to continue to invest heavily in research and development expenses as we continue to bring additional functionality and features to the medical community and develop a new integrated inpatient and outpatient, web-based software platform.

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 being expensed up front and the amount of net research and development costs reported in our condensed consolidated statement of net income and comprehensive income.

Share-based compensation expense included in research and development costs was $1.0 million and $0.9 million for the three months ended December 31, 2019 and 2018, respectively. Share-based compensation expense included in research and development costs was $2.8 million and $2.2 million for the nine months ended December 31, 2019 and 2018, respectively.

Net research and development costs for the three months ended December 31, 2019 decreased $0.7 million compared to the prior year period due to $0.4 million higher capitalization of software costs and $0.3 million lower gross expenditures. Net research and development costs for the nine months ended December 31, 2019 increased $0.6 million compared to the prior year period due to a $0.6 million increase in gross expenditures. The increase in gross expenditures for the nine months ended December 31, 2019 compared to the prior year period was primarily due to higher utilization of our Bangalore development center resources and increased hosting costs, partially offset by lower salaries and benefits due to a reduction in employee headcount as a result of our business restructuring plan announced earlier this year. 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 and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Amortization of acquired intangible assets	$ 964	$ 1,027	$ 2,694	$ 3,316

Amortization of acquired intangible assets included in operating expense consist of the amortization related to our customer relationships, trademarks, and contracts intangible assets acquired as part of our business combinations. Refer to Note 7, "Intangible Assets" of our notes to condensed consolidated financial statements included elsewhere in this Report for an estimate of future expected amortization.

Amortization of acquired intangible assets for the three and nine months ended December 31, 2019 decreased $0.1 million and $0.6 million, respectively compared to the prior year periods due to certain acquired intangible assets being fully amortized in the prior fiscal year.

Restructuring Costs and Impairment of Assets

In June 2019, we implemented a business restructuring plan as part of our continued efforts to preserve and grow the value of the Company through client-focused innovations while reducing our cost structure. As part of the restructuring, we reduced our total workforce by approximately 4% primarily within the research and development function and intend to expand on our research and development resources in India. We recorded $0.5 million and $2.4 million of restructuring costs in the three and nine months ended December 31, 2019, respectively, within operating expenses in our condensed consolidated statements of comprehensive income. The restructuring costs consisted 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. These amounts were accrued when it was probable that the benefits would be paid, and the amounts were reasonably estimable. As of December 31, 2019, the remaining liability associated with payroll-related costs was $0.3 million, which we expect to be substantially paid during the fourth quarter of fiscal 2020.

In connection with the restructuring plan, we also vacated portions of certain leased locations and recorded impairments of $1.9 million and $4.4 million in the three and nine months ended December 31, 2019, respectively, to our operating right-of-use assets and certain related fixed assets associated with the vacated locations, or portions thereof, in North Canton, San Diego, Horsham, St. Louis, Irvine, and Atlanta based on projected sublease rental income and estimated sublease commencement dates. 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. Refer to Note 16, “Restructuring Plan” of our notes to condensed consolidated financial statements included elsewhere in this Report for further details.

Interest and Other Income and Expense

The following table presents our interest expense for the three and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Interest income	$ 30	$ 44	$ 145	$ 113
Interest expense	(435)	(720)	(1,294)	(2,219)
Other income (expense), net	137	(227)	214	384

Interest expense relates to our revolving credit agreement and the related amortization of deferred debt issuance costs. Refer to Note 9, “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 December 31, 2019, we had $37.0 million of outstanding balances under the revolving credit agreement, compared to an outstanding balance of $11.0 million as of March 31, 2019 and $27.0 million as of December 31, 2018. The fluctuations of other income and expense compared to the prior year periods are primarily due to changes to the India foreign exchange rates.

Provision for Income Taxes

The following table presents our provision for income taxes for the three and nine months ended December 31, 2019 and 2018 (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Provision for (benefit of) income taxes	(1,403)	$ 456	$ (1,274)	$ 2,794
Effective tax rate	-46.6%	8.6%	-12.2%	12.0%

The decrease in the effective tax rate for the three and nine months ended December 31, 2019 compared to the prior year periods was primarily due to the increased net benefit of the research and development credits, partially offset by nondeductible stock option expense, nondeductible officer's compensation, and reserves for uncertain tax position. Additionally, due to the differences in the amount of income before taxes, the impact of the rate reconciliation items on the effective tax rates were more significant in the three and nine months ended December 31, 2019.

