

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2020

or

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

Commission file number: 001-12537

NEXTGEN HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation or organization)

18111 Von Karman Avenue, Suite 800, Irvine, California

(Address of principal executive offices)

95-2888568

(IRS Employer Identification No.)

92612

(Zip Code)

(949) 255-2600

(Registrant's telephone number, including area code)

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

Title of each class

Trading Symbol

Name of each exchange on which registered

Common Stock, \$0.01 Par Value

NXGN

NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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). 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," and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller 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 Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2019: \$849,511,000 (based on the closing sales price of the Registrant's common stock as reported on the NASDAQ Global Select Market on that date of \$15.67 per share)*

The Registrant has no non-voting common equity.

The number of outstanding shares of the Registrant's common stock as of May 26, 2020 was 66,105,068 shares.

* For purposes of this Annual Report on Form 10-K, in addition to those shareholders which fall within the definition of "affiliates" under Rule 405 of the Securities Act of 1933, as amended, holders of ten percent or more of the Registrant's common stock are deemed to be affiliates for purposes of this Report.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement related to the 2020 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended March 31, 2020 are incorporated herein by reference in Part III of this Annual Report on Form 10-K where indicated.

NEXTGEN HEALTHCARE, INC.
TABLE OF CONTENTS
2020 ANNUAL REPORT ON FORM 10-K

Item		Page
<u>PART I</u>		
Item 1.	Business	4
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	29
Item 2.	Properties	29
Item 3.	Legal Proceedings	30
Item 4.	Mine and Safety Disclosures	30
<u>PART II</u>		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
Item 6.	Selected Financial Data	32
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A.	Quantitative and Qualitative Disclosures about Market Risks	47
Item 8.	Financial Statements and Supplementary Data	47
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	47
Item 9A.	Controls and Procedures	47
Item 9B.	Other Information	48
<u>PART III</u>		
Item 10.	Directors, Executive Officers and Corporate Governance	49
Item 11.	Executive Compensation	49
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	49
Item 13.	Certain Relationships and Related Transactions, and Director Independence	49
Item 14.	Principal Accountant Fees and Services	49
<u>PART IV</u>		
Item 15.	Exhibits and Financial Statement Schedules	50
Item 16.	Form 10-K Summary	50
	Signatures	55

CAUTIONARY STATEMENT

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

PART I

ITEM 1. BUSINESS

Company Overview

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

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

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

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

Industry Background, Regulatory Environment, and Market Opportunity

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

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

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

Importantly, the introduction of VBC programs was only an element of the broader approach to reducing healthcare expenditure. It was also accompanied by significant reductions in Medicare spending with a projected reduction of \$253 billion in payments by 2029, as reported by RevCycle Intelligence in October 2019. The drive to reduce costs initially led to consolidation in the healthcare system that was followed by a significant shift of care from the inpatient to lower cost outpatient setting. Ambulatory surgery centers (ASCs) have become an essential component of comprehensive, low cost distributed care. According to an October 2019 report from ResearchandMarkets, ASCs continue to perform more than half of all U.S. outpatient surgical procedures and are expected to see greater volumes as the number of outpatient procedures increases by an estimated 15% by 2028. From 2015 to 2022, the proportion of outpatient cases performed in ASCs is expected to increase across most service lines with the largest jump (10%) to occur in spine procedures. Among other factors, consumerism is set to play a major role in driving ASC volume increases, as procedures performed in ASCs cost an average of 58% less than the

same procedure in a hospital outpatient department. The need to sustain revenue has made it extremely important for practices to secure their patient market share, elevating patient loyalty to a significant determinant of provider success. In addition to being loyal, groups participating in value-based contracts realized that patients also needed to be engaged in their care and interested in improving their own health. The need to attract, retain and engage patients has made patient experience one of the most important aspects of evolving care delivery in the United States. Capturing patient market share and thriving in a market driven by VBC requires both an integrated platform and a full view of the patient population's clinical and cost data, neither of which could be accomplished without new technologies to collect and analyze multi-sourced patient data. Effectively implemented, these new technologies allow organizations to enhance financial viability while exercising the freedom to join, affiliate, integrate or interoperate in ways that maximize strategic control.

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

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

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

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

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

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

In late 2019, the emergence of a novel coronavirus, or COVID-19, was reported and in January 2020, the World Health Organization ("WHO"), declared it a Public Health Emergency of International Concern. In March 2020, the WHO escalated COVID-19 as a pandemic. According to Johns Hopkins University, as of May 29, 2020, more than 5.9 million cases of COVID-19 have been reported in over 188 countries with more than 364,000 deaths. In addition to the socioeconomic disruption caused by the pandemic, both treatment and suppression measures stressed the very fabric of the U.S. healthcare system in some geographies, exacerbating some of the existing challenges with capacity, balance and reimbursement. Among the measures to slow the spread of the disease and flatten the curve in line with healthcare system capacity was social/physical distancing. The need to access care while still social distancing was addressed early on with the limited use of virtual visits and was energized when the federal government reduced regulatory barriers and addressed payment parity between virtual and in-person visits. With these tailwinds, telemedicine quickly became regarded as a safer way for patients and providers to engage each other while also relieving economic pressure on the medical practice. We believe that the uptake of telemedicine will transcend COVID-19 and that virtual visits will become a permanent and important change in the way care is delivered. Keeping patients out of the transit system, out of the waiting room and away from other sick patients is simply good medicine.

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

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

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

Our Strategy

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

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

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

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

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

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

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

Our Solutions

NextGen Healthcare's software and services-based solutions are aligned with our clients' strategic imperatives (refer to top row in the image below). The foundation for our integrated ambulatory care platform is a core of our industry-leading electronic health records ("EHR") and practice management ("PM") systems that support clinical and financial activities. These can be deployed on premise or in the cloud. Our primary cloud infrastructure provider is Amazon Web Services ("AWS"). We optimize the core with an automation and workflow layer that gives our clients control over how platform capabilities are implemented to drive their desired outcomes. The workflow layer includes mobile capabilities proven to reduce physician burden. Our cloud-based population health and analytics engine allows our clients to improve results in both fee-for-service and fee-for-value environments. In support of extensibility, we surround the core with open, web-based APIs to drive the secure exchange of health and patient data with connected health solutions. Finally, to ensure our clients get maximum value from our solutions, we have augmented our technology with key services aligned with their needs, helping to ensure they reach their organizational goals.

Empowering the Transformation of Ambulatory Care



Patient Engagement Solutions boost loyalty and improve outcomes by engaging patients in their own care. Our Patient Experience Platform empowers patients to manage their own health through direct patient-provider messaging, online scheduling, automated reminders, easy payment options, and virtual visits. The ability of patients to handle their own scheduling and billing frees provider staff, restoring valuable time.

NextGen® Patient Portal – Drives patient engagement and satisfaction with easy, intuitive, 24/7 access to payments, scheduling, complete personal health information, and communication. It facilitates and simplifies comprehensive information exchange, offering anytime, anywhere access from PCs, tablets, and smart phones.

NextGen Self Scheduling™ A fully-integrated self-scheduling application that empowers patients to schedule the visit that works best for them with configurations that allow the practice to control virtually every facet of that interaction from visit-specific screening questions to provider-specific scheduling preferences.

NextGen® Patient Pay – Allows patients one integrated solution that delivers an integrated point of sale, credit card on file, automated payment collection, online and mobile compatible automated phone pay and kiosk payments.

NextGen Virtual Visits™ (formerly known as OTTO Health) - Delivers a tightly integrated, bi-directional telehealth experience that allows patients to have a virtual visit with their own provider's care team. The solution allows for screen-sharing, document passing, in-visit chat, one-touch access to interpretive services, and a "no-login" experience for patients.

Clinical Care Solutions improve the quality and efficiency of care delivery as well as the patient and provider experience. They significantly ease the administrative burden and enable the delivery of high quality, personalized care. Providers can automate patient intake, streamline clinical workflows, and leverage vendor-agnostic interoperability to achieve quality measures and qualify for incentives.

NextGen® Enterprise EHR – Our electronic health records solution stores and maintains clinical patient information and offers a workflow module, prescription management, automatic document and letter generation, patient education, referral tracking, interfaces to billing and lab systems, physician alerts and reminders, and reporting and data analysis tools.

NextGen® Mobile (formerly known as *Entrada*®) – Enables physicians and other caregivers to quickly and easily create relevant documentation within the EHR without sacrificing productivity. A true EHR mobile experience, the platform provides a fast, easy way for caregivers to view and share real-time clinical content and complete key tasks directly from their mobile device.

NextGen® Office (formerly known as *Meditouch*®) – A cloud-based EHR and PM solution for physicians and medical billing services designed to meet the specific needs of smaller practices. Received top score for Overall Satisfaction and Product Functionality in the 2019 KLAS Small Practice Ambulatory EMR/PM (10 or fewer physicians) Report.

Financial Management Solutions are comprised of software and key analytics that allow clients to drive healthy, predictable financial outcomes. More than just billing and collection services, financial management involves all functions that effectively capture revenue at the lowest cost, while providing an efficient experience for the patient. Financial management solutions help practices improve performance and correct operational inefficiencies, while enhancing the practice's financial outcomes throughout the revenue cycle.

NextGen® Enterprise PM – Our practice management offering is a seamlessly integrated, scalable, multi-module solution that includes a master patient index, enterprise-wide appointment scheduling with referral tracking, and clinical support. It was recognized as the #1 Practice Management Solution (11-75 Physicians) in 2019 and 2020 Best in KLAS Report.

NextGen® Electronic Healthcare Transactions – Automates the exchange of electronic data among providers, payers and patients. Included in this offering are insurance eligibility, authorizations, electronic claims, remittance, patient appointment reminders, and electronic statements.

Population Health Solutions enable our clients' practices to focus their clinical workforce on the patients with the greatest need. We do this by providing a single source of truth by aggregating disparate data, including vendor-agnostic clinical data with paid claims data. Sophisticated analytics are applied to this data to generate insights that enable practices to improve the quality of care, identify high risk patients who require enriched services, and coordinate the care of patients with chronic conditions. Cost and utilization analytics allow practices to successfully participate in risk-bearing contracts by providing timely insights into areas of over-utilization, under-utilization and mis-utilization of healthcare resources.

NextGen® Population Health Analytics (formerly known as *Eagle Dream Health*) – Delivers robust capabilities for core population health insights using integrated clinical and claims data to support both broad and deep analysis for populations of interest (attribute visualization, risk stratification, gaps in care, etc.).

NextGen® Population Health Performance Management – Supports proactive value-based contract management including network management (leakage/keepage), network design (geospatial view of network), clinical variation analysis, and a wide range of resource utilization metrics.

NextGen® Population Health Patient Care Management – Enables scalable management of care and payment reform initiatives driven by collaborative care and workflow automation. Stratifies risk and prioritizes resources. The platform provides a dynamic patient specific care plan builder as well as a longitudinal care management record, and dedicated care management future reminder and tasking tools. A unique feature of our offering includes analytics driven patient outreach facilitating care coordinators' ability to automate communications with patients based on quality initiatives and value-based contract commitments.

Connected Health Solutions enable better care by ensuring the patient and provider are making decisions based on the patient's full medical record. Interoperability is the ability of different information technology systems to communicate and exchange usable data. In healthcare, it enables caregivers to more effectively work together within and across organizational boundaries, and informed patients to be better equipped to collaborate on their own care. To provide the highest quality care at the lowest cost, organizations must capture and share information both within and across organizational boundaries outside their networks. In addition, interoperability must be frictionless and easy to implement or the opportunity to inform patient care will be missed. Our integrated, interoperable solutions and services enable providers to leverage their current technology for better outcomes and truly connected patient care.

NextGen® Connect Integration Engine – Enables patient data from disparate systems to be easily and securely shared, aggregated, and put to work, regardless of EHR, PM, or other HIT platform or location.

NextGen® Share – A broad and expanding suite of plug-and-play interoperability solutions which help NextGen® Enterprise EHR users safely and securely exchange clinical content with external providers and organizations. The platform includes support for secure direct messaging with more than 1.2 million providers and organizations, care quality integration to enable automated data exchange on behalf of nearly 240 million patients, and clinical data exchange interfaces with payers.

NextGen® Health Data Hub (HDH) – A fully redesigned data aggregation platform to meet the expanding market demand for robust data sharing, aggregation, and community access. HDH was built from the ground-up to provide comprehensive, continuous access to aggregated patient health data on a robust, reliable, platform that will enable system-wide connectivity, and support the growing enterprise data management needs for HIEs, hospitals and large ambulatory practices.

NextGen Healthcare provides real-world solutions to our clients to help them achieve their strategic objectives. Often, but not always, those software solutions are augmented with key services. Through these services we enable clients to perform better financially and focus on their primary mission of providing efficient and high-quality patient care. We believe COVID-19 will increase client appetite to outsource non-core services and that NextGen is well-positioned to be their partner in these areas.

Managed Services

NextGen® Managed Cloud Services – Our scalable, cloud hosting services reduce the burden of information technology expertise from our clients and speed implementations, simplify upgrades, cut technology costs significantly and provide 24/7 monitoring and support by a broad and constantly expanding team of technical experts

NextGen® Revenue Cycle Management Services (formerly known as NextGen® Financial Suite) – Includes billing and collections, electronic claims submission and denials management, electronic remittance and payment posting and accounts receivable follow-up. Our dedicated account management model helps make NextGen Healthcare a top-performing provider of RCMS as reported in the 2020 KLAS Ambulatory RCM Services Report.

Professional Services – Services include training, project management, functional and detailed specification preparation, configuration, testing, and installation services. Our consulting services, which include physician, professional, and technical consulting, assisting clients to optimize their staffing and software solutions, enhance financial and clinical outcomes, achieve regulatory requirements in the drive to value-based care, and meet the evolving requirements of healthcare reform.

Client Service and Support – Our technical services staff provides support for the dependable and timely resolution of technical inquiries from clients. Such inquiries are made via telephone, email and the internet. We offer several levels of support, with the most comprehensive service covering 24 hours a day, seven days a week.

Proprietary Rights

We rely on a combination of patents, copyrights, trademarks, service marks, trade secrets, and contractual restrictions to establish and protect proprietary rights in our products and services. To protect our proprietary rights, we enter into confidentiality agreements and invention assignment agreements with our employees with whom such controls are relevant. In addition, we include intellectual property protective provisions in our client contracts. However, because the software industry is characterized by rapid technological change, we believe such factors as the technological and creative skills of our personnel, new product developments, frequent product enhancements, name recognition, and reliable product maintenance are more important to establishing and maintaining a technology leadership position than the various legal protections of our technology.

We rely on software that we license from third parties for certain components of our products and services. These components enhance our products and services and help meet evolving client needs. The failure to license any necessary technology, or to maintain our existing licenses, could result in reduced functionality of or reduced demand for our products.

Although we believe our products and services, and other proprietary rights, do not infringe upon the proprietary rights of third parties, third parties may assert intellectual property infringement claims against us in the future. Any such claims may result in costly, time-consuming litigation and may require us to enter into royalty or cross-license arrangements.

Competition

The markets for healthcare information systems and services are intensely competitive and highly fragmented. Our traditional full-suite competitors in the healthcare information systems and services market include: Allscripts Healthcare Solutions, Inc., athenahealth, Inc., Cerner Corporation, eClinicalWorks, Epic Systems Corporation, and Greenway Health, LLC. Emerging smaller competitors also bring competition in specific sectors of the market. Additionally, we face competition from services-only competitors like business process outsourcers, hosting providers and transcription companies.

The EHR, PM, interoperability, and connectivity markets, in particular, are subject to rapid changes in technology. We expect that competition in these market segments could increase as new competitors enter the market. We believe our principal competitive advantages are our ambulatory-only focus, our comprehensive and fully-integrated solution, and our deep domain expertise, which enables our subject matter experts to serve as trusted advisors to our clients.

Privacy and Security

Our business operations involve hosting, storing, processing and transmitting confidential information including patient health information and payment card information. In addition to single-tenant environments, we operate unified, multi-tenant platforms that offer reliability, scalability, performance, security and privacy for our clients. Our infrastructure resides in several geographically diverse regions across the United States. We maintain a comprehensive security program designed to help safeguard the confidentiality, integrity and availability of our clients' data, which includes both organizational and technical control measures and the security and privacy of our service offerings. We also have systems in place to monitor the safety of patient information as well as procedures designed to take immediate action.

We have the industry's most well-known certifications for payment card and healthcare data. Including Payment Card Industry Data Security Standard (PCI-DSS) Level 1 Service Provider, Security Organization Control 2, or SOC 2 Type II, DirectTrust Health Information Service Provider (HISP), and HITRUST Common Security Framework (CSF). These certifications give our clients third-party assurance we are meeting or exceeding Health Insurance Portability and Accountability Act (HIPAA) guidelines. As a PCI-DSS Level 1 Service Provider, we are committed to upholding industry security standards to cardholder data. The Level 1 PCI compliance allows us to minimize clients' PCI scope.

While we have implemented physical, technical, and administrative safeguards designed to help protect our systems, in the event of a system interruption, security incident, or breach, these safeguards may not prevent future cybersecurity incidents or breaches. We have a comprehensive and documented Information Security Management Program designed to secure the data within our infrastructure and provide appropriate reporting disclosure, and response. In addition, all of our associates are required to complete annual cybersecurity training, HIPAA training, and PCI DSS training. These training modules are reviewed annually to ensure compliance with the latest regulatory guidelines, laws, and industry best practices.

Managing Cybersecurity Risks

Our business operations involve hosting, storing, processing and transmitting confidential information including patient health information. We have implemented physical, technical, and administrative safeguards designed to help protect our systems, in the event of a system interruption, security incident, or breach. However, these safeguards may not prevent future cybersecurity incidents or breaches. We have a comprehensive and documented Information Security Management Program designed to secure the data within our infrastructure and provide appropriate reporting disclosure, and response. In addition, all of our associates are required to complete annual cybersecurity training, HIPAA training, and PCI DSS training. These training modules are reviewed annually to ensure compliance with the latest regulatory guidelines, laws, and industry best practices.

Research and Development

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

Sales and Marketing

We sell and market our products primarily through a direct sales force and to a significantly lesser extent, through a reseller channel. NextGen Healthcare also provides solutions to networks of practices such as MSOs, IPAs, ACOs, ambulatory care centers (“ACCs”), and community health centers (“CHCs”). Our direct sales force is comprised of sales executives and account executives, who seek to understand the client strategy and identify the opportunities in their practice and build both a multistage roadmap to reach the desired end state. For large clients, we use both inside and outside sales where efforts are a mix of on-site as well as web based. For smaller clients, efforts are all inside sales via web and phone, all of whom deliver presentations to potential clients by demonstrating our systems and capabilities either on prospective client’s premises or through video meeting and web-based presentations. System demonstrations for mobile workflow and analytics solutions are more web-based as these offerings tend to be targeted to larger practices. Both the direct and reseller channel salesforces concentrate on multi-product/solution sales opportunities. Our sales and marketing employees identify prospective clients through a variety of means, including: a healthcare data and analytics platform, search engine optimization and value exchange content on nextgen.com; digital advertising; direct mail and email campaigns; referrals from existing clients and industry consultants; contacts at professional society meetings and trade shows; webinars; public relations and social media campaigns; and telemarketing. Resources have shifted more heavily to digital marketing as we meet potential clients where they are and how they shop for services. Additionally, we focus on thought leadership and content marketing to highlight our industry knowledge, expertise and the successes of our diverse client base. On the larger end of the range, our sales cycle can vary significantly and typically ranges from six to 18 months from initial contact to contract execution. Smaller practices on NextGen Office tend to have significantly shorter sales cycles ranging in weeks. Historically, software licenses are normally delivered to a client almost immediately upon receipt of an order and we normally receive up-front licensing fees. Implementation and training services are normally rendered based on a mutually agreed upon timetable. Moving forward, we expect more of our transactions to move to subscriptions. Clients have the option to purchase hosting and maintenance services which, are invoiced on a monthly, quarterly or annual basis. Subscriptions are delivered electronically after the agreement is signed. They generally include implementation and are typically billed monthly after implementation or based on volume or throughput. We continue to concentrate our direct sales and marketing efforts on the ambulatory market from large multi-specialty organizations to small-single specialty practices in high-opportunity specialty segments.

We have numerous clients and do not believe that the loss of any single client would adversely affect us. No client accounted for 10% or more of our net revenue during each of the years ended March 31, 2020, 2019 and 2018. In addition, software license sales to resellers represented less than 10% of total revenue for each of the years ended March 31, 2020, 2019 and 2018. Substantially all of our clients are located in the United States.

Employees

As of March 31, 2020, we had approximately 2,754 full-time employees, of which 758 were based in Bangalore, India and substantially all other employees were based in the United States. We believe that our future success depends in part upon recruiting and retaining qualified sales, marketing and technical talent as well as other employees. None of our employees are covered by a collective bargaining agreement or are represented by a labor union.

Available Information

Our principal website is www.nextgen.com. We make our periodic and current reports, together with amendments to these reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, available on our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. You may access such filings through our Investor Relations website at <http://investor.nextgen.com>. The SEC maintains an internet site at www.sec.gov that contains the reports, proxy statements and other information that we file electronically with the SEC. Our website and the information contained therein or connected thereto is not intended to be incorporated into this Report or any other report or information we file with the SEC. We also use the following social media channels as a means of disclosing information about the company, our platform, our planned financial and other announcements and attendance at upcoming investor and industry conferences:

- NextGen Healthcare Twitter Account (<https://twitter.com/NextGen?s=20>)
- NextGen Healthcare Company Blog (<https://www.nextgen.com/blog>)
- NextGen Healthcare Facebook Page (<https://www.facebook.com/NextGenHealthcare>)
- NextGen Healthcare LinkedIn Page (<https://www.linkedin.com/company/nextgenhealthcareinc/>)
- NextGen Healthcare Instagram Page (<https://www.instagram.com/nextgenhealthcare/>)
- NextGen Healthcare YouTube Page (<https://www.youtube.com/user/nghisinc>)

We encourage our investors and others to review the information we make public in these locations as such information could be deemed to be material information. Please note that this list may be updated from time to time.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below, as well as the other cautionary statements and risks described elsewhere and the other information contained in this Report and in our other filings with the SEC, including subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We operate in a rapidly changing environment that involves a number of risks. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these known or unknown risks actually occur, our business, financial condition or results of operations could be materially and adversely affected, in which case the trading price of our common stock may decline and you may lose all or part of your investment.

Risks Related to Our Business

The extent to which the COVID-19 pandemic and measures taken in response thereto could adversely affect our financial condition, future bookings, and results of operations will depend on future developments, which are highly uncertain and are difficult to predict. The COVID-19 global pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services in the United States and worldwide. The impact of the outbreak has been rapidly evolving in the United States and other countries, including India where we have significant operations, and has led to the implementation of various responses, including government-imposed quarantines, travel restrictions, business and school closures, government-imposed postponements of non-life threatening medical procedures, and other public health safety measures. We have modified our business practices accordingly (for example, restricting employee travel, moving the vast majority of our employees to remote working, cancelling and postponing meetings, events, and conferences, and so forth). There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

The magnitude and duration of the disruption and decline in business activity due to COVID-19 is uncertain. We may experience a negative financial impact due to a number of factors, including without limitation:

- A general decline in business activity including the impact of our clients' office closures;
- A disproportionate impact on the healthcare groups and other healthcare professionals with whom we contract;
- Financial pressures on our clients, which may in turn result in their deferment of purchase decisions, or a delay in collections or non-payment;
- Declines in new business bookings as our clients reduce or delay purchasing decisions;
- Extensions of the length of sales and implementation cycles;
- Disruptions to our supply chains and our third-party vendors, partners, and suppliers
- Difficulty accessing the capital and credit markets on favorable terms, or at all, and a severe disruption and instability in the global financial markets, or deteriorations in credit and financing conditions which could affect our access to capital necessary to fund business operations and address maturing liabilities on a timely basis;
- The potential negative impact on the health or productivity of employees, especially if a significant number of them are impacted;
- Disruptions and expense due to employee terminations;
- A deterioration in our ability to ensure business continuity during a disruption;
- Social, economic, and labor instability in India where we have significant operations.

The extent to which the COVID-19 pandemic will impact our financial condition and results of operations will depend on future developments, which are highly uncertain and difficult to predict, including but not limited to the duration and spread of the pandemic, its severity, the actions to contain the virus or treat its impact, its impact on our strategic investments, and how quickly and to which extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may experience material adverse impacts to our business as a result of the global or U.S. economic impact and any recession that has occurred or may occur in the future. There are no comparable recent events that provide guidance as to the effect the COVID-19 pandemic may have and, as a result, the ultimate impact of the pandemic on our operations and financial results is highly uncertain and subject to change.

Additionally, concerns over the economic impact of the COVID-19 pandemic have caused extreme volatility in financial and capital markets which has and may continue to adversely impact our stock price and may adversely impact our ability to access capital markets.

The rapid development and fluidity of the pandemic situation precludes any prediction as to the ultimate adverse impact of COVID-19. This uncertainty has and may continue to affect our results of operations, financial condition and cash flows.

We face significant, evolving competition which, if we fail to properly address, could adversely affect our business, results of operations, financial condition and price of our stock. The markets for healthcare information systems are intensely competitive, and we face significant competition from a number of different sources. Several of our competitors have substantially greater name recognition and financial, technical, product development and marketing resources than we do. There has been significant merger and acquisition activity among a number of our competitors in recent years. Some of our larger competitors, who have greater scale than we do, have and may continue to become more active in our markets both through internal development and acquisitions. Transaction induced pressures, or other related factors may result in price erosion or other negative market dynamics that could adversely affect our business, results of operations, financial condition and price of our stock.

We compete in all of our markets with other major healthcare related companies, information management companies, systems integrators and other software developers. Competition in our markets occurs on the basis of several factors, including price, innovation, client service, product quality and reliability, scope of services, industry acceptance, and others. Competitive pressures and other factors, such as new product introductions by us or our competitors, may result in price or market share erosion that could adversely affect our business, results of operations and financial condition. Also, there can be no assurance that our applications will achieve broad market acceptance or will successfully compete with other available software products. If we fail to distinguish our offerings from other options available to healthcare providers, the demand for and market share of our offerings may decrease.

Saturation or consolidation in the healthcare industry could result in the loss of existing clients, a reduction in our potential client base and downward pressure on the prices for our products and services. As the healthcare information systems market evolves, saturation of this market with our products or our competitors' products could limit our revenues and opportunities for growth. There has also been increasing consolidation amongst healthcare industry participants in recent years, creating integrated healthcare delivery systems with greater market power. As provider networks and managed care organizations consolidate, the number of market participants decreases and competition to provide products and services like ours will become more intense. The importance of establishing relationships with key industry participants will become greater and our inability to make initial sales of our systems to, or maintain relationships with, newly formed groups and/or healthcare providers that are replacing or substantially modifying their healthcare information systems could adversely affect our business, results of operations and financial condition. These consolidated industry participants may also try to use their increased market power to negotiate price reductions for our products and services. If we were forced to reduce our prices, our business would become less profitable unless we were able to achieve corresponding reductions in our expenses.

Many of our competitors have greater resources than we do. In order to compete successfully, we must keep pace with our competitors in anticipating and responding to the rapid changes involving the industry in which we operate, or our business, results of operations and financial condition may be adversely affected. The software market generally is characterized by rapid technological change, changing client needs, frequent new product introductions and evolving industry standards. The introduction of products incorporating new technologies and the emergence of new industry standards could render our existing products obsolete and unmarketable. There can be no assurance that we will be successful in developing and marketing new products that respond to technological changes or evolving industry standards. New product development depends upon significant research and development expenditures which depend ultimately upon sales growth. Any material shortfall in revenue or research funding could impair our ability to respond to technological advances or opportunities in the marketplace and to remain competitive. If we are unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or client requirements, our business, results of operations and financial condition may be adversely affected.

In response to increasing market demand, we are currently developing new generations of targeted software products. There can be no assurance that we will successfully develop these new software products or that these products will operate successfully, or that any such development, even if successful, will be completed concurrently with or prior to introduction of competing products. Any such failure or delay could adversely affect our competitive position or could make our current products obsolete.

Uncertainty in global economic and political conditions may negatively impact our business, operating results or financial condition. Global economic and political uncertainty have caused in the past, and may cause in the future, unfavorable business conditions such as a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy and extreme volatility in credit, equity and fixed income markets. These macroeconomic conditions could negatively affect our business, operating results or financial condition in a number of ways. Instability can make it difficult for our clients, our vendors, and us to accurately forecast and plan future business activities and could cause constrained spending on our products and services, delays and a lengthening of our sales cycles and/or difficulty in collection of our accounts receivable. Current or potential clients may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services or to not pay us or to delay paying us for previously purchased products and services. Our clients may cease business operations or conduct business on a greatly reduced basis. Bankruptcies or similar insolvency events affecting our clients may cause us to incur bad debt expense at levels higher than historically anticipated. Further, economic instability could limit our ability to access the capital markets at a time when we would like, or need, to raise capital, which could have an impact on our ability to react to changing business conditions or new opportunities. Finally, our investment portfolio is generally subject to general credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by these global financial conditions. If the banking system or the fixed income, credit or equity markets deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected as well.

Our relationships with strategic partners may fail to benefit us as expected. We face risk and/or the possibility of claims from activities related to strategic partners, which could be expensive and time-consuming, divert personnel and other resources from our business and result in adverse publicity that could harm our business. We rely on third parties to provide services for our business. For example, we use national clearinghouses in the processing of some insurance claims and we outsource some of our hardware services and the printing and delivery of patient statements for our clients. These third parties could raise their prices and/or be acquired by our competitors, which could potentially create short and long-term disruptions to our business, negatively impacting our revenue, profit and/or stock price. We also have relationships with certain third parties where these third parties serve as sales channels through which we generate a portion of our revenue. Due to these third-party relationships, we could be subject to claims as a result of the activities, products, or services of these third-party service providers even though we were not directly involved in the circumstances leading to those claims. Even if these claims do not result in liability to us, defending and investigating these claims could be expensive and time-consuming, divert personnel and other resources from our business and result in adverse publicity that could harm our business. In addition, our strategic partners may compete with us in some or all of the markets in which we operate.

We have acquired companies, and may engage in future acquisitions, which may be expensive, time consuming, subject to inherent risks and from which we may not realize anticipated benefits. Historically, we have acquired numerous businesses, technologies, and products. We may acquire additional businesses, technologies and products if we determine that these additional businesses, technologies and products are likely to serve our strategic goals. Acquisitions have inherent risks, which may have a material adverse effect on our business, financial condition, operating results or prospects, including, but not limited to the following:

- failure to achieve projected synergies and performance targets;
- potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets with indefinite useful lives, which could adversely affect our results of operations and financial condition;
- using cash as acquisition currency may adversely affect interest or investment income, which may in turn adversely affect our earnings and /or earnings per share;
- unanticipated expenses or difficulty in fully or effectively integrating or retaining the acquired technologies, software products, services, business practices, management teams or personnel, which would prevent us from realizing the intended benefits of the acquisition;
- failure to maintain uniform standard controls, policies and procedures across acquired businesses;
- difficulty in predicting and responding to issues related to product transition such as development, distribution and client support;
- the possible adverse effect of such acquisitions on existing relationships with third party partners and suppliers of technologies and services;
- the possibility that staff or clients of the acquired company might not accept new ownership and may transition to different technologies or attempt to renegotiate contract terms or relationships, including maintenance or support agreements;
- the assumption of known and unknown liabilities;
- the possibility of disputes over post-closing purchase price adjustments such as performance-based earnouts;

- the possibility that the due diligence process in any such acquisition may not completely identify material issues associated with product quality, product architecture, product development, intellectual property issues, regulatory risks, compliance risks, key personnel issues or legal and financial contingencies, including any deficiencies in internal controls and procedures and the costs associated with remedying such deficiencies;
- difficulty in entering geographic and/or business markets in which we have no or limited prior experience;
- difficulty in integrating acquired operations due to geographical distance and language and cultural differences;
- diversion of management's attention from other business concerns; and
- the possibility that acquired assets become impaired, or that acquired assets lead us to determine that existing assets become impaired, requiring us to take a charge to earnings which could be significant.

A failure to successfully integrate acquired businesses or technology could, for any of these reasons, have an adverse effect on our financial condition and results of operations.

Our failure to manage growth could harm our business, results of operations and financial condition. We have in the past experienced periods of growth which have placed, and may continue to place, a significant strain on our non-cash resources. We have also expanded our overall software development, marketing, sales, client management and training capacity, and may do so in the future. In the event we are unable to identify, hire, train and retain qualified individuals in such capacities within a reasonable timeframe, such failure could have an adverse effect on the operation of our business. In addition, our ability to manage future increases, if any, in the scope of our operations or personnel will depend on significant expansion of our research and development, marketing and sales, management and administrative and financial capabilities. The failure of our management to effectively manage expansion in our business could have an adverse effect on our business, results of operations and financial condition.

We may experience reduced revenues and/or be forced to reduce our prices. We may be subject to pricing pressures with respect to our future sales arising from various sources, including amount other things, government action affecting reimbursement levels. Our clients and the other entities with which we have business relationships are affected by changes in statutes, regulations, and limitations on government spending for Medicare, Medicaid, and other programs. Recent government actions and future legislative and administrative changes could limit government spending for Medicare and Medicaid programs, limit payments to healthcare providers, increase emphasis on competition, impose price controls, initiate new and expanded value-based reimbursement programs and create other programs that potentially could have an adverse effect on our business. If we experience significant downward pricing pressure, our revenues may decline along with our ability to absorb overhead costs, which may leave our business less profitable.

Our operations are dependent upon attracting and retaining key personnel. If such personnel were to leave unexpectedly, we may not be able to execute our business plan. Our future performance depends in significant part upon the continued service of our key development and senior management personnel and successful recruitment of new talent. These personnel have specialized knowledge and skills with respect to our business and our industry. Because we have a relatively small number of employees when compared to other leading companies in our industry, our dependence on maintaining our relationships with key employees and successful recruiting is particularly significant.

The industry in which we operate is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. There can be no assurance that our current employees will continue to work for us. Loss of services of key employees could have an adverse effect on our business, results of operations and financial condition. Furthermore, we may need to grant additional equity incentives to key employees and provide other forms of incentive compensation to attract and retain such key personnel. Equity incentives may be dilutive to our per share financial performance. Failure to provide such types of incentive compensation could jeopardize our recruitment and retention capabilities.

We may be subject to harassment or discrimination claims and legal proceedings, and our inability or failure to respond to and effectively manage publicity related to such claims could adversely impact our business. Our Code of Business Conduct and Ethics and other employment policies prohibit harassment and discrimination in the workplace, in sexual or in any other form. We have ongoing programs for workplace training and compliance, and we investigate and take disciplinary action with respect to alleged violations. However, actions by our employees could violate those policies. With the increased use of social media platforms, including blogs, chat platforms, social media websites, and other forms of Internet-based communications that allow individuals access to a broad audience, there has been an increase in the speed and accessibility of information dissemination. The dissemination of information via social media, including information about alleged harassment, discrimination or other claims, could harm our business, brand, reputation, financial condition, and results of operations, regardless of the information's accuracy.

Our recent strategy shift and the resulting business reorganization plan we are implementing may be disruptive both internally and externally, and we may not fully realize the anticipated benefits. We recently embarked on a new strategic plan geared toward realigning our business structure and strategy to rapidly emerging changes in the healthcare industry. As this process continues, we anticipate that it will result in continued evaluation of our organizational structure in order to achieve greater efficiency, as well as investments in new market solutions and changes to our culture that we hope will drive revenue growth and provide increased value to stakeholders and shareholders. There can be no assurance that our current or future strategic realignment efforts will be successful. Our ability to achieve the anticipated benefits of our strategy shift is subject to

estimates and assumptions, which may vary based on numerous factors and uncertainties, some of which are beyond our control. Reorganization programs entail a variety of known and unknown risks that may increase our costs or impair our ability to achieve operational efficiencies, such as distraction to management and employees, loss of workforce capabilities, loss of continuity, accounting charges for technology-related write-offs and workforce reduction costs, decreases in employee focus and morale, uncertainty and turbulence among our clients and vendors, higher than anticipated separation expenses, litigation, and the failure to meet financial and operational targets. If we are unable to effectively implement our strategic shift and realign our business to address the rapidly evolving market, we and our shareholders may not realize the anticipated financial, operational, and other benefits from these initiatives.

If we are unable to manage our growth in the new markets we may enter, our business and financial results could suffer. Our future financial results will depend in part on our ability to profitably manage our business in new markets that we may enter. We are engaging in the strategic identification of, and competition for, growth and expansion opportunities in new markets or offerings, including but not limited to the areas of interoperability, patient engagements, data analytics and population health. With several of our recent acquisitions, we have expanded into the market for cloud-based EHR products. It remains uncertain whether the market for cloud-based products will expand to the levels of demand and market acceptance we anticipate, and there can be no assurance that we will be able to successfully scale the acquired companies' products to meet our clients' expectations. In addition, as clients move from fee-for-service to fee-for-value reimbursement strategies in conjunction with the adoption of population health business models, we may not make appropriate and timely changes to our service offerings consistent with shifts in market demands and expectations. In order to successfully execute on our growth initiatives, we will need to, among other things, manage changing business conditions, anticipate and react to changes in the regulatory environment, and develop expertise in areas outside of our business's traditional core competencies. Difficulties in managing future growth in new markets could have a significant negative impact on our business, financial condition and results of operations.