Net Income

The following table presents our net income (in thousands) and net income per share and for the three months ended December 31, 2019 and 2018:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Net income	$ 4,415	$ 4,824	$ 11,740	$ 20,566
Net income per share:				
Basic	$ 0.07	$ 0.07	$ 0.18	$ 0.32
Diluted	$ 0.07	$ 0.07	$ 0.18	$ 0.32

As a result of the foregoing changes in revenue and expense, net income for the three months ended December 31, 2019 decreased $0.4 million compared to the prior year period.

As a result of the foregoing changes in revenue and expense, net income for the nine months ended December 31, 2019 decreased $8.8 million compared to the prior period.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for the nine months ended December 31, 2019 and 2018 (in thousands):

	Nine Months Ended December 31,	
	2019	2018
Cash and cash equivalents	$ 26,790	$ 30,054
Unused portion of revolving credit agreement (1)	263,000	273,000
Total liquidity	$ 289,790	$ 303,054
Net income	$ 11,740	$ 20,566
Net cash provided by operating activities	$ 64,371	$ 33,279

(1) As of December 31, 2019, we had $37.0 million of outstanding loans under our $300.0 million revolving credit agreement.

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.

Cash and Cash Equivalents

As of December 31, 2019, our cash and cash equivalents balance of $26.8 million reflects a $6.3 million decrease compared to $33.1 million as of March 31, 2019. We had $37.0 million of outstanding loans under our revolving credit agreement as of December 31, 2019.

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.

We believe that our cash and cash equivalents on hand at December 31, 2019, together with our cash flows from operations 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.

Cash Flows from Operating Activities

The following table summarizes our condensed consolidated statements of cash flows for the nine months ended December 31, 2019 and 2018 (in thousands):

	Nine Months Ended December 31,	
	2019	**2018**
Net income	$ 11,740	$ 20,566
Non-cash expenses	63,480	46,736
Cash from net income, as adjusted	$ 75,220	$ 67,302
Change in contract assets and liabilities, net	(2,933)	(6,516)
Change in accounts receivable	6,184	242
Change in other assets and liabilities	(14,100)	(27,749)
Net cash provided by operating activities	$ 64,371	$ 33,279

For the nine months ended December 31, 2019, cash provided by operating activities increased $31.1 million compared to the prior year period, of which $13.6 million is due to changes in other assets and liabilities, $7.9 million due to higher cash from net income as adjusted for $16.7 million higher non-cash expenses, $5.9 million from decreases in accounts receivable, and $3.6 million from net changes in contract assets and liabilities. The increase in cash from net changes in other assets and liabilities is primarily due to payments in the prior year related to the $19.0 million settlement of the Federal Securities Class Action complaint. Non-cash expenses increased primarily due to higher amortization of operating lease assets, higher amortization of previously capitalized software costs, impairment charges related to our vacated lease locations, and higher share-based compensation expenses while net income for the nine months ended December 31, 2019 decreased $8.8 million compared to the prior year period, as described in the "Net Income" section above. Accounts receivable balances decreased due to continued efforts to collect and resolve aged balances, resulting in a corresponding increase in cash from collections in the nine months ended December 31, 2019. The increase 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 and a higher amount of invoices issued in the fourth quarter of fiscal year 2019.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended December 31, 2019 was $90.8 million compared with $19.0 million in the prior year period. The increase in net cash used in investing activities is primarily due to cash payments for our acquisitions of Topaz, Medfusion and OTTO, net of cash acquired, of $71.6 million, and $2.8 million higher additions to equipment and improvements in the current year, offset by $2.5 million of refunds from our corporate-owned life insurance policies.

Cash Flows from Financing Activities

Net cash provided by financing activities for the nine months ended December 31, 2019 was $24.4 million compared with $8.1 million cash used in financing activities in the prior year period. The increase in cash provided by financing activities is primarily due to net additional borrowings of $26.0 million on our line of credit in the current year, compared to $10.0 million in principal repayments on our line of credit in the prior year, partially offset by $2.4 million lower proceeds from the issuance of shares under employee plans.

Contractual Obligations

We have minimum purchase commitments of $24.8 million related to payments due under certain non-cancelable agreements to purchase goods and services.