We may not be successful in developing or launching our new software products and services, which could have a negative impact on our financial condition and results of operations. We invest significant resources in the research and development of new and enhanced software products and services. Over the last few years we have incurred, and will continue to incur, significant internal research and development expenses, a portion of which have been and may continue to be recorded as capitalized software costs. We cannot provide assurances that we will be successful in our efforts to plan, develop or sell new software products that meet client expectations, which could result in an impairment of the value of the related capitalized software costs, an adverse effect on our financial condition and operating results and a negative impact the future of our business. Additionally, we cannot be assured that we will continue to capitalize software development costs to the same extent as we have done to date, as the result of changes in development methodologies and other factors. To the extent that we capitalize a lower percentage of total software development costs, our earnings could be reduced.

We have substantial development and other operations in India, and we use offshore third-party partners located in India and other countries that subject us to regulatory, economic, social and political uncertainties in India and to laws applicable to U.S. companies operating overseas. We are subject to several risks associated with having a portion of our assets and operations located in India and by using third party service providers in India and other countries. Many U.S. companies have benefited from many policies of the Government of India and the Indian state governments in the states in which we operate, which are designed to promote foreign investment generally and the business process services industry in particular, including significant tax incentives, relaxation of regulatory restrictions, liberalized import and export duties and preferential rules on foreign investment and repatriation. There is no assurance that such policies will continue. Various factors, such as changes in the current Government of India, could trigger significant changes in India's economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular. In addition, our financial performance and the market price of our common stock may be adversely affected by general economic conditions and economic and fiscal policy in India, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting India in the future. In particular, India has experienced significant economic growth over the last several years, but faces major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our captive facility could be adversely affected if India does not successfully meet these challenges. In addition, U.S. governing authorities may pressure us to perform work domestically rather than using offshore resources. Furthermore, local laws and customs in India may differ from those in the U.S. For example, it may be a local custom for businesses to engage in practices that are prohibited by our internal policies and procedures or U.S. laws and regulations applicable to us, such as the Foreign Corrupt Practices Act ("FCPA"). The FCPA generally prohibits U.S. companies from giving or offering money, gifts, or anything of value to a foreign official to obtain or retain business and requires businesses to make and keep accurate books and records and a system of internal accounting controls. We cannot guarantee that our employees, contractors, and agents will comply with all of our FCPA compliance policies and procedures. If we or our employees, contractors, or agents fail to comply with the requirements of the FCPA or similar legislation, government authorities in the U.S. and elsewhere could seek to impose civil or criminal fines and penalties which could have a material adverse effect on our business, operating results, and financial condition.

We face the risks and uncertainties that are associated with litigation and investigations, which may adversely impact our marketing, distract management and have a negative impact upon our business, results of operations and financial condition. We face the risks associated with litigation and investigations concerning the operation of our business, including claims by clients regarding product and contract disputes, by other third parties asserting infringement of intellectual property rights, by current and former employees regarding certain employment matters, by certain shareholders, and by governmental and regulatory bodies for failures to comply with applicable laws. The uncertainty associated with substantial unresolved disputes may have an adverse effect on our business. In particular, such disputes could impair our relationships with existing clients and our ability to obtain new clients. Defending litigation and investigative matters may require substantial cost and may result in a diversion of management's time and attention away from business operations, which could have an adverse effect on our business, results of operations and financial condition.

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. 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.

There can be no assurance that such litigation and investigations will not result in liability in excess of our insurance coverage, that our insurance will cover such claims or that appropriate insurance will continue to be available to us in the future at commercially reasonable rates. In addition, any enforcement action by a government agency may result in fines, damage awards, regulatory consequences or other sanctions which could have a material adverse effect, individually or collectively, on the Company's liquidity, financial condition or results of operations.

We may be impacted by IT system failures or other disruptions. We may be subject to IT systems failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, malware, physical or electronic break-ins, or other events or disruptions. System redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to or the delivery of certain of our products or services, compromise our data or our clients' data, or result in delayed or cancelled orders as well as potentially expose us to third party claims. System failures and disruptions could also impede our transactions processing services and financial reporting.

Our business operations are subject to interruption by, among other, natural disasters, fire, power shortages, terrorist attacks, and other hostile acts, labor disputes, public health issues, and other issues beyond our control. Such events could decrease our demand for our products or services or make it difficult or impossible for us to develop and deliver our products or services to our clients. A significant portion of our research and development activities, our corporate headquarters, our IT systems, and certain of our other critical business operations are concentrated in a few geographic areas. In the event of a business disruption in one or more of those areas, we could incur significant losses, require substantial recovery time, and experience significant expenditures in order to resume operations, which could materially and adversely impact our business, financial condition, and operating results.

We have had to take charges due to asset impairments, and we could suffer further charges due to asset impairment that could reduce our income. We test our goodwill for impairment annually during our first fiscal quarter, and on interim dates should events or changes in circumstances indicate the carrying value of goodwill may not be recoverable in accordance with the relevant accounting guidance. In the past, we have recorded sizeable goodwill impairment charges, and we may need to do so in the future. Declines in business performance or other factors could cause the fair value of any of our operating segments to be revised downward, resulting in further impairment charges. If the financial outlook for any of our operating segments warrants additional impairments of goodwill, the resulting write-downs could materially affect our reported net earnings.

We face risks related to litigation advanced by a former director and shareholder of ours, and a shareholder derivative claim. 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 the Company as the sole plaintiff in the cross-complaint. On June 26, 2015, we filed a motion for summary judgment with respect to Hussein's claims, which the Court granted on September 16, 2015, dismissing all of Hussein's claims against us. On September 23, 2015, Hussein filed an application for reconsideration of the Court's summary judgment order, which the Court denied. Hussein filed a renewed application for reconsideration of the Court's summary judgment order on August 3, 2017. The Court again denied Hussein's application. On October 28, 2015, May 9, 2016, and August 5, 2016, Hussein filed a motion for summary judgment, motion for summary adjudication, and motion for judgment on the pleadings, respectively, seeking to dismiss our cross-complaint. The Court denied each motion. Trial on our cross-complaint began June 12, 2017. On July 26, 2017, the Court issued a statement of decision granting Hussein's motion for judgment on our cross-complaint. Final judgment over Hussein's claims and our cross-claims was entered on January 9, 2018. Hussein 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 returned to the trial court for resolution on February 4, 2020. A schedule for proceedings before the trial court has not yet been established.

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. The time within which the plaintiff could file a petition for writ of certiorari to the Supreme Court has expired so this matter is now concluded.

Although we believe the claims to be without merit, our operating results and share price may be negatively impacted due to the negative publicity, expenses incurred in connection with our defense, management distraction, and/or other factors related to this litigation. In addition, litigation of this nature may negatively impact our ability to attract and retain clients and strategic partners, as well as qualified board members and management personnel.

Our credit agreement contains restrictive and financial covenants that may limit our operational flexibility. If we fail to meet our obligations under the credit agreement, our operations may be interrupted and our business and financial results could be adversely affected. On March 29, 2018, we entered into a revolving credit agreement with various lenders, secured by substantially all of our and our material domestic subsidiaries' existing and future property. The credit agreement includes certain customary covenants that impose restrictions on our business and financing activities that could limit our operations or flexibility to take certain actions. The credit agreement also contains certain customary affirmative covenants requiring us to maintain specified levels of financial performance. Our ability to comply with these covenants may be affected by events that could be beyond our control. A breach of these covenants could result in an event of default under the credit agreement which, if not cured or waived, could result in the indebtedness becoming immediately due and payable, which in turn could result in material adverse consequences that negatively impact our business, the market price for our common stock, and our ability to obtain financing in the future. In addition, our credit agreement's covenants, consent requirements, and other provisions may limit our flexibility to pursue or fund strategic initiatives or acquisitions that might be in the long-term interests of our Company and shareholders.

We may not be successful in integrating and operating our recent acquisitions, and in implementing our post-acquisition business strategy with respect to the products acquired in these transactions. Our shift in product focus following the acquisitions may not yield the desired results. We have recently completed several acquisitions. As a result of these acquisitions, we have devoted and will continue to need to devote significant management attention and resources to integrating the acquired companies' businesses and product platforms into our business. We may experience problems associated with the acquired companies and their personnel, processes, product, technology, liabilities, commitments, and other matters. There is no assurance that we will be able to successfully integrate the acquired businesses or realize synergies and benefits from the transactions. Furthermore, the acquisitions have substantially altered our business strategy, increasing our focus on efforts to expand our client base and cloud-based solution capabilities in the ambulatory market. If we are unable to successfully integrate acquisitions and implement post-acquisition revisions to our business strategy and product focus, our business, financial condition, and results of operations may suffer.

Risks Related to Our Products and Services

If our principal products, new product developments or implementation, training and support services fail to meet the needs of our clients due to lack of client acceptance, errors, or other problems, we may fail to realize future growth, suffer reputational harm and face the risk of losing existing clients. We currently derive substantially all of our net revenue from sales of our healthcare information systems and related services. We believe that a primary factor in the market acceptance of our systems has been our ability to meet the needs of users of healthcare information systems. Our future financial performance will depend in large part on our ability to continue to meet the increasingly sophisticated needs of our clients through the timely development and successful introduction of new and enhanced versions of our systems and other complementary products, as well as our ability to provide high quality implementation, training and support services for our products. We have historically expended a significant percentage of our net revenue on product development and believe that significant continuing product development efforts will be required to retain our existing clients and sustain our growth. Continued investment in our sales staff and our client implementation, training and support staffs will also be required to retain and grow our client base.

There can be no assurance that we will be successful in our client satisfaction or product development efforts, that the market will continue to accept our existing products and services, or that new products or product enhancements will be developed and implemented in a timely manner, meet the requirements of healthcare providers, or achieve market acceptance. Also, it is possible that our technology may contain defects or errors, some of which may remain undetected for a period of time. If we detect errors before we introduce a solution, we may have to delay deployment for an extended period of time while we address the problem. If we do not discover errors until after product deployment, we may need to provide enhancements to correct such errors. Remediating product defects and errors could consume our development and management resources. In addition, any failure or perceived failure to maintain high-quality and highly-responsive client support could harm our reputation. Quality or performance issues with our products and services may result in product-related liabilities, unexpected expenses and diversion of resources to remedy errors, harm to our reputation, lost sales, delays in commercial releases, delays in or loss of market acceptance of our solutions, license termination or renegotiations, and privacy or security vulnerabilities. If new products or product enhancements are delayed or do not achieve market acceptance, or if our implementation, training and support services do not achieve a high degree of client satisfaction, our reputation, business, results of operations and financial condition could be adversely affected. At certain times in the past, we have also experienced delays in purchases of our products by clients anticipating our launch, or the launch of our competitors, of new products. There can be no assurance that material order deferrals in anticipation of new product introductions from us or other entities will not occur.

If the emerging technologies and platforms of Microsoft and others upon which we build our products do not gain or continue to maintain broad market acceptance, or if we fail to develop and introduce in a timely manner new products and services compatible with such emerging technologies, we may not be able to compete effectively and our ability to generate revenue will suffer. Our software products are built and depend upon several underlying and evolving relational database management system platforms such as those developed by Microsoft. To date, the standards and technologies upon which we have chosen to develop our products have proven to have gained industry acceptance. However, the market for our software products is subject to ongoing rapid technological developments, quickly evolving industry standards and rapid changes in client requirements, and there may be existing or future technologies and platforms that achieve industry standard status, which are not compatible with our products.

We are dependent on our license rights and other services from third parties, which may cause us to discontinue, delay or reduce product shipments. We depend upon licenses for some of the technology used in our products as well as other services from third party vendors. Most of these arrangements can be continued/renewed only by mutual consent and may be terminated for any number of reasons. We may not be able to continue using the products or services made available to us under these arrangements on commercially reasonable terms or at all. As a result, we may have to discontinue, delay or reduce product shipments or services provided until we can obtain equivalent technology or services. Most of our third-party licenses are non-exclusive. Our competitors may obtain the right to use any of the business elements covered by these arrangements and use these elements to compete directly with us. In addition, if our vendors choose to discontinue providing their technology or services in the future or are unsuccessful in their continued research and development efforts, we may not be able to modify or adapt our own products.

We may experience interruption at our data centers or client support facilities. We perform data center and/or hosting services for certain clients, including the storage of critical patient and administrative data at company-owned facilities and through third party hosting arrangements. In addition, we provide support services to our clients through various client support facilities. We have invested in reliability features such as multiple power feeds, multiple backup generators and redundant telecommunications lines, as well as technical (such as multiple overlapping security applications, access control and other countermeasures) and physical security safeguards and structured our operations to reduce the likelihood of disruptions. However, complete failure of all local public power and backup generators, impairment of all telecommunications lines, a concerted denial of service cyber-attack, a significant data breach, damage, injury or impairment (environmental, accidental, intentional or pandemic) to the buildings, the equipment inside the buildings housing our data centers, the personnel operating such facilities or the client data contained therein, or errors by the personnel trained to operate such facilities could cause a disruption in operations and negatively impact clients who depend on us for data center and system support services. Likewise, our use of a single cloud vendor could increase our exposure to interruptions if the vendor were to experience a catastrophic event impacting its service offering. Any interruption in operations at our data centers and/or client support facilities could damage our reputation, cause us to lose existing clients, hurt our ability to obtain new clients, result in significant revenue loss, create potential liabilities for our clients and us and increase insurance and other operating costs.

We face the possibility of having to adopt new pricing strategies, such as subscription pricing or bundling. In April 2009, we announced a new subscription-based software as a service delivery model which includes monthly subscription pricing. This model is designed for smaller practices to quickly access the NextGen Ambulatory EHR or NextGen PM products at a modest monthly per provider price. We currently derive a significant portion of our revenue from traditional software license, implementation and training fees, as well as the resale of computer hardware, in which our clients pay an initial license fee for the use of our products, in addition to a periodic maintenance fee. While the intent of the new subscription based delivery model is to further penetrate the smaller practice market, there can be no assurance that this delivery model will not become increasingly popular with both small and large clients. In addition, we have experienced increasing demand for bundling our software and systems with RCM service arrangements, which has required us to modify our standard upfront license fee pricing model and could impact software maintenance revenue streams prospectively. If the marketplace increasingly demands subscription or bundled pricing, we may be forced to further adjust our sales, marketing and pricing strategies accordingly, by offering a higher percentage of our products and services through these means. Shifting to a significantly greater degree of subscription or bundled pricing could adversely affect our financial condition, cash flows and quarterly and annual revenue and results of operations, as our revenue would initially decrease substantially.

We face the possibility of claims based upon our website content, which may cause us expense and management distraction. We could be subject to third party claims based on the nature and content of information supplied on our website by us or third parties, including content providers or users. We could also be subject to liability for content that may be accessible through our website or third-party websites linked from our website or through content and information that may be posted by users in chat rooms, bulletin boards or on websites created by professionals using our applications. Even if these claims do not result in liability to us, investigating and defending against these claims could be expensive and time consuming and could divert management's attention away from our operations.

If our security measures are breached or fail and unauthorized access is obtained to a client's data, our services may be perceived as not being secure, clients may curtail or stop using our services, and we may incur significant liabilities. Our services involve the storage, transmission and processing of clients' proprietary information and protected health information of patients. Because of the sensitivity of this information, security features of our software are very important. If our security measures are breached or fail as a result of third-party action, employee error, malfeasance, insufficiency, defective design, or otherwise, someone may be able to obtain unauthorized access to client or patient data. As a result, our reputation could be damaged, our business may suffer, and we could face damages for contract breach, penalties for violation of applicable laws or regulations and significant costs for remediation and remediation efforts to prevent future occurrences. We rely upon our clients as users of our system for key activities to promote security of the system and the data within it, such as administration of client-side access credentialing and control of client-side display of data. On occasion, our clients have failed to perform these activities. Failure of clients to perform these activities may result in claims against us that this reliance was misplaced, which could expose us to significant expense and harm to our reputation even though our policy is to enter into business associate agreements with our clients. Although we extensively train and monitor our employees, it is possible that our employees may, intentionally or unintentionally, breach security measures. Moreover, third parties with whom we do not have business associate agreements may breach the privacy and security of patient information, potentially causing us reputational damage and exposing us to liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and clients. In addition, our clients may authorize or enable third parties to access their client data or the data of their patients on our systems. Because we do not control such access, we cannot ensure the complete propriety of that access or integrity or security of such data in our systems.

Failure by our clients to obtain proper permissions and waivers may result in claims against us or may limit or prevent our use of data, which could harm our business. We require our clients to provide necessary notices and to obtain necessary permissions and waivers for use and disclosure of the information that we receive, and we require contractual assurances from them that they have done so and will do so. If they do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf may be limited or prohibited by state or federal privacy laws or other applicable laws. This could impair our functions, processes and databases that reflect, contain, or are based upon such data and may prevent use of such data. In addition, this could interfere with or prevent creation or use of rules and analyses or limit other data-driven activities that are beneficial to our business. Moreover, we may be subject to claims or liability for use or disclosure of information by reason of lack of valid notice, permission or waiver. These claims or liabilities could subject us to unexpected costs and adversely affect our operating results.

We face the possibility of damages resulting from internal and external security breaches. In the course of our business operations, we store, process, compile and transmit confidential information, including patient health information, in our processing centers and other facilities. A breach of security in any of these facilities could damage our reputation and result in damages being assessed against us. In addition, the other systems with which we may interface, such as the internet and related systems may be vulnerable to security breaches, viruses, programming errors, or similar disruptive problems. In addition, our clients and vendors with whom we have business associate agreements, or other parties with whom we do not have business associate agreements, may be responsible for breaching the security and compromising the privacy of patient information located on our systems. In addition, although we extensively train and monitor our employees, it is possible that our own employees may engage in conduct that compromises security or privacy. The effect of these security breaches and related issues could disrupt our ability to perform certain key business functions and could potentially reduce demand for our services. Accordingly, we have expended significant resources toward establishing and enhancing the security of our related infrastructures, although no assurance can be given that they will be entirely free from potential breach. Maintaining and enhancing our infrastructure security may require us to expend significant capital in the future.

The success of our strategy to offer our electronic data interchange ("EDI") services and software as a service ("SaaS") solutions depends on the confidence of our clients in our ability to securely transmit confidential information. Our EDI services and SaaS solutions rely on encryption, authentication and other security technology licensed from third parties to achieve secure transmission of confidential information. We may not be able to stop unauthorized attempts to gain access to or disrupt the transmission of communications by our clients. Anyone who is able to circumvent our security measures could misappropriate confidential user information or interrupt our, or our clients', operations. In addition, our EDI and SaaS solutions may be vulnerable to viruses, malware, physical or electronic break-ins and similar disruptions.

High-profile security breaches at other companies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyber-attacks targeting information technology products and businesses. Although this is an industry-wide problem that affects other software and hardware companies, we may be targeted by computer hackers because we are a prominent healthcare information technology company and have high profile clients. These risks will increase as we continue to grow our cloud offerings, store and process increasingly large amounts of our clients' confidential data, including personal health information, and host or manage parts of our clients' businesses in cloud-based/multi-tenant information technology environments. We may use third party public cloud providers in connection with our cloud-based offerings or third-party providers to host our own data, in which case we may have to rely on the processes, controls and security such third parties have in place to protect the infrastructure.

The costs we would incur to address any security incidents would increase our expenses, and our efforts to resolve these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential clients that may impede our sales, development of solutions, provision of services, or other critical functions. If a cyberattack or other security incident were to allow unauthorized access to or modification of our clients' or suppliers' data, our own data, or our information technology systems, or if our products or services are perceived as having security vulnerabilities, we could suffer significant damage to our brand and reputation. This could lead to fewer clients using our products or services and make it more difficult for us to obtain new clients, resulting in reduced revenue and earnings. These types of security incidents could also lead to lawsuits, regulatory investigations and claims, and increased legal liability.

Our business depends on continued and unimpeded access to the internet by us and our clients, which is not within our control. We deliver internet-based services and, accordingly, depend on our ability and the ability of our clients to access the internet. This access is currently provided by third parties that have significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies and government-owned service providers -- all of whom are outside of our control. In the event of any difficulties, outages and delays by internet service providers, we may be impeded from providing services, resulting in a loss of potential or existing clients.

We may be subject to claims for system errors, warranties or product liability, which could have an adverse effect on our business, results of operations and financial condition. Our software solutions are intended for use in collecting, storing and displaying clinical and healthcare-related information used in the diagnosis and treatment of patients and in related healthcare settings such as admissions and billing. Therefore, users of our software solutions have a greater sensitivity to errors than the market for software products generally. Any failure by our products to provide accurate and timely information concerning patients, their medication, treatment and health status, generally, could result in claims against us which could materially and adversely impact our financial performance, industry reputation and ability to market new system sales. In addition, a court or government agency may take the position that our delivery of health information directly, including through licensed practitioners, or delivery of information by a third-party site that a consumer accesses through our websites, exposes us to assertions of malpractice, other personal injury liability, or other liability for wrongful delivery/handling of healthcare services or erroneous health information. We maintain insurance to protect against claims associated with the use of our products as well as liability limitation language in our end-user license agreements, but there can be no assurance that our insurance coverage or contractual language would adequately cover any claim asserted against us. A successful claim brought against us in excess of or outside of our insurance coverage could have an adverse effect on our business, results of operations and financial condition. Even unsuccessful claims could result in our expenditure of funds for litigation and management time and resources.

Certain healthcare professionals who use our SaaS products will directly enter health information about their patients including information that constitutes a record under applicable law that we may store on our computer systems. Numerous federal and state laws and regulations, the common law and contractual obligations, govern collection, dissemination, use and confidentiality of patient-identifiable health information, including:

- state and federal privacy and confidentiality laws;
- our contracts with clients and partners;
- state laws regulating healthcare professionals;
- Medicaid laws;
- the HIPAA and related rules proposed by CMS; and
- CMS standards for internet transmission of health data.

HIPAA establishes elements including, but not limited to, federal privacy and security standards for the use and protection of Protected Health Information. Any failure by us or by our personnel or partners to comply with applicable requirements may result in a material liability to us.

Although we have systems and policies in place for safeguarding Protected Health Information from unauthorized disclosure, these systems and policies may not preclude claims against us for alleged violations of applicable requirements. Also, third-party sites and/or links that consumers may access through our web sites may not maintain adequate systems to safeguard this information or may circumvent systems and policies we have put in place. In addition, future laws or changes in current laws may necessitate costly adaptations to our policies, procedures, or systems.

There can be no assurance that we will not be subject to product liability claims, that such claims will not result in liability in excess of our insurance coverage, that our insurance will cover such claims or that appropriate insurance will continue to be available to us in the future at commercially reasonable rates. Such product liability claims could adversely affect our business, results of operations and financial condition.

We are subject to the effect of payer and provider conduct which we cannot control and accordingly, there is no assurance that revenue for our services will continue at historic levels. We offer certain electronic claims submission products and services as part of our product line. While we have implemented certain product features designed to maximize the accuracy and completeness of claims submissions, these features may not be sufficient to prevent inaccurate claims data from being submitted to payers. Should inaccurate claims data be submitted to payers, we may be subject to liability claims.

Electronic data transmission services are offered by certain payers to healthcare providers that establish a direct link between the provider and payer. This process reduces revenue to third party EDI service providers such as us. As a result of this, and other market factors, we are unable to ensure that we will continue to generate revenue at or in excess of prior levels for such services.

A significant increase in the utilization of direct links between healthcare providers and payers could adversely affect our transaction volume and financial results. In addition, we cannot provide assurance that we will be able to maintain our existing links to payers or develop new connections on terms that are economically satisfactory to us, if at all.

Proprietary rights are material to our success, and the misappropriation of these rights could adversely affect our business and our financial condition. We are heavily dependent on the maintenance and protection of our intellectual property and we rely largely on technical security measures, license agreements, confidentiality procedures and employee nondisclosure agreements to protect our intellectual property. The majority of our software is not patented and existing copyright laws offer only limited practical protection.

There can be no assurance that the legal protections and precautions we take will be adequate to prevent misappropriation of our technology or that competitors will not independently develop technologies equivalent or superior to ours. Further, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States and are often not enforced as vigorously as those in the United States.

We do not believe that our operations or products infringe on the intellectual property rights of others. However, there can be no assurance that others will not assert infringement or trade secret claims against us with respect to our current or future products or that any such assertion will not require us to enter into a license agreement or royalty arrangement or other financial arrangement with the party asserting the claim. Responding to and defending any such claims may distract the attention of our management and adversely affect our business, results of operations and financial condition. In addition, claims may be brought against third parties from which we purchase software, and such claims could adversely affect our ability to access third party software for our systems.

If we are deemed to infringe on the proprietary rights of third parties, we could incur unanticipated expense and be prevented from providing our products and services. We have been, and may be in the future, subject to intellectual property infringement claims as the number of our competitors grows and our applications' functionality is viewed as similar or overlapping with competitive products. We do not believe that we have infringed or are infringing on any proprietary rights of third parties. However, claims are occasionally asserted against us, and we cannot assure you that infringement claims will not be asserted against us in the future. Also, we cannot assure you that any such claims will be unsuccessful. We could incur substantial costs and diversion of management resources defending any infringement claims - even if we are ultimately successful in the defense of such matters. Furthermore, a party making a claim against us could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to provide products or services. In addition, we cannot assure you that licenses for any intellectual property of third parties that might be required for our products or services will be available on commercially reasonable terms, or at all.

We face risks related to the periodic maintenance and upgrades that need to be made to our products. As we continue to develop and improve upon our technology and offerings, we need to periodically upgrade and maintain the products deployed to our clients. This process can require a significant amount of our internal time and resources and can be complicated and time consuming for our clients. Certain upgrades may also pose the risk of system delays or failure. If our periodic upgrades and maintenance cause disruptions to our clients, we may lose revenue-generating transactions, our clients may elect to use other solutions and we may also be the subject of negative publicity that may adversely affect our business and reputation.

Risks Related to Regulation

There is significant uncertainty in the healthcare industry in which we operate, and the current governmental laws and regulations as well as any future modifications to the regulatory environment, may adversely impact our business, financial condition and results of operations. The healthcare industry is subject to changing political, economic and regulatory influences that may affect the procurement processes and operation of healthcare facilities. During the past several years, the healthcare industry has been subject to an increase in governmental regulation of, among other things, reimbursement rates and certain capital expenditures.

For example, the Health Insurance Portability and Accountability Act of 1996, as modified by HITECH provisions of the ARRA (collectively, "HIPAA"), continues to have a direct impact on the health care industry by requiring national provider identifiers and standardized transactions/code sets, operating rules and necessary security and privacy measures in order to ensure the appropriate level of privacy of protected health information. These regulatory factors affect the purchasing practices and operation of health care organizations.

The Patient Protection and Affordable Care Act ("PPACA"), which was amended by the Health Care and Education Reconciliation Act of 2010, became law in 2010. This comprehensive health care reform legislation included provisions to control health care costs, improve health care quality, and expand access to affordable health insurance. The Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), which became law in 2015, repealed the sustainable growth rate ("SGR") formula and created two new value-based payment systems for Medicare physicians. Together with ongoing statutory and budgetary policy developments at a federal level, these health care reform laws include changes in Medicare and Medicaid payment policies and other health care delivery administrative reforms that could potentially negatively impact our business and the business of our clients. Because not all the administrative rules implementing health care reform under these laws have been finalized, and because of ongoing federal fiscal budgetary pressures yet to be resolved for federal health programs, the full impact of the health care reform legislation and of further statutory actions to reform healthcare payment on our business is unknown, but there can be no assurances that health care reform legislation will not adversely impact either our operational results or the manner in which we operate our business. Health care industry participants may respond by reducing their investments or postponing investment decisions, including investments in our solutions and services.

In March 2020, the U.S. Congress passed several laws in response to the coronavirus pandemic. Included in these laws are multiple provisions that are likely to have a significant impact on healthcare providers. Because regulations implementing these provisions have yet to be released and health care providers are subject to future legislative changes, the industry is likely to be subject to additional coronavirus-related legislative and regulatory changes in 2020.

Healthcare providers may react to these proposals, and the uncertainty surrounding such proposals, by curtailing or deferring investments, including those for our systems and related services. Cost-containment measures instituted by healthcare providers as a result of regulatory reform or otherwise could result in a reduction in the allocation of capital funds. Such a reduction could have an adverse effect on our ability to sell our systems and related services. On the other hand, changes in the regulatory environment have increased and may continue to increase the needs of healthcare organizations for cost-effective data management and thereby enhance the overall market for healthcare management information systems. We cannot predict what effect, if any, such proposals or healthcare reforms might have on our business, financial condition and results of operations.

As existing regulations mature and become better defined, we anticipate that these regulations will continue to directly affect certain of our products and services, but we cannot fully predict the effect at this time. We have taken steps to modify our products, services and internal practices as necessary to facilitate our compliance with the regulations, but there can be no assurance that we will be able to do so in a timely or complete manner. Achieving compliance with these regulations could be costly and distract management's attention and divert other company resources, and any noncompliance by us could result in civil and criminal penalties.

Developments of additional federal and state regulations and policies have the potential to positively or negatively affect our business.

Other specific risks include, but are not limited to, risks relating to:

Privacy and Security of Patient Information. As part of the operation of our business, we may have access to or our clients may provide to us individually-identifiable health information related to the treatment, payment, and operations of providers' practices. Government and industry legislation and rulemaking, especially HIPAA, HITECH and standards and requirements published by industry groups such as the Joint Commission require the use of standard transactions, standard identifiers, security and other standards and requirements for the transmission of certain electronic health information. These standards and requirements impose additional obligations and burdens on us, limiting the use and disclosure of individually-identifiable health information, and require us to enter into business associate agreements with our clients and vendors. Failure by us to enter into adequate business associate agreements with any client or vendor would place us in violation of applicable standards and requirements and could expose us to liability. Our business associates may interpret HIPAA requirements differently than we do, and we may not be able to adequately address the risks created by such interpretations. These new rules, and any future changes to privacy and security rules, may increase the cost of compliance and could subject us to additional enforcement actions, which could further increase our costs and adversely affect the way in which we do business.

Interoperability Standards. Our clients are concerned with and often require that our software solutions and health care devices be interoperable with other third-party health care information technology suppliers. With the passing of the MACRA in 2015, the U.S. Congress declared it a national objective to achieve widespread exchange of health information through interoperable certified EHR technology nationwide by December 31, 2018. The 21st Century Cures Act, which was passed and signed into law in December 2016, includes numerous provisions intended to encourage this nationwide interoperability.

In February 2019, HHS's Office of the National Coordinator for Health Information Technology ("ONC") released a proposed rule titled, "21st Century Cures Act: Interoperability, Information Blocking, and the ONC Health IT Certification Program." Following an extended public comment period, in March 2020 ONC released the final rule which implements the key interoperability provisions included in the Cures Act. Specifically, it calls on developers of certified EHRs and health IT products to adopt standardized application programming interfaces ("APIs"), which will help allow individuals to securely and easily access structured and unstructured EHI formats using smartphones and other mobile devices. This provision and others included in the rule create a lengthy list of new certification and maintenance of certification requirements that developers of EHRs and other health IT products have to meet in order to maintain approved federal government certification status. Meeting and maintaining this certification status will require additional development costs.

The ONC rule also implements the information blocking provisions of the 21st Century Cures Act, including identifying reasonable and necessary activities that do not constitute information blocking. Under the 21st Century Cures Act, the U.S. Department of Health and Human Services ("HHS") has the regulatory authority to investigate and assess civil monetary penalties of up to \$1,000,000 against certified health IT developers found to be in violation of "information blocking". This new oversight and authority to investigate claims of information blocking creates significant risks for us and our clients and could potentially create substantial new compliance costs.

Other regulatory provisions included in the ONC Cures Act final rule could create compliance costs and/or regulatory risks for the company. Because these regulations are subject to future changes and/or significant enforcement discretion by federal agencies, the ultimate impact of these regulation is unknown.

FDA Regulation of Software as a Medical Device. The U.S. Food and Drug Administration (“FDA”) has the statutory authority to regulate medical software if it falls within the definition of a “device” under the Federal Food, Drug, and Cosmetic Act (“FFDCA”). However, the FDA has exercised enforcement discretion for software said to be “low risk.” The December 2016 21st Century Cures Act clarified the FDA’s regulation of medical software by amending the definition of “device” in the FFDCA to exclude certain software functions, including electronic health record software functionality and administrative software functionality. In December 2017, the FDA issued draft guidance documents to clarify how it intends to interpret and enforce these provisions of the Cures Act. In 2017, the FDA also issued a Digital Health Innovation Action Plan and launched a voluntary “Software Precertification (Pre-Cert) Pilot Program” for software developers. Then in September 2019 the FDA issued several different digital health-focused final and draft guidance documents. Although we believe that our products are currently not subject to FDA regulation, we continue to follow the FDA’s guidance in this area, which is subject to change and in some critical areas only currently exists in draft form. As a result, our software may potentially be subject to regulation by the FDA as a medical device. Such regulation could require the registration of the applicable manufacturing facility and software and hardware products, application of detailed record-keeping and manufacturing standards, application of the medical device excise tax, and FDA approval or clearance prior to marketing. An approval or clearance requirement could create delays in marketing, and the FDA could require supplemental filings or object to certain of these applications, the result of which could adversely affect our business, financial condition and results of operations.

Health Reform. The health reform laws discussed above and that may be enacted in the future contain and may contain various provisions which may impact us and our clients. Some of these provisions may have a positive impact, by expanding the use of electronic health records and other health information technology solutions in certain federal programs, for example, while others, such as reductions in reimbursement for certain types of providers, may have a negative impact due to fewer available resources. Increases in fraud and abuse penalties may also adversely affect participants in the health care sector, including us.

We may not see the benefits from government funding programs initiated to accelerate the adoption and utilization of health information technology. While government programs have been implemented to improve the efficiency and quality of the healthcare sector, including expenditures to stimulate business and accelerate the adoption and utilization of healthcare technology, we may not see the anticipated benefits of such programs. Under the ARRA, the PPACA, and the MACRA, significant government financial resources are being invested in healthcare, including financial incentives to healthcare providers who can demonstrate meaningful use of certified EHR technology since 2011. While we expect the ARRA, the PPACA, and the MACRA to continue to create sales opportunities over the next several years, we are unsure of the immediate or long-term impact of these government actions.

HITECH established the Medicare and Medicaid EHR Incentive Programs to provide incentive payments for eligible professionals, hospitals, and critical access hospitals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology. HITECH, and subsequently MACRA, also authorized CMS to apply payment adjustments, or penalties, to Medicare eligible professionals and eligible hospitals that are not meaningful users under the Medicare EHR Incentive Program.

Although we believe that our service offerings will meet the requirements of HITECH and MACRA to allow our clients to qualify for financial incentives and avoid financial penalties for implementing and using our services, there can be no guaranty that our clients will achieve meaningful use (or its equivalent under MACRA’s Merit Based Incentive Payment System, Promoting Interoperability) or actually receive such planned financial incentives for our services. We also cannot predict the speed at which healthcare providers will adopt electronic health record systems in response to these government incentives, whether healthcare providers will select our products and services or whether healthcare providers will implement an electronic health record system at all. In addition, the financial incentives associated with the meaningful use program are tied to provider participation in Medicare and Medicaid, and we cannot predict whether providers will continue to participate in these programs. Any delay in the purchase and implementation of electronic health records systems by healthcare providers in response to government programs, or the failure of healthcare providers to purchase an electronic health record system, could have an adverse effect on our business, financial condition and results of operations. It is also possible that additional regulations or government programs related to electronic health records, amendment or repeal of current healthcare laws and regulations or the delay in regulatory implementation could require us to undertake additional efforts to meet meaningful use standards, materially impact our ability to compete in the evolving healthcare IT market, materially impact healthcare providers’ decisions to implement electronic health records systems or have other impacts that would be unfavorable to our business. The costs of achieving and maintaining certified electronic health record technology (“CEHRT”) are also significant and because the definition of CEHRT and its use requirements for clients are subject to regulatory changes, these programs and future regulatory changes to them could adversely impact our business.

Several of our solutions also support Accountable Care Organizations (“ACOs”). In 2020, Medicare’s largest ACO program, the Shared Savings Program, consisted of 517 ACOs serving 11.2 million assigned beneficiaries across the country. In December 2018, the Centers for Medicare & Medicaid Services (“CMS”) issued a final rule that dramatically redesigns and sets a new direction for Shared Savings Program, renaming it “Pathways to Success.” Because it is unknown how ACOs will react to CMS’s Pathways to Success program redesign and several of the redesigned program’s policies will not be fully implemented for ACOs until 2021, we cannot predict the impact the regulatory change will have on our clients and our business.