The following table summarizes our significant contractual obligations at December 31, 2019 and the effect that such obligations are expected to have on our liquidity and cash in future periods (in thousands):

		For the year ended March 31,					
Contractual Obligations	**Total**	**2020 (remaining three months)**	**2021**	**2022**	**2023**	**2024**	**2025 and beyond**
Operating lease obligations	$ 47,135	$ 2,483	$ 9,873	$ 9,640	$ 9,491	$ 8,179	$ 7,469
Remaining lease obligations for vacated properties (1)	10,956	669	2,717	2,481	2,036	1,453	1,600
Line of credit obligations (Note 9)	37,000	—	—	—	37,000	—	—
Total	$ 95,091	$ 3,152	$ 12,590	$ 12,121	$ 48,527	$ 9,632	$ 9,069

(1) Remaining lease obligations for vacated properties relates to remaining lease obligations at certain locations, including Solana Beach, North Canton and portions of Atlanta, Brentwood, 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. Total obligations have not been reduced by projected sublease rentals or by minimum sublease rentals of $0.4 million due in future periods under non-cancelable subleases.

The deferred compensation liability as of December 31, 2019 was $6.2 million, which is not included in the table above as the timing of future benefit payments to employees 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As of December 31, 2019, 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 December 31, 2019, we had $37.0 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 December 31, 2019 would result in a corresponding change in our annual interest expense of approximately $0.4 million. Refer to Note 9, “Line of Credit” of our notes to condensed consolidated financial statements included elsewhere in this Report for additional information.

As of December 31, 2019, 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 December 31, 2019, 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 December 31, 2019, 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.

PART II. OTHER INFORMATION

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 have dismissed their claims against Hussein, leaving QSI 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 the Court denied on January 15, 2020. As a result, the case will return to the trial court for resolution. A schedule for proceedings before the trial court has not yet been established. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Shareholder Derivative Litigation

On September 28, 2017, a complaint was filed against our Company and certain of our current and former officers and directors in the United States District Court for the Central District of California, captioned Kusumam Koshy, derivatively on behalf of Quality Systems Inc. vs. Craig Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenzweig, Paul A. Holt, and Quality Systems, Inc., No. 8:17-cv-01694, by Kusumam Koshy, a purported shareholder of ours. The complaint alleges breach of fiduciary duties and abuse of control, as well as unjust enrichment and insider selling by individual directors arising out of the allegations described above under the caption “Hussein Litigation” and a related, now-settled, federal securities class action, as well as the Company’s adoption of revised indemnification agreements, and the resignation of certain officers of the Company. The complaint seeks restitution and disgorgement, court costs and attorneys’ fees, and enhanced corporate governance reforms and internal control procedures. On January 12, 2018, Defendants filed a motion to dismiss the derivative complaint. On July 25, 2018, the Court dismissed the complaint with prejudice. On August 24, 2018, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. Briefing was completed in May 2019 and a hearing on the appeal was held on December 12, 2019. On December 19, 2019, the Ninth Circuit affirmed the District Court’s dismissal in its entirety. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim until plaintiff exhausts her appellate remedies.

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.

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
10.1	Agreement and Plan of Merger, dated November 12, 2019, by and among NextGen Healthcare, Inc., Medfusion, Inc., Renegade Merger Sub, Inc., Project Renegade LLC, as the Equityholders Representative, and solely for purposes of Section 6.9 thereof, Greenlight Health Data Solutions, Inc.		8-K	2.1	18-Nov-19
31.1	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.	X			
31.2	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.	X			
32.1	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.	X			
101.INS**	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**	XBRL Taxonomy Extension Schema				
101.CAL**	XBRL Taxonomy Extension Calculation				
101.DEF**	XBRL Taxonomy Extension Definition				
101.LAB**	XBRL Taxonomy Extension Label				
101.PRE**	XBRL Taxonomy Extension Presentation				
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

** 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: January 23, 2020	By:	/s/ John R. Frantz
		John R. Frantz
		Chief Executive Officer (Principal Executive Officer)
Date: January 23, 2020	By:	/s/ James R. Arnold, Jr.
		James R. Arnold, Jr.
		Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 31.1

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: January 23, 2020

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

EXHIBIT 31.2

**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: January 23, 2020

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

EXHIBIT 32.1

**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 December 31, 2019 (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: January 23, 2020

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

Date: January 23, 2020

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