We may be subject to false or fraudulent claim laws. There are numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with submission and payment of physician claims for reimbursement. In some cases, these laws also forbid abuse of existing systems for such submission and payment. Any failure of our revenue cycle management services to comply with these laws and regulations could result in substantial liability including, but not limited to, criminal liability, could adversely affect demand for our services and could force us to expend significant capital, research and development and other resources to address the failure. Errors by us or our systems with respect to entry, formatting, preparation or transmission of claim information may be determined or alleged to be in violation of these laws and regulations. Determination by a court or regulatory agency that our services violate these laws could subject us to civil or criminal penalties, invalidate all or portions of some of our client contracts, require us to change or terminate some portions of our business, require us to refund portions of our services fees, cause us to be disqualified from serving clients doing business with government payers and have an adverse effect on our business.

In most cases where we are permitted to do so, we calculate charges for our revenue cycle management services based on a percentage of the collections that our clients receive as a result of our services. To the extent that violations or liability for violations of these laws and regulations require intent, it may be alleged that this percentage calculation provides us or our employees with incentive to commit or overlook fraud or abuse in connection with submission and payment of reimbursement claims. The U.S. Centers for Medicare and Medicaid Services has stated that it is concerned that percentage-based billing services may encourage billing companies to commit or to overlook fraudulent or abusive practices.

A portion of our business involves billing of Medicare claims on behalf of its clients. In an effort to combat fraudulent Medicare claims, the federal government offers rewards for reporting of Medicare fraud which could encourage others to subject us to a charge of fraudulent claims, including charges that are ultimately proven to be without merit.

Additionally, under the False Claims Act ("FCA"), the federal government allows private individuals to file a complaint or otherwise report actions alleging the defrauding of the federal government by an entity. These suits, known as qui tam actions or "whistleblower" suits may be brought by, with only a few exceptions, any private citizen who believes that he has material information of a false claim that has not been previously disclosed. If the federal government intervenes, the individual that filed the initial complaint may share in any settlement or judgment. If the federal government does not intervene in the action, the whistleblower plaintiff may pursue its allegation independently. Some states have adopted similar state whistleblower and false claims provisions. Qui tam actions under the FCA and similar state laws may lead to significant fines, penalties, settlements or other sanctions, including exclusion from Medicare or other federal or state healthcare programs.

If our products fail to comply with evolving government and industry standards and regulations, we may have difficulty selling our products. We may be subject to additional federal and state statutes and regulations in connection with offering services and products via the internet. On an increasingly frequent basis, federal and state legislators are proposing laws and regulations that apply to internet commerce and communications. Areas being affected by these regulations include user privacy, pricing, content, taxation, copyright protection, distribution, and quality of products and services. To the extent that our products and services are subject to these laws and regulations, the sale of our products and services could be harmed.

We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance, one or more of which could adversely affect our business, financial condition, cash flows, revenue, results of operations, and debt covenant compliance. Based on our reading and interpretations of relevant guidance, principles or concepts issued by, among other authorities, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and the Commission, we believe our current business arrangements, transactions, and related estimates and disclosures have been properly reported. However, there continue to be issued interpretations and guidance for applying the relevant standards to a wide range of sales and licensing contract terms and business arrangements that are prevalent in the software industry. Future interpretations or changes by the regulators of existing accounting standards or changes in our business practices could result in changes in our revenue recognition and/or other accounting policies and practices that could adversely affect our business, financial condition, cash flows, revenue and results of operations. In addition, changes in accounting rules could alter the application of certain terms in our credit agreement, thereby impacting our ability to comply with our debt covenants.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business, and our per share price may be adversely affected. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") and the rules and regulations promulgated by the SEC to implement Section 404, we are required to include in our Form 10-K a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting. The assessment must include disclosure of any material weakness in our internal control over financial reporting identified by management.

As part of the evaluation undertaken by management and our independent registered public accountants pursuant to Section 404, our internal control over financial reporting was effective as of our most recent fiscal year end. However, if we fail to maintain an effective system of disclosure controls or internal controls over financial reporting, we may discover material weaknesses that we would then be required to disclose. Any material weaknesses identified in our internal controls could have an adverse effect on our business. We may not be able to accurately or timely report on our financial results, and we might be subject to investigation by regulatory authorities. This could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which may have an adverse effect on our stock price.

No evaluation process can provide complete assurance that our internal controls will detect and correct all failures within our company to disclose material information otherwise required to be reported. The effectiveness of our controls and procedures could also be limited by simple errors or faulty judgments. In addition, if we continue to expand, through either organic growth or through acquisitions (or both), the challenges involved in implementing appropriate controls will increase and may require that we evolve some or all of our internal control processes.

It is also possible that the overall scope of Section 404 may be revised in the future, thereby causing ourselves to review, revise or reevaluate our internal control processes which may result in the expenditure of additional human and financial resources.

Risks Related to Ownership of Our Common Stock

The unpredictability of our quarterly operating results may cause the price of our common stock to fluctuate or decline. Our revenue may fluctuate in the future from quarter to quarter and period to period, as a result of a number of factors including, without limitation:

- the size and timing of orders from clients;
- the specific mix of software, hardware and services in client orders;
- the length of sales cycles and installation processes;
- the ability of our clients to obtain financing for the purchase of our products;
- changes in pricing policies or price reductions by us or our competitors;
- the timing of new product announcements and product introductions by us or our competitors;
- changes in revenue recognition or other accounting guidelines employed by us and/or established by the Financial Accounting Standards Board ("FASB") or other rule-making bodies;
- changes in government healthcare policies and regulations, such as the shift from fee-for-service reimbursement to value-based reimbursement;
- accounting policies concerning the timing of the recognition of revenue;
- the availability and cost of system components;
- the financial stability of clients;
- market acceptance of new products, applications and product enhancements;
- our ability to develop, introduce and market new products, applications and product enhancements;
- our success in expanding our sales and marketing programs;
- deferrals of client orders in anticipation of new products, applications, product enhancements, or public/private sector initiatives;
- execution of or changes to our strategy;
- personnel changes; and
- general market/economic factors.

Our software products are generally shipped as orders are received and accordingly, we have historically operated with a minimal backlog of license fees. As a result, a portion of our revenue in any quarter is dependent on orders booked and shipped in that quarter and is not predictable with any degree of certainty. Furthermore, our systems can be relatively large and expensive, and individual systems sales can represent a significant portion of our revenue and profits for a quarter such that the loss or deferral of even one such sale can adversely affect our quarterly revenue and profitability. Clients often defer systems purchases until our quarter end, so quarterly revenue from system sales generally cannot be predicted and frequently are not known until after the quarter has concluded. Our sales are dependent upon clients' initial decisions to replace or substantially modify their existing information systems, and subsequently, their decision concerning which products and services to purchase. These are major decisions for healthcare providers and, accordingly, the sales cycle for our systems can vary significantly and typically ranges from six to twenty-four months from initial contact to contract execution/shipment. Because a significant percentage of our expenses are relatively fixed, a variation in the timing of systems sales, implementations and installations can cause significant variations in operating results from quarter to quarter. As a result, we believe that interim period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, our historical operating results are not necessarily indicative of future performance for any particular period. We currently recognize revenue in accordance with the applicable accounting guidance as defined by the FASB. There can be no assurance that application and subsequent interpretations of these pronouncements will not further modify our revenue recognition policies, or that such modifications would not adversely affect our operating

results reported in any particular quarter or year. Due to all of the foregoing factors, it is possible that our operating results may be below the expectations of public market analysts and investors. In such event, the price of our common stock would likely be adversely affected.

Our common stock price has been volatile, which could result in substantial losses for investors purchasing shares of our common stock and in litigation against us. Volatility may be caused by a number of factors including but not limited to:

- actual or anticipated quarterly variations in operating results;
- rumors about our performance, software solutions, or merger and acquisition activity;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- governmental regulatory action;
- health care reform measures;
- client relationship developments;
- purchases or sales of company stock;
- activities by one or more of our major shareholders concerning our policies and operations;
- changes occurring in the markets in general;
- macroeconomic conditions, both nationally and internationally; and
- other factors, many of which are beyond our control.

Furthermore, the stock market in general, and the market for software, healthcare and high technology companies in particular, has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of actual operating performance.

Moreover, in the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

One of our current directors is a significant shareholder, which makes it possible for him to have significant influence over the outcome of all matters submitted to our shareholders for approval and which influence may be alleged to conflict with our interests and the interests of our other shareholders. One of our directors is a significant shareholder who beneficially owns approximately 15% of the outstanding shares of our common stock at March 31, 2020. California law and our Bylaws permit our shareholders to cumulate their votes, the effect of which is to provide shareholders with sufficiently large concentrations of our shares the opportunity to assure themselves one or more seats on our Board of Directors. The amounts required to assure a seat on our Board of Directors can vary based upon the number of shares outstanding, the number of shares voting, the number of directors to be elected, the number of "broker non-votes," and the number of shares held by the shareholder exercising the cumulative voting rights. In the event that cumulative voting is invoked, it is possible that any significant shareholders will each have sufficient votes to assure themselves of one or more seats on our Board of Directors. With or without cumulative voting, any significant shareholders will have substantial influence over the outcome of all matters submitted to our shareholders for approval, including the election of our directors and other corporate actions. This influence may be alleged to conflict with our interests and the interests of our other shareholders. For example, in fiscal year 2013, the former director launched a proxy contest to elect a different slate of directors than what our Company proposed to shareholders. We spent approximately \$1.3 million to defend against the proxy contest and elect the Company's slate of directors. In addition, such influence by a significant shareholder could have the effect of discouraging others from attempting to acquire our Company or create actual or perceived governance instabilities that could adversely affect the price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Irvine, California. We believe that our existing facilities are in good condition and adequate for our current business requirements. Should we continue to grow, we may be required to lease or acquire additional space. We believe that suitable additional space is available, if needed, at commercially reasonable market rates and terms.

As of March 31, 2020, we leased an aggregate of approximately 591,700 square feet of space with lease agreements expiring at various dates, of which approximately 462,500 square feet of space are utilized for continuing operations and 129,200 square feet of space are being subleased or have been vacated as part of our reorganization efforts, as described further in Note 16, "Restructuring Plan" of our notes to consolidated financial statements included elsewhere in this Report:

	<u>Square Feet</u>	<u>Notes</u>
<u>Primary Operating Locations</u>		
Bangalore, India	137,700	(2)
Horsham, Pennsylvania	80,400	(2)
Irvine, California	71,800	(1) (2)
St. Louis, Missouri	42,300	
Hunt Valley, Maryland	34,000	
Atlanta, Georgia	27,000	(2)
San Diego, California	24,800	(2)
Cary, North Carolina	24,200	
Fairport, New York	15,300	
Traverse City, Michigan	5,000	
Total Primary Operating Locations	462,500	
<u>Vacated or Subleased Locations, or Portions Thereof</u>		
Horsham, Pennsylvania	29,600	
North Canton, Ohio	22,100	
San Diego, California	15,200	
Solana Beach, California	12,000	
Phoenix, Arizona	11,400	
Irvine, California	11,300	
Brentwood, Tennessee	10,500	
St. Louis, Missouri	8,600	
Atlanta, Georgia	8,500	
Total Vacated or Subleased Locations	129,200	
Total Leased Properties	591,700	

(1) Location of our corporate office

(2) Primary locations of our research and development functions

ITEM 3. LEGAL PROCEEDINGS

We have experienced legal claims by clients regarding product and contract disputes, by other third parties asserting that we have infringed their intellectual property rights, by current and former employees regarding certain employment matters and by certain shareholders. We believe that these claims are without merit and intend to defend against them vigorously; however, we could incur substantial costs and diversion of management resources defending any such claim, even if we are ultimately successful in the defense of such matter. Litigation is inherently uncertain and always difficult to predict.

Additionally, we are subject to the regulation and oversight of various federal and state governmental agencies that enforce fraud and abuse programs related to the submission of fraudulent claims for reimbursement from governmental payers. We have received, and from time to time may receive, inquiries or subpoenas from federal and state agencies. Under the False Claims Act ("FCA"), private parties have the right to bring qui tam, or "whistleblower," suits against entities that submit, or cause to be submitted, fraudulent claims for reimbursement. Qui tam or whistleblower actions initiated under the FCA may be pending but placed under seal by the court to comply with the FCA's requirements for filing such suits. As a result, they could lead to proceedings without our knowledge. We refer you to the discussion of regulatory and litigation risks within "Item 1A. Risk Factors" and to Note 15, "Commitments, Guarantees and Contingencies" of our notes to consolidated financial statements included elsewhere in this Report for a discussion of current legal proceedings.

ITEM 4. MINE AND SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price and Holders

Our common stock is traded under the symbol “NXGN” on the NASDAQ Global Select Market.

At May 26, 2020, there were approximately 663 holders of record of our common stock.

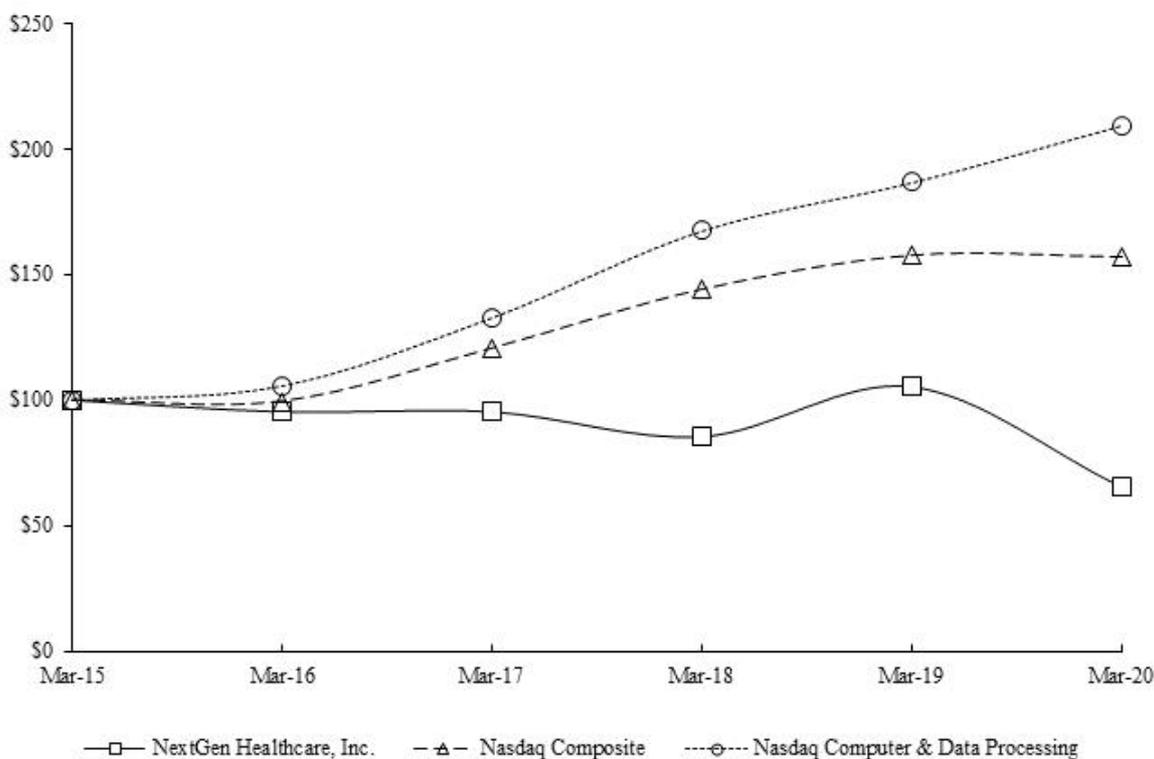
Securities Authorized for Issuance Under Equity Compensation Plans

The information included under Item 12 of this Report, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," is incorporated herein by reference.

Performance Graph

The following graph compares the cumulative total returns of our common stock, the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Stock Index over the five-year period ended March 31, 2020 assuming \$100 was invested on March 31, 2015 with all dividends, if any, reinvested. The returns shown are based on historical results and are not intended to be indicative of future stock prices or future performance. This performance graph shall not be deemed to be “soliciting material” or “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended or the Exchange Act.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among NextGen Healthcare, Inc., The NASDAQ Composite Index
And The NASDAQ Computer & Data Processing Index



* \$100 invested on March 31, 2015 in stock or index, including reinvestment of dividends. Fiscal year ended March 31.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data, with respect to our consolidated statements of net income and comprehensive income data for each of the five years in the period ended March 31, 2020 and the consolidated balance sheets data as of the end of each such fiscal year, are not necessarily indicative of results of future operations and should be read in conjunction with our consolidated financial statements and the related notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Report.

Consolidated Financial Data
(In thousands, except per share data)

	Fiscal Year Ended March 31,				
	2020	2019	2018	2017	2016
Statements of comprehensive income data:					
Revenue	\$ 540,239	\$ 529,173	\$ 531,019	\$ 509,624	\$ 492,477
Cost of revenue	267,439	246,697	241,535	223,134	225,615
Gross profit	272,800	282,476	289,484	286,490	266,862
Selling, general and administrative	165,174	164,879	193,226	163,623	156,234
Research and development costs, net	83,295	80,994	81,259	78,341	65,661
Amortization of acquired intangible assets	4,143	4,344	7,810	10,435	5,367
Impairment of assets	12,571	—	3,757	—	32,238
Restructuring costs	2,505	640	611	7,078	—
Income from operations	5,112	31,619	2,821	27,013	7,362
Interest income	256	216	55	14	428
Interest expense	(1,955)	(2,814)	(3,323)	(3,156)	(1,304)
Other income (expense), net	846	267	37	(262)	(166)
Income (loss) before provision for income taxes	4,259	29,288	(410)	23,609	6,320
Provision for (benefit of) income taxes	(3,239)	4,794	(2,830)	5,368	663
Net income	\$ 7,498	\$ 24,494	\$ 2,420	\$ 18,241	\$ 5,657
Basic net income per share	\$ 0.11	\$ 0.38	\$ 0.04	\$ 0.30	\$ 0.09
Diluted net income per share	\$ 0.11	\$ 0.38	\$ 0.04	\$ 0.29	\$ 0.09
Basic weighted average shares outstanding	65,474	64,417	63,435	61,818	60,635
Diluted weighted average shares outstanding	65,612	64,600	63,440	62,010	61,233
Dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ 0.53
	March 31,	March 31,	March 31,	March 31,	March 31,
	2020	2019	2018	2017	2016
Balance sheet data:					
Cash, cash equivalents, and marketable securities	\$ 138,012	\$ 33,079	\$ 28,845	\$ 37,673	\$ 36,473
Working capital	116,797	31,619	7,070	18,108	45,931
Total assets	720,116	532,895	515,755	473,221	530,790
Long-term line of credit	129,000	11,000	37,000	15,000	105,000
Total liabilities	319,622	156,949	192,345	168,178	261,413
Total shareholders' equity	400,494	375,946	323,410	305,043	269,377

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the matters discussed in this management's discussion and analysis of financial condition and results of operations ("MD&A"), including discussions of our product development plans, business strategies and market factors influencing our results, may include forward-looking statements that involve certain risks and uncertainties. Actual results may differ from those anticipated by us as a result of various factors, both foreseen and unforeseen, including, but not limited to, the impact of the COVID-19 pandemic and measures taken in response thereto, as well as 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, as well as in our other public disclosures and filings with the Securities and Exchange Commission ("SEC").

This MD&A is provided as a supplement to the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K ("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 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. For information regarding the year ended March 31, 2018, including a year-to-year comparison of our financial condition and results of operations for the years ended March 31, 2019 and March 31, 2018, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended March 31, 2019, filed with the SEC on May 29, 2019.

Company Overview

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

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

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

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

Industry Background, Regulatory Environment, and Market Opportunity

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

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

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

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

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

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

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

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

The new regulations will require significant compliance efforts for healthcare providers, information networks, exchanges, and HIT companies. However, CURES also creates opportunities for improving care delivery and outcomes through increased data exchange between providers, and easier patient access to their own health information. Key to unlocking these benefits is the introduction of new Fast Healthcare Interoperability Resources (“FHIR”) standards. ONC’s goal is for certified HIT companies

to adopt FHIR-based API standards. Meanwhile, CMS is requiring hospitals to provide electronic admission, discharge and transfer notification to other healthcare facilities, providers and designated care team members.

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

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

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

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

Our Strategy

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

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

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

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

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

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

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

COVID-19 Update

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

According to Johns Hopkins University, as of May 29, 2020, more than 5.9 million cases of COVID-19 have been reported in over 188 countries with more than 364,000 deaths. In addition to the socioeconomic disruption caused by the pandemic, both treatment and suppression measures stressed the very fabric of the U.S. healthcare system in some geographies, exacerbating some of the existing challenges with capacity, balance and reimbursement. Among the measures to slow the spread of the disease and flatten the curve in line with healthcare system capacity was social/physical distancing. The need to access care while still social distancing was addressed early on with the limited use of virtual visits and was energized when the federal government reduced regulatory barriers and addressed payment parity between virtual and in-person visits. With these tailwinds, telemedicine quickly became regarded as a safer way for patients and providers to engage each other while also relieving economic pressure on the medical practice. We believe that the uptake of telemedicine will transcend COVID-19 and that virtual visits will become a permanent and important change in the way care is delivered. Keeping patients out of the transit system, out of the waiting room and away from other sick patients is simply good medicine.

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

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

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

Results of Operations

The following table sets forth the percentage of revenue represented by each item in our consolidated statements of net income and comprehensive income for the years ended March 31, 2020 and 2019 (certain percentages below may not sum due to rounding):

	Fiscal Year Ended March 31,	
	2020	2019
Revenues:		
Recurring	90.6%	89.6%
Software, hardware, and other non-recurring	9.4	10.4
Total revenues	<u>100.0</u>	<u>100.0</u>
Cost of revenue:		
Recurring	38.0	36.2
Software, hardware, and other non-recurring	5.0	5.0
Amortization of capitalized software costs and acquired intangible assets	6.6	5.4
Total cost of revenue	<u>49.5</u>	<u>46.6</u>
Gross profit	50.5	53.4
Operating expenses:		
Selling, general and administrative	30.6	31.2
Research and development costs, net	15.4	15.3
Amortization of acquired intangible assets	0.8	0.8
Impairment of assets	2.3	0.0
Restructuring costs	0.5	0.1
Total operating expenses	<u>49.5</u>	<u>47.4</u>
Income from operations	0.9	6.0
Interest income	0.0	0.0
Interest expense	(0.4)	(0.5)
Other income, net	0.2	0.1
Income before provision for (benefit of) income taxes	0.8	5.5
Provision for (benefit of) income taxes	(0.6)	0.9
Net income	<u>1.4%</u>	<u>4.6%</u>

Revenues

The following table presents our consolidated revenues for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Recurring revenues:		
Subscription services	\$ 127,602	\$ 117,502
Support and maintenance	158,619	160,798
Managed services	104,549	98,203
Electronic data interchange and data services	98,543	97,418
Total recurring revenues	<u>489,313</u>	<u>473,921</u>
Software, hardware, and other non-recurring revenues:		
Software license and hardware	27,270	35,122
Other non-recurring services	23,656	20,130
Total software, hardware and other non-recurring revenues	<u>50,926</u>	<u>55,252</u>
Total revenues	<u>\$ 540,239</u>	<u>\$ 529,173</u>
Recurring revenues as a percentage of total revenues	90.6%	89.6%

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

Consolidated revenue for the year ended March 31, 2020 increased \$11.1 million compared to the prior year due to a \$15.4 million increase in recurring revenues, partially offset by a \$4.3 million decrease in software, hardware and other non-recurring revenues. The increase in recurring revenues was primarily due to \$10.1 million higher subscription services driven by incremental revenue related to our acquisitions of Topaz and Medfusion and growth in subscriptions associated with our population health and analytics, core NextGen, and NextGen Office cloud-based solutions, \$6.3 million higher managed services revenue related to recent growth in RCM and managed cloud services bookings and incremental patient pay services related to the Medfusion acquisition, and \$1.1 million higher EDI and data services associated with growth in EDI transaction volume from the addition of new clients and further penetration of our existing client base, for which growth in revenue was partially muted by incremental revenues recognized in the prior year from the sales of certain clinical data. The increase in recurring revenues was partially offset by \$2.2 million lower support and maintenance revenue from client attrition. The decrease in software, hardware, and other non-recurring revenues was primarily due to a \$7.9 million decline in software license and hardware revenue from lower software bookings, including the impact from COVID-19 in our fiscal fourth quarter, partially offset by a \$3.5 million increase in professional services.

Bookings reflect the estimated annual value of our executed contracts, which we believe may provide a broad indicator of the general direction and progress of the business. Total bookings on a comparable basis, adjusted to include the effect of pre-acquisition bookings, were \$130.9 million for the year ended March 31, 2020 compared to \$135.6 million in the prior year, primarily reflecting a decline in software bookings, partially offset by higher bookings of subscriptions and EDI services. Total bookings for the year ended March 31, 2018 were \$120.5 million. In May 2020, we also announced a move to reduce our perpetual license revenue in favor of recurring subscription revenue.

Cost of Revenue and Gross Profit

The following table presents our consolidated cost of revenue and gross profit for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Cost of revenue:		
Recurring	\$ 205,057	\$ 191,496
Software, hardware, and other non-recurring	26,904	26,711
Amortization of capitalized software costs and acquired intangible assets	35,478	28,490
Total cost of revenue	\$ 267,439	\$ 246,697
Gross profit	\$ 272,800	\$ 282,476
Gross margin %	50.5%	53.4%

Cost of revenue consists primarily of compensation expense, including share-based compensation, for personnel that deliver our products and services. Cost of revenue also includes amortization of capitalized software costs and acquired technology, third party consultant and outsourcing costs, costs associated with our EDI business partners and clearinghouses, hosting service costs, third party software costs and royalties, and other costs directly associated with delivering our products and services. Refer to Note 8, "Intangible Assets" and Note 9, "Capitalized Software Costs" of our notes to consolidated financial statements included elsewhere in this Report for additional information on current period amortization of capitalized software costs and acquired technology and an estimate of future expected amortization. As noted above, we announced in May 2020 a move to reduce our perpetual license revenue in favor of recurring subscription revenue, which will impact our gross margin percentages as we will book less high-margin perpetual licenses than we have historically, but ultimately it will produce high-margin recurring revenue. When combined with incremental amortization of capitalized software costs and acquired intangible assets, it will further reduce our expected gross margin percentage.

Share-based compensation expense included in cost of revenue was \$2.1 million and \$1.3 million for the years ended March 31, 2020 and 2019, respectively.

Gross profit for the year ended March 31, 2020 decreased \$9.7 million compared to the prior year and gross margin percentage decreased to 50.5% for the year ended March 31, 2020 compared to 53.4% in the prior year period. The declines in gross profit and gross margin were primarily attributable to a decline in higher margin software license revenue as noted above, combined with \$7.0 million higher amortization of previously capitalized software development costs and higher amortization of software technology intangible assets associated with the recent acquisitions of Medfusion, OTTO, Topaz, Inforth, EagleDream, and Entrada, partially offset by higher recurring revenues.

Selling, General and Administrative Expense

The following table presents our consolidated selling, general and administrative expense for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Selling, general and administrative	\$ 165,174	\$ 164,879
Selling, general and administrative, as a percentage of revenue	30.6%	31.2%

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

Share-based compensation expense included in selling, general and administrative expenses was \$13.8 million and \$11.9 million for the years ended March 31, 2020 and 2019, respectively. The increase in share-based compensation expense for the year ended March 31, 2020 compared to the prior years is due to increased utilization of share-based awards to incentivize our executives and employees. Refer to Note 14, "Share-Based Awards" of our notes to consolidated financial statements included elsewhere in this Report for additional information on equity award grants.

Selling, general and administrative expenses increased \$0.3 million for the year ended March 31, 2020 compared to the prior year primarily due to lower bad debt and depreciation expense, lower payroll costs associated with our restructuring plans, and lower spend related to conferences, travel, marketing, and communications, offset by the impact of a \$5.7 million net benefit recorded in the prior year from insurance recoveries related to the settlement of the Federal Securities Class Action complaint and higher share-based compensation expenses noted above.

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 years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Gross expenditures	\$ 102,727	\$ 101,565
Capitalized software costs	(19,432)	(20,571)
Research and development costs, net	<u>\$ 83,295</u>	<u>\$ 80,994</u>
Research and development costs, as a percentage of revenue	15.4%	15.3%
Capitalized software costs as a percentage of gross expenditures	18.9%	20.3%

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

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

The capitalization of software development costs results in a reduction to our reported net research and development costs. Our software capitalization rate, or capitalized software costs as a percentage of gross expenditures, has varied historically and may continue to vary based on the nature and status of specific projects and initiatives in progress. Although changes in software capitalization rates have no impact on our overall cash flows, it results in fluctuations in the amount of software development costs being expensed up front and the amount of net research and development costs reported in our consolidated statement of net income and comprehensive income.

Share-based compensation expense included in research and development costs was \$3.9 million and \$2.9 million for the years ended March 31, 2020 and 2019, respectively.

Net research and development costs for the year ended March 31, 2020 increased \$2.3 million compared to the prior year due to a \$1.2 million increase in our gross expenditures and \$1.1 million lower capitalization of software costs. The increase in gross expenditures is primarily the result of incremental costs incurred for the development of the next versions of our software solutions and enhancements to our existing solutions, including increased hosting fees, higher utilization of our Bangalore

development center resources, and increased share-based compensation expense, partially offset by lower consulting and outside services costs and lower US-based payroll costs due to reductions in our headcount.

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 and ultimately also affects the future amortization of our previously capitalized software development costs.

Amortization of Acquired Intangible Assets

The following table presents our amortization of acquired intangible assets for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Amortization of acquired intangible assets	\$ 4,143	\$ 4,344

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

Amortization of acquired intangible assets for the year ended March 31, 2020 decreased \$0.2 million, compared to the prior year period due to certain acquired intangible assets becoming fully amortized, partially offset by additional amortization of the customer relationships and trade names intangible assets acquired from Medfusion.

Impairment of Assets

During the year ended March 31, 2020, we recorded impairments of \$9.4 million 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, Atlanta, Brentwood, and Phoenix, in connection with our restructuring plans, 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.

During the year ended March 31, 2020, we also recorded \$3.2 million of impairments related to the write down of previously capitalized software development costs for certain technology that will no longer be utilized in any future software solutions.

Restructuring Costs

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 \$2.5 million of restructuring costs in the year ended March 31, 2020 within operating expenses in our 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.

During the year ended March 31, 2019, we recorded \$0.6 million of restructuring costs related to adjustments to the estimated fair value of remaining lease obligations for vacated properties associated with our prior restructuring plan. The restructuring costs were comprised of facilities-related costs associated with accruals for the remaining lease obligations at certain locations, including Solana Beach, Costa Mesa, and a portion of Horsham with contractual lease terms ending between January 2018 and September 2023. We estimated the remaining lease obligations at fair value as of the cease-use date for each location based on the future contractual lease obligations, reduced by projected sublease rentals that could be reasonably obtained for the locations after a period of marketing, and adjusted for the effect deferred rents that have been recognized under the lease. The effect of discounting future cash flows using a credit-adjusted risk free rate was not significant. Sublease income and commencement dates were estimated based on data available from rental activity in the local markets. As of March 31, 2019, the remaining lease obligation, net of estimated projected sublease rentals, was \$1.8 million.

Refer to Note 5, "Leases," of our notes to consolidated financial statements included elsewhere in this Report for estimated timing of payments related to remaining lease obligations.

Interest Expense

The following table presents our interest expense for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Interest income	\$ 256	\$ 216
Interest expense	(1,955)	(2,814)
Other income, net	846	267

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

Interest expense for the year ended March 31, 2020 decreased \$0.9 million compared to the prior year. 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 March 31, 2020, we had \$129.0 million in outstanding loans under the revolving credit agreement.

Other income for the year ended March 31, 2020 increased \$0.6 million compared to the prior year, which was primarily associated with fluctuations in the India foreign exchange rates.

Provision for (Benefit of) Income Taxes

The following table presents our provision for (benefit of) income taxes for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Provision for (benefit of) income taxes	\$ (3,239)	\$ 4,794
Effective tax rate	-76.1%	16.4%

The change in the effective tax rate for the year ended March 31, 2020 compared to the prior year period was driven primarily by a decrease in pretax income for the current year. The effective tax rate for the year ended March 31, 2020 also benefitted from a release of uncertain tax position reserves on prior year tax settlements, certain return to provision adjustments, and state income taxes, which was partially offset by nondeductible expenses for the year ended March 31, 2020.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, has resulted in significant changes to the U.S. federal corporate tax law. Additionally, several state and foreign jurisdictions have enacted additional legislation and or comply with federal changes. As the enactment dates of this law was prior to the end of our reporting period, we have considered the applicable tax law changes in our current and deferred income tax expense as of March 31, 2020. We will continue analyzing the applications of the CARES Act and include the material impact to future income tax provisions, if applicable.

Net Income

The following table presents our net income (in thousands) and net income per share and for the years ended March 31, 2020 and 2019:

	Fiscal Year Ended March 31,	
	2020	2019
Net income	\$ 7,498	\$ 24,494
Net income per share:		
Basic	\$ 0.11	\$ 0.38
Diluted	\$ 0.11	\$ 0.38

As a result of the foregoing changes in revenue and expense, net income for the fiscal year ended March 31, 2020 decreased \$17.0 million compared to the prior year period.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Cash and cash equivalents	\$ 138,012	\$ 33,079
Unused portion of revolving credit agreement (1)	171,000	289,000
Total liquidity	\$ 309,012	\$ 322,079
Net income	\$ 7,498	\$ 24,494
Net cash provided by operating activities	\$ 85,601	\$ 50,475

(1) As of March 31, 2020, we had outstanding borrowings of \$129.0 million under our \$300.0 million revolving credit agreement.

Our outstanding borrowings under our revolving credit agreement was \$129.0 million as of March 31, 2020 compared to \$11.0 million as of March 31, 2019.

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

We believe that our cash and cash equivalents on hand at March 31, 2020, together with our cash flows from operating activities and liquidity provided by our revolving credit agreement, will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months. Due to the ongoing uncertainties of the impact of the COVID-19 pandemic on the industry in which we operate, we proactively implemented certain precautionary measures, including cost containment and strengthening our cash position by increasing the outstanding borrowings under our revolving credit agreement during the year ended March 31, 2020 and borrowing an additional \$50.0 million in April 2020. The impact of COVID-19 is rapidly evolving and widespread, and therefore, it is not possible to fully identify, measure, and predict the various impacts that COVID-19 may have on our financial condition, results of operations, cash flows, and liquidity requirements. We will continue to assess the potential effects of the COVID-19 pandemic on our business and actively manage our response accordingly.

Cash and Cash Equivalents

As of March 31, 2020, our cash and cash equivalents balance of \$138.0 million compares to \$33.1 million as of March 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.

Cash Flows from Operating Activities

The following table summarizes our consolidated statements of cash flows for the years ended March 31, 2020 and 2019 (in thousands):

	Fiscal Year Ended March 31,	
	2020	2019
Net income	\$ 7,498	\$ 24,494
Non-cash expenses	85,902	66,662
Cash from net income, as adjusted	\$ 93,400	\$ 91,156
Change in contract assets and liabilities, net	1,325	(4,943)
Change in accounts receivable	4,937	(6,178)
Change in other assets and liabilities	(14,061)	(29,560)
Net cash provided by operating activities	\$ 85,601	\$ 50,475

For the year ended March 31, 2020, cash provided by operating activities increased \$35.1 million compared to the prior year, consisting of \$15.5 million increase from net changes in other assets and liabilities, \$17.4 million increase from net changes in accounts receivable and contract balances, and \$2.2 million increase from higher net income, as adjusted for non-cash expenses. Cash from operating activities benefited from changes in other assets and liabilities due to payments in the prior year related to the \$19.0 million settlement of the Federal Securities Class Action complaint, which was partially offset by the impact of operating lease liabilities from the adoption of ASC 842 (refer to Note 5, "Leases" of our notes to consolidated financial statements included elsewhere in this Report for additional information) and net decreases in cash from changes in income taxes receivable and payable. Net changes to accounts receivable and contract balances resulted in a benefit to cash from operating activities as we continue to focus our efforts on collections and resolution of aged balances. 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 capitalized software costs, as described above, higher share-based compensation expenses, and changes in deferred taxes, while net income for the year ended March 31, 2020 decreased \$17.0 million compared to the prior year, as described above.

Cash Flows from Investing Activities

Net cash used in investing activities for the years ended March 31, 2020 and 2019 was \$96.1 million and \$25.5 million, respectively. The \$70.6 million net increase in cash used in investing activities compared to the prior year is primarily due to cash payments for our acquisitions of Topaz, Medfusion and OTTO, net of cash acquired, of \$71.7 million and \$2.5 million higher additions to equipment and improvements, offset by \$2.5 million of proceeds from over-funded corporate-owned life insurance policies and \$1.1 million lower capitalization of software development costs.

Cash Flows from Financing Activities

Net cash provided by financing activities for the year ended March 31, 2020 was \$116.3 million compared to net cash used in financing activities of \$21.6 million in the prior year. The increase in cash from financing activities is due to \$118.0 million of net borrowings against our revolving credit facility, comprised of \$137.0 million of additional borrowings and \$19.0 million of principal repayments and \$2.4 million of net proceeds from the issuance of shares under employee plans, partially offset by \$4.1 million of payments for taxes related to net share settlement of equity awards. In comparison, during the prior year, net payments on our revolving credit facility were \$26.0 million, consisting of \$52.0 million of principal repayments and \$26.0 million of additional borrowings and \$3.2 million of payments for taxes related to net share settlement of equity awards, partially offset by \$7.5 million of net proceeds from the issuance of shares under employee plans.

Contractual Obligations

As of March 31, 2020, we had minimum purchase commitments of \$17.3 million related to payments due under certain non-cancelable agreements to purchase goods and services.

The following table summarizes our other significant contractual obligations at March 31, 2020 and the effect that such obligations are expected to have on our liquidity and cash in future periods (in thousands):

Contractual Obligations	For the year ended March 31,						
	Total	2021	2022	2023	2024	2025	2026 and beyond
Operating lease obligations	\$ 43,017	\$ 9,408	\$ 9,186	\$ 9,248	\$ 7,955	\$ 5,948	\$ 1,272
Remaining lease obligations for vacated properties (1)	11,898	3,182	2,935	2,255	1,677	1,337	512
Line of credit obligations (Note 10)	129,000	—	—	129,000	—	—	—
Total	\$ 183,915	\$ 12,590	\$ 12,121	\$ 140,503	\$ 9,632	\$ 7,285	\$ 1,784

(1) Remaining lease obligations for vacated properties relates to remaining lease obligations at certain locations, including Brentwood, Solana Beach, North Canton, Phoenix and portions of Atlanta, Irvine, Horsham, San Diego and St. Louis, that we have vacated and are actively marketing the locations for sublease as part of our reorganization efforts. Refer to Note 16, "Restructuring Plan" of our notes to consolidated financial statements included elsewhere in this Report for additional information. Total obligations have not been reduced by projected sublease rentals or by minimum sublease rentals of \$0.9 million due in future periods under non-cancelable subleases.

The deferred compensation liability as of March 31, 2020 was \$5.3 million, which is not included in the table above as the timing of future benefit payments to employees is not determinable.

The uncertain tax position liability as of March 31, 2020 was \$4.2 million, which is not included in the table above as the timing of expected payments is not determinable.

New Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies" of our notes to consolidated financial statements included elsewhere in this Report for a discussion of new accounting standards.

Critical Accounting Policies and Estimates

The discussion and analysis of our consolidated financial statements and results of operations is based upon our 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 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 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.

Our significant accounting policies, as described in Note 2, "Summary of Significant Accounting Policies" of our notes to consolidated financial statements included elsewhere in this Report, should be read in conjunction with management's discussion and analysis of financial condition and results of operations. We believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results because application of such policies require significant judgment regarding the effects of matters that are inherently uncertain and that affect our consolidated financial statements.

Revenue Recognition

Application of the revenue recognition guidance requires a significant amount of judgments and estimates, which may impact the amount and timing of revenue recognition and related disclosures. Refer to Note 3, "Revenue from Contracts with Customers" of our notes to consolidated financial statements included elsewhere in this Report for additional information regarding our revenue recognition policies, significant judgements, and estimates.

Software Development Costs

Software development costs, consisting primarily of employee salaries and benefits and certain third party costs, incurred in the development of new software solutions and enhancements to existing software solutions for external sale are expensed as incurred, and reported as net research and development costs in the consolidated statements of net income and comprehensive income, until technological feasibility has been established. After technological feasibility is established, any additional software development costs are capitalized. Amortization of capitalized software is recorded on straight-line basis over the estimated economic life of the related product, which is typically three years. The total of capitalized software costs incurred in the development of products for external sale are reported as capitalized software costs within our consolidated balance sheets.

We also incur costs related to the development of software applications for our internal-use and for the development of software-as-a-service ("SaaS") based solutions sold to our clients. The development costs of our SaaS-based solutions are considered internal-use for accounting purposes. Our internal-use capitalized development costs are stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets, which is typically three years. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized, whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Capitalized software costs for the development of SaaS-based solutions are reported as capitalized software costs within our consolidated balance sheets and capitalized software costs for the development of our internal-use software applications are reported as equipment and improvements within our consolidated balance sheets.

We periodically reassess the estimated economic life and the recoverability of our capitalized software costs. If we determine that capitalized amounts are not recoverable based on the expected net cash flows to be generated from sales of the applicable software solutions, the amount by which the unamortized capitalized costs exceed the net realizable value is written off as a charge to earnings. The net realizable value is the estimated as the expected future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and client support required to satisfy our responsibility at the time of sale. In addition to the assessment of net realizable value, we review and adjust the remaining estimated lives of our capitalized software costs, if necessary. We also perform a periodic review of our software solutions and dispose of fully amortized capitalized software costs after such products are determined to be no longer used by our clients.

Although we currently believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to increases or decreases in revenue that could be material.

Business Combinations

During the year ended March 31, 2020, we completed the acquisitions of Topaz, Medfusion, and OTTO, and during the year ended March 31, 2018, we completed the acquisitions of Entrada, EagleDream and Inforth. We accounted for the acquisitions as purchase business combinations using the acquisition method of accounting.

In accordance with the acquisition method of accounting for business combinations, we allocated the purchase price of acquired businesses to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values. Our purchase price allocation methodology contains uncertainties because it requires us to make assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities, including, but not limited to, intangible assets, goodwill, and contingent consideration liabilities. We estimate the fair value of assets and liabilities based upon the carrying value of the acquired assets and widely accepted valuation techniques, including discounted cash flows and market multiple analyses depending on the nature of the assets being sold. We estimate the fair value of the contingent consideration liabilities, as needed, based on our projection of expected results and the estimated probability of achievement. The process to develop the estimate of fair values in many cases requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies. We finalize the purchase price allocation as soon as practicable within the measurement period, but not later than one year following the acquisition date. Any adjustments to fair value subsequent to the measurement period are reflected in the consolidated statements of net income and comprehensive income.

Goodwill

Goodwill acquired in a business combination is measured as the excess of the purchase price, or consideration transferred, over the net acquisition date fair values of the assets acquired and the liabilities assumed. Goodwill is not amortized as it has been determined to have an indefinite useful life.

As part of our annual goodwill impairment test, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we conduct a two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their carrying values. If the carrying amount of the reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital.

The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for each reporting unit.

We test goodwill for impairment annually during our first fiscal quarter, referred to as the annual test date. Based on our qualitative assessment for the current fiscal year, we have determined that there was no impairment to our goodwill as of June 30, 2019. 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.

During the years ended March 31, 2020 and March 31, 2019, we did not identify any events or circumstances that would require an interim goodwill impairment test. We currently also do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to future impairment charges that could be material.

Intangible Assets

Intangible assets consist of trade names, customer relationships, and software technology, all of which are associated with our acquisitions.

The intangible assets are recorded at fair value and are reported net of accumulated amortization. We currently amortize the intangible assets over periods ranging from 5 to 10 years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed. We assess the recoverability of intangible assets at least annually or whenever adverse events or changes in circumstances indicate that impairment may have occurred. If the future undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, impairment is deemed to have occurred and a loss is recognized to reduce the carrying value of the intangible assets to fair value, which is determined by discounting estimated future cash flows. In addition to the impairment assessment, we routinely review the remaining estimated lives of our intangible assets and record adjustments, if deemed necessary.

Although currently we believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to decreases in the fair value of our intangible assets, resulting in impairment charges that could be material. We test intangible assets for impairment if we believe indicators of impairment exist.

Share-Based Compensation

We record share-based compensation related to share-based awards granted under our employee stock options and incentive plans. See Note 14, "Share-Based Awards," of our notes to consolidated financial statements included elsewhere in this Report for a complete discussion of our stock-based compensation plans.

Share-based compensation expense associated with stock options granted under our equity incentive plans is based on the number of options that ultimately vest and adjusted, if needed, as forfeitures occur. We estimate the fair value of stock options on the date of grant using the Black Scholes option-pricing model based on required inputs, including expected term, volatility, risk-free rate, and expected dividend yield. Expected term is estimated based upon the historical exercise behavior and represents the period of time that options granted are expected to be outstanding and therefore the proportion of awards that is expected to vest. Volatility is estimated by using the weighted-average historical volatility of our common stock, which approximates expected volatility. The risk-free rate is the implied yield available on the U.S. Treasury zero-coupon issues with remaining terms equal to the expected term. The expected dividend yield is the average dividend rate during a period equal to the expected term of the option. The fair value vest is recognized ratably as expense over the requisite service period in our consolidated statements of net income and comprehensive income.

Share-based compensation expense associated with restricted stock awards is estimated using the market price of the common stock on the date of grant. Share-based compensation expense associated with restricted performance stock awards and units are based on the grant date fair value measured at the underlying closing share price on the date of grant using a Monte Carlo-based valuation model.

We currently do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to determine share-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in share-based compensation expense that could be material.

Reserves on Accounts Receivable

We maintain reserves for potential sales returns and uncollectible accounts receivable. Accounts receivable are reported net of uncollectible accounts receivable our consolidated balance sheets.

Our standard contracts generally do not contain provisions for clients to return products or services. However, 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.

Allowances for doubtful accounts and other uncollectible accounts receivable related to estimated losses resulting from our clients' inability to make required payments are established based on our assessment of the collectability of client accounts, including review of our historical experience of bad debt expense and the aging of our accounts receivable balances, net of specifically reserved accounts and amounts billed prior to revenue recognition. Specific reserves are based on our estimate of the probability of collection for certain accounts. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality and age of the client receivable balances as well as external factors such as economic conditions that may affect a client's ability to pay and review of major third-party credit-rating agencies, as needed. Accounts are written off as uncollectible only after we have expended extensive collection efforts. If a major client's creditworthiness or financial condition were to deteriorate, if actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which could have an adverse impact on our operating results.

Although we currently believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to increases or decreases in required reserves that could be material.

Leases

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 5, "Leases" of our notes to consolidated financial statements included elsewhere in this Report for additional information regarding our adoption of ASC 842.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2020 and March 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 March 31, 2020 and March 31, 2019, we had \$129.0 million and \$11.0 million, respectively, in outstanding borrowings 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 six months Eurodollar deposits plus 1%, and (b) for Eurodollar loans, the LIBOR-based rate for one, two, three or six 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 March 31, 2020 would result in a corresponding change in our annual interest expense of approximately \$1.3 million. Refer to Note 10, "Line of Credit" of our notes to consolidated financial statements included elsewhere in this Report for additional information.

As of March 31, 2020 and March 31, 2019, we had international operations that exposed us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. However, the impact of foreign currency fluctuations has not been material to our financial position or operating results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See our consolidated financial statements identified in the Index to Financial Statements appearing under "Item 15. Exhibits and Financial Statement Schedules" of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) 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 March 31, 2020, the end of the period covered by this Report (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.

Management's Report on Internal Control over Financial Reporting

During the year ended March 31, 2020, we completed the acquisitions of Topaz Information Systems, LLC ("Topaz") in October 2019, Medfusion, Inc. ("Medfusion") in December 2019, and OTTO Health, LLC ("OTTO") in December 2019, each of which are now wholly-owned subsidiaries of the Company. In conducting our evaluation of the effectiveness of our internal controls over financial reporting as of March 31, 2020, we have elected to exclude Topaz, Medfusion, and OTTO from our evaluation for fiscal year 2020, based upon Securities and Exchange Commission staff guidance. As of and for the year ended March 31, 2020, the assets and revenues of the acquired companies in aggregate that are not included in our evaluation represented less than 1% of consolidated assets and less than 2% of consolidated revenues.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and principal accounting officer, 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.

Our internal control over financial reporting is supported by written policies and procedures, that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2020. In making our assessment of internal control over financial reporting, management used the criteria set forth in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of March 31, 2020.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report contained in Item 15(a)(1) of Part IV of this Report, "Exhibits and Financial Statement Schedules."

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2020, there were no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference from our definitive proxy statement for our 2020 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this Annual Report on Form 10-K:

	Page
(1) Index to Financial Statements:	
Report of Independent Registered Public Accounting Firm	57
Consolidated Balance Sheets as of March 31, 2020 and 2019	60
Consolidated Statements of Net Income and Comprehensive Income — Years Ended March 31, 2020, 2019 and 2018	61
Consolidated Statements of Shareholders' Equity — Years Ended March 31, 2020, 2019 and 2018	62
Consolidated Statements of Cash Flows — Years Ended March 31, 2020, 2019 and 2018	63
Notes to Consolidated Financial Statements	65
(2) The following supplementary financial statement schedule of NextGen Healthcare, Inc., required to be included in Item 15(a)(2) on Form 10-K is filed as part of this Report.	
Schedule II — Valuation and Qualifying Accounts — Years Ended March 31, 2020, 2019 and 2018	94
Schedules other than that listed above have been omitted since they are either not required, not applicable, or because the information required is included in the Consolidated Financial Statements or the notes thereto.	
(3) The exhibits listed in the Index to Exhibits hereof are attached hereto or incorporated herein by reference and filed as a part of this Report.	
Index to Exhibits	51

ITEM 16. FORM 10-K SUMMARY

None.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
3.1	Restated Articles of Incorporation of Quality Systems, Inc. filed with the Secretary of State of California on September 8, 1989 (Registration No. 333-00161)		S-1	3.1	11-Jan-96
3.2	Certificate of Amendment to Articles of Incorporation of Quality Systems, Inc. filed with the Secretary of State of California effective March 4, 2005		10-K	3.1.1	14-Jun-05
3.3	Certificate of Amendment to Articles of Incorporation of Quality Systems, Inc. filed with the Secretary of State of California effective October 6, 2005		8-K	3.01	11-Oct-05
3.4	Certificate of Amendment to Articles of Incorporation of Quality Systems, Inc. filed with the Secretary of State of California effective March 3, 2006		8-K	3.1	6-Mar-06
3.5	Certificate of Amendment to Articles of Incorporation of Quality Systems, Inc. filed with the Secretary of State of California effective October 6, 2011		8-K	3.1	6-Oct-11
3.6	Restated Articles of Incorporation of NextGen Healthcare, Inc., filed with the Secretary of State of California effective September 6, 2018		8-K	3.1	10-Sep-18
3.7	Amended and Restated Bylaws of Quality Systems, Inc., effective October 30, 2008		8-K	3.1	31-Oct-08
3.8	Amended and Restated Bylaws of NextGen Healthcare, Inc., effective September 6, 2018		8-K	3.2	10-Sep-18
10.1	Agreement and Plan of Merger, dated September 6, 2018, to change the name of Quality Systems, Inc. to NextGen Healthcare, Inc.		8-K	2.1	10-Sep-18
10.2	Agreement and Plan of Merger, dated October 30, 2015, by and among Quality Systems, Inc., Ivory Merger Sub, Inc., HealthFusion Holdings, Inc. and Seth Flam, Sol Lizerbram, and Jonathan Flam, as the Securityholder Representative Committee.		8-K	2.1	30-Oct-15
10.3	Agreement and Plan of Merger, dated April 11, 2017, by and among Quality Systems, Inc., Engage Merger Sub, Inc., Entrada, Inc. and FCA Venture Partners V, LP, as the Company Stockholders' Representative		8-K	2.1	12-Apr-17
10.4	Agreement and Plan of Merger, dated July 31, 2017, by and among Quality Systems, Inc., Peacock Merger Sub, Inc., EagleDream Health, Inc. and Algimantas K. Chesonis		8-K	2.1	1-Aug-17
10.5	Agreement and Plan of Merger, dated November 12, 2019, by and among NextGen Healthcare, Inc., Renegade Merger Sub, Inc., MedFusion, Inc., and Project Renegade LLC, as the Equityholders Representative		8-K	2.1	18-Nov-19
10.6	Credit Agreement, dated as of January 4, 2016, among Quality Systems, Inc., JPMorgan Chase Bank, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, and Bank of the West, KeyBank National Association and Wells Fargo Bank, National Association, as co-documentation agents		10-Q	10.1	29-Jan-16

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.7	Amended and Restated Credit Agreement, dated as of March 29, 2018, among Quality Systems, Inc., JPMorgan Chase Bank, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, and Bank of the West, KeyBank National Association and Wells Fargo Bank, National Association, as co-documentation agents		8-K	10.1	4-Apr-18
10.8*	Second Amended and Restated 2005 Stock Option and Incentive Plan		DEF14A	Appendix I	1-Jul-11
10.9*	Form of Incentive Stock Option Agreement for 2005 Stock Incentive Plan		8-K	10.3	5-Jun-07
10.10*	Form of Nonqualified Stock Option Agreement for 2005 Stock Incentive Plan		8-K	10.2	5-Jun-07
10.11*	Form of Outside Director's Restricted Stock Unit Agreement under Second Amended and Restated 2005 Stock Option and Incentive Plan		8-K	10.1	15-Aug-11
10.12*	Form of Executive Officer Restricted Stock Agreement under Second Amended and Restated 2005 Stock Option and Incentive Plan		8-K	10.2	28-May-13
10.13*	Form of Performance-Based Restricted Stock Unit Agreement under Second Amended and Restated 2005 Stock Option and Incentive Plan		10-K	10.17	29-May-14
10.14*	Form of Outside Directors Amended and Restated Restricted Stock Agreement under 2010 Outside Director Compensation Program		8-K	10.2	2-Feb-10
10.15*	Quality Systems, Inc. 2015 Equity Incentive Plan		8-K	10.1	14-Aug-15
10.16*	Quality Systems, Inc. Amended 2015 Equity Incentive Plan		8-K	10.1	23-Aug-17
10.17*	NextGen Healthcare, Inc. 2015 Equity Incentive Plan, as amended		8-K	10.2	16-Aug-19
10.18*	Form of Stock Option Grant Notice, Option Agreement and Notice of Exercise for 2015 Equity Incentive Plan		8-K	10.4	14-Aug-15
10.19*	Form of Employee Restricted Stock Award Grant Notice and Restricted Stock Award Agreement for 2015 Equity Incentive Plan		8-K	10.2	14-Aug-15
10.20*	Form of Outside Director Restricted Stock Award Grant Notice and Restricted Stock Award Agreement for 2015 Equity Incentive Plan		8-K	10.3	14-Aug-15
10.21*	Form of Employee Restricted Stock Award Grant Notice and Restricted Stock Award Agreement for 2015 Equity Incentive Plan, as amended		8-K	10.3	16-Aug-19
10.22*	Form of Outside Director Restricted Stock Award Grant Notice and Restricted Stock Award Agreement for 2015 Equity Incentive Plan, as amended		8-K	10.4	16-Aug-19
10.23*	Form of Stock Option Grant Notice, Option Agreement and Notice of Exercise for 2015 Equity Incentive Plan, as amended.		8-K	10.5	16-Aug-19

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
10.24*	Form of Performance Stock Award Grant Notice and Performance/Restricted Stock Award Agreement for 2015 Equity Incentive Plan, entered into with the Company's named executive officers effective December 29, 2016.		8-K	10.2	3-Jan-17
10.25*	Form of Restricted Stock Award Grant Notice and Performance/Restricted Stock Award Agreement for 2015 Equity Incentive Plan, entered into with the Company's named executive officers effective December 29, 2016.		8-K	10.3	3-Jan-17
10.26*	Quality Systems, Inc. 2014 Employee Share Purchase Plan		DEF14A	Annex A	27-Jun-14
10.27*	Executive Employment Agreement, dated June 3, 2015, between Quality Systems, Inc. and John R. Frantz		8-K	10.1	4-Jun-15
10.28	Executive Employment Agreement Addendum, dated as of January 22, 2019, between NextGen Healthcare, Inc. and John R. Frantz		8-K	10.1	23-Jan-19
10.29*	Employment Offer Letter, dated January 27, 2016, between David Metcalfe and Quality Systems, Inc.		8-K	10.1	28-Jan-16
10.30*	Employment Offer Letter, dated February 16, 2016, between James R. Arnold and Quality Systems, Inc.		8-K	10.1	18-Feb-16
10.31*	Employment Offer Letter, dated February 16, 2016, between Jeffrey D. Linton and Quality Systems, Inc.		8-K	10.1	1-Dec-17
10.32*	Separation Agreement, dated as of January 21, 2019, between NextGen Healthcare, Inc. and Scott Bostick		8-K	10.2	23-Jan-19
10.33*	NextGen Healthcare, Inc. FY2020 Director Compensation Plan		8-K	10.1	16-Aug-19
10.34*	Form of Indemnification Agreement (Directors and Officers)		8-K	10.1	28-Jan-13
10.35*	2009 Quality Systems, Inc. Amended and Restated Deferred Compensation Plan.		10-K	10.8	30-May-13
10.36*	Agreement by and among Quality Systems, Inc., the Clinton Group, Inc. and certain of its affiliates, dated as of July 17, 2013		8-K	10.1	17-Jul-13
21	List of subsidiaries.	X			
23.1	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP.	X			
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**	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH**	Inline XBRL Taxonomy Extension Schema Document				

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	The cover page from the Company's Annual Report on Form 10-K for the year ended March 31, 2020, has been formatted in Inline XBRL.				

* *This exhibit is a management contract or a compensatory plan or arrangement.*

** 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 Section 13 or 15(d) 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.

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

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

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

Date: June 1, 2020

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below hereby constitutes and appoints John R. Frantz, James R. Arnold, Jr., and David Ahmadzai, each of them acting individually, as his attorney-in-fact, each with the full power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming our signatures as they may be signed by our said attorney-in-fact and any and all amendments to this Annual Report on Form 10-K.

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed by the following persons on our behalf in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeffrey H. Margolis</u> Jeffrey H. Margolis	Chairman of the Board and Director	June 1, 2020
<u>/s/ Craig A. Barbarosh</u> Craig A. Barbarosh	Vice Chairman of the Board and Director	June 1, 2020
<u>/s/ John R. Frantz</u> John R. Frantz	Chief Executive Officer (Principal Executive Officer) and Director	June 1, 2020
<u>/s/ James R. Arnold, Jr.</u> James R. Arnold, Jr.	Chief Financial Officer (Principal Financial Officer)	June 1, 2020
<u>/s/ David Ahmadzai</u> David Ahmadzai	Chief Accounting Officer (Principal Accounting Officer)	June 1, 2020
<u>/s/ George H. Bristol</u> George H. Bristol	Director	June 1, 2020
<u>/s/ Julie D. Klapstein</u> Julie D. Klapstein	Director	June 1, 2020
<u>/s/ James C. Malone</u> James C. Malone	Director	June 1, 2020
<u>/s/ Morris Panner</u> Morris Panner	Director	June 1, 2020
<u>/s/ Sheldon Razin</u> Sheldon Razin	Chairman Emeritus and Director	June 1, 2020
<u>/s/ Lance E. Rosenzweig</u> Lance E. Rosenzweig	Director	June 1, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NextGen Healthcare, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NextGen Healthcare, Inc. and its subsidiaries (the “Company”) as of March 31, 2020 and 2019, and the related consolidated statements of net income and comprehensive income, of shareholders’ equity, and of cash flows for each of the three years in the period ended March 31, 2020, including the related notes and financial statement schedule listed in the index appearing under item 15 (a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2020 and the manner in which it accounts for revenue from contracts with customers in 2019.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management’s Report on Internal Control over Financial Reporting, management has excluded Topaz, Medfusion and OTTO from its assessment of internal control over financial reporting as of March 31, 2020 because they were acquired by the Company in purchase business combinations during the year ended March 31,

2020. We have also excluded Topaz, Medfusion and OTTO from our audit of internal control over financial reporting. Topaz, Medfusion and OTTO are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting collectively represent less than 1% and less than 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended March 31, 2020.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition - Customer Contracts with Multiple Performance Obligations

As described in Note 3 to the consolidated financial statements, the Company recorded total revenues of \$540 million for the year ended March 31, 2020. The Company's contracts with customers may include multiple performance obligations that consist of various combinations of software solutions and related services, which are generally capable of being distinct and accounted for as separate performance obligations. The total transaction price is allocated to each performance obligation within a contract based on estimated standalone selling prices. Standalone selling prices are generally determined 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.

The principal considerations for our determination that performing procedures relating to revenue recognition, specifically customer contracts with multiple performance obligations, is a critical audit matter are there was significant judgment by management in identifying distinct performance obligations for each contract and in determining the amount to be allocated to each performance obligation. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to whether management appropriately (i) identified all performance obligations and (ii) allocated the transaction price to each performance obligation within the contract.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls related to management's identification of performance obligations, determination of the estimated standalone selling price, and allocation of transaction price. These procedures also included, among others, reviewing contracts with customers for a sample of contracts

and i) testing management's identification of distinct performance obligations in its contracts with customers, ii) testing management's estimate of standalone selling prices and (iii) testing management's allocation of transaction price to the performance obligations.

Acquisition of Medfusion, Inc.

As described in Notes 2 and 6 to the consolidated financial statements, in December 2019, the Company completed its acquisition of Medfusion, Inc. for net consideration of \$43 million, which resulted in \$21 million of intangible assets being recorded. Management allocated the purchase price of the acquired business to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date using multiple valuation approaches depending on the type and nature of the tangible or intangible asset acquired or liability assumed, including but not limited to the income approach, the excess earnings method and the relief from royalty method approach. The purchase price allocation methodology contains uncertainties as it requires management to make assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities, including, but not limited to, intangible assets and goodwill. As disclosed by management, the process for estimating fair values in many cases requires the use of significant estimates, assumptions, and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates.

The principal considerations for our determination that performing procedures relating to the acquisition of Medfusion, Inc. is a critical audit matter are there was significant judgment by management when developing the estimated fair value of acquired intangible assets. This in turn led to significant auditor judgment and subjectivity in performing procedures relating to the valuation of acquired intangible assets and significant audit effort was necessary in evaluating the significant assumptions relating to the estimate, including the timing and amounts of future cash flows. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls (i) relating to the acquisition accounting, including controls over management's valuation of the intangible assets and (ii) over development of the assumptions related to the valuation of the intangible assets, including the timing and estimates of future cash flows. These procedures also included, among others, reading the purchase agreement, testing management's process for estimating the fair value of intangible assets and testing management's cash flow projections used to develop the estimate of the fair value of the intangible assets. Testing management's process included evaluating the appropriateness of the valuation methods and the reasonableness of significant assumptions, including the timing and estimates of future cash flows. Evaluating the reasonableness of the timing and estimates of future cash flows involved considering the past performance of the acquired business, as well as economic and industry forecasts. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the valuation methods used and the reasonableness of certain significant assumptions.

/s/ PricewaterhouseCoopers LLP
Irvine, California
June 1, 2020

We have served as the Company's auditor since 2009.

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

	March 31, 2020	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 138,012	\$ 33,079
Restricted cash and cash equivalents	2,307	1,443
Accounts receivable, net	80,006	87,459
Contract assets	12,529	13,242
Income taxes receivable	856	3,682
Prepaid expenses and other current assets	26,305	20,946
Total current assets	260,015	159,851
Equipment and improvements, net	19,836	21,404
Capitalized software costs, net	37,004	37,855
Operating lease assets	31,004	—
Deferred income taxes, net	10,620	6,194
Contract assets, net of current	3,007	3,747
Intangibles, net	57,809	52,595
Goodwill	267,165	218,771
Other assets	33,656	32,478
Total assets	\$ 720,116	\$ 532,895
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,521	\$ 5,432
Contract liabilities	56,786	56,009
Accrued compensation and related benefits	23,792	25,663
Income taxes payable	148	64
Operating lease liabilities	10,619	—
Other current liabilities	41,352	41,064
Total current liabilities	143,218	128,232
Deferred compensation	5,300	5,905
Line of credit	129,000	11,000
Operating lease liabilities, net of current	38,823	—
Other noncurrent liabilities	3,281	11,812
Total liabilities	319,622	156,949
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Common stock		
\$0.01 par value; authorized 100,000 shares; issued and outstanding 66,134 and 64,838 shares at March 31, 2020 and March 31, 2019, respectively	661	648
Additional paid-in capital	282,857	264,908
Accumulated other comprehensive loss	(2,143)	(1,231)
Retained earnings	119,119	111,621
Total shareholders' equity	400,494	375,946
Total liabilities and shareholders' equity	\$ 720,116	\$ 532,895

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

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

	Fiscal Year Ended March 31,		
	2020	2019	2018
Revenues:			
Recurring	\$ 489,313	\$ 473,921	\$ 476,214
Software, hardware, and other non-recurring	50,926	55,252	54,805
Total revenues	540,239	529,173	531,019
Cost of revenue:			
Recurring	205,057	191,496	194,360
Software, hardware, and other non-recurring	26,904	26,711	25,085
Amortization of capitalized software costs and acquired intangible assets	35,478	28,490	22,090
Total cost of revenue	267,439	246,697	241,535
Gross profit	272,800	282,476	289,484
Operating expenses:			
Selling, general and administrative	165,174	164,879	193,226
Research and development costs, net	83,295	80,994	81,259
Amortization of acquired intangible assets	4,143	4,344	7,810
Impairment of assets	12,571	—	3,757
Restructuring costs	2,505	640	611
Total operating expenses	267,688	250,857	286,663
Income from operations	5,112	31,619	2,821
Interest income	256	216	55
Interest expense	(1,955)	(2,814)	(3,323)
Other income, net	846	267	37
Income before provision for (benefit of) income taxes	4,259	29,288	(410)
Provision for (benefit of) income taxes	(3,239)	4,794	(2,830)
Net income	\$ 7,498	\$ 24,494	\$ 2,420
Other comprehensive income:			
Foreign currency translation, net of tax	(912)	(831)	(42)
Comprehensive income	\$ 6,586	\$ 23,663	\$ 2,378
Net income per share:			
Basic	\$ 0.11	\$ 0.38	\$ 0.04
Diluted	\$ 0.11	\$ 0.38	\$ 0.04
Weighted-average shares outstanding:			
Basic	65,474	64,417	63,435
Diluted	65,612	64,600	63,440

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

NEXTGEN HEALTHCARE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balance, March 31, 2017	62,455	625	228,549	76,227	(358)	305,043
Common stock issued under stock plans, net of shares withheld for taxes	1,540	15	3,818	—	—	3,833
Stock-based compensation	—	—	12,196	—	—	12,196
Cumulative effect adjustment related to the adoption of ASU 2016-09	—	—	(101)	61	—	(40)
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(42)	(42)
Net income	—	—	—	2,420	—	2,420
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	843	8	4,344	—	—	4,352
Stock-based compensation	—	—	16,102	—	—	16,102
Cumulative effect adjustment related to the adoption of ASC 606	—	—	—	8,419	—	8,419
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(831)	(831)
Net income	—	—	—	24,494	—	24,494
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	1,296	13	(1,745)	—	—	(1,732)
Stock-based compensation	—	—	19,694	—	—	19,694
Components of other comprehensive income:						
Translation adjustments	—	—	—	—	(912)	(912)
Net income	—	—	—	7,498	—	7,498
Balance, March 31, 2020	<u>66,134</u>	<u>\$ 661</u>	<u>\$ 282,857</u>	<u>\$ 119,119</u>	<u>\$ (2,143)</u>	<u>\$ 400,494</u>

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

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

	Fiscal Year Ended March 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 7,498	\$ 24,494	\$ 2,420
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of capitalized software costs	17,085	11,338	6,518
Amortization of debt issuance costs	710	710	1,610
Amortization of other intangibles	22,536	21,496	23,380
Change in fair value of contingent consideration	(950)	1,000	—
Deferred income taxes	(5,379)	245	312
Depreciation	8,172	10,298	10,498
Excess tax deficiency (benefit) from share-based compensation	(53)	(365)	328
Impairment of assets	12,571	—	3,757
Loss on disposal of equipment and improvements	41	194	169
Non-cash operating lease costs	8,108	—	—
Provision for bad debts	3,367	5,644	5,913
Share-based compensation	19,694	16,102	12,297
Changes in assets and liabilities, net of amounts acquired:			
Accounts receivable	4,937	(6,178)	(5,409)
Contract assets	1,458	(812)	—
Accounts payable	3,330	1,070	(1,232)
Contract liabilities	(133)	(4,131)	847
Accrued compensation and related benefits	(2,419)	(2,992)	2,228
Income taxes	2,454	4,049	(8,530)
Deferred compensation	(605)	(181)	(543)
Operating lease liabilities	(9,684)	—	—
Other assets and liabilities	(7,137)	(31,506)	19,480
Net cash provided by operating activities	<u>85,601</u>	<u>50,475</u>	<u>74,043</u>
Cash flows from investing activities:			
Additions to capitalized software costs	(19,432)	(20,571)	(18,865)
Additions to equipment and improvements	(7,449)	(4,952)	(9,801)
Payments for acquisitions, net of cash acquired	(71,691)	—	(62,867)
Proceeds from over-funded corporate-owned life insurance policies	2,500	—	—
Net cash used in investing activities	<u>(96,072)</u>	<u>(25,523)</u>	<u>(91,533)</u>
Cash flows from financing activities:			
Proceeds from line of credit	137,000	26,000	50,000
Repayments on line of credit	(19,000)	(52,000)	(28,000)
Payment of debt issuance costs	—	—	(1,105)
Payment of contingent consideration related to acquisitions	—	—	(18,817)
Proceeds from issuance of shares under employee plans	2,409	7,533	4,889
Payments for taxes related to net share settlement of equity awards	(4,141)	(3,181)	(848)
Net cash provided by (used in) financing activities	<u>116,268</u>	<u>(21,648)</u>	<u>6,119</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	105,797	3,304	(11,371)
Cash, cash equivalents, and restricted cash at beginning of period	34,522	31,218	42,589
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 140,319</u>	<u>\$ 34,522</u>	<u>\$ 31,218</u>
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	\$ 2,599	\$ 1,570	\$ 6,379
Cash refunds from income taxes	2,728	675	1,874
Cash paid for interest	1,266	1,819	1,953
Cash paid for amounts included in the measurement of operating lease liabilities	11,527	—	—
Operating lease assets obtained in exchange for operating lease liabilities	8,494	—	—
Non-cash additions to capitalized software	—	2,304	—
Accrued purchases of equipment and improvements	173	149	72

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

NEXTGEN HEALTHCARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES INDEX

<u>Note</u>		<u>Page</u>
Note 1	Organization of Business	65
Note 2	Summary of Significant Accounting Policies	65
Note 3	Revenue from Contracts with Customers	70
Note 4	Fair Value Measurements	74
Note 5	Leases	75
Note 6	Business Combinations	77
Note 7	Goodwill	80
Note 8	Intangible Assets	81
Note 9	Capitalized Software Costs	81
Note 10	Line of Credit	82
Note 11	Composition of Certain Financial Statement Captions	83
Note 12	Income Taxes	84
Note 13	Employee Benefit Plans	87
Note 14	Share-Based Awards	87
Note 15	Commitments, Guarantees and Contingencies	90
Note 16	Restructuring Plan	92
Note 17	Selected Quarterly Operating Results (unaudited)	93
Note 18	Subsequent Events	93

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

1. Organization of Business

Description of Business

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, also in December 2019, we acquired 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.

2. Summary of Significant Accounting Policies

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

Business Segments. We operated as one segment for the years ended March 31, 2020 and 2019. The measures evaluated by our chief operating decision maker ("CODM"), consisting of our Chief Executive Officer, to assess company performance and make decisions about the allocation of resources include consolidated revenue and consolidated operating results.

Basis of Presentation. Certain prior period amounts have been reclassified to conform to current year presentation. References to amounts in the consolidated financial statement sections are in thousands, except shares and per share data, unless otherwise specified.

Use of Estimates. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires us to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and recording revenue and expenses during the period.

The extent to which COVID-19 impacts our business and financial results will depend on numerous evolving factors including, but not limited to, the magnitude and duration of COVID-19; the impact on our employees; the extent to which it will impact worldwide macroeconomic conditions, including interest rates, employment rates, and health insurance coverage; the speed of the anticipated recovery; and governmental and business reactions to the pandemic. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts of COVID-19 at March 31, 2020 and through the date of this Annual Report on Form 10-K. The accounting matters assessed included, but were not limited to, our allowances for doubtful accounts and the carrying value of goodwill and other long-lived assets. While there was not a material impact to our consolidated financial statements at and for the year ended March 31, 2020, our future assessment of the magnitude and duration of COVID-19, as well as other factors could result in material impacts to our consolidated financial statements in future reporting periods.

Revenue Recognition. We adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers: Topic 606* ("ASC 606") and all related amendments as of April 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. ASC 606 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition* ("ASC 605"), and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Refer to Note 3, "Revenue from Contracts with Customers" for additional information regarding our revenue recognition policies under ASC 606.

Cash and Cash Equivalents. Cash and cash equivalents consist primarily of cash and money market funds with original maturities of less than 90 days. At March 31, 2020 and March 31, 2019, we had cash and cash equivalents of \$138,012 and \$33,079, respectively. We also had cash deposits held at United States banks and financial institutions at March 31, 2020 of which \$137,319 was in excess of the Federal Deposit Insurance Corporation insurance limit of \$250 per owner. Our cash deposits are exposed to credit loss for amounts in excess of insured limits in the event of nonperformance by the institutions; however, we do not anticipate nonperformance by these institutions.

Money market funds in which we hold a portion of our excess cash are invested in very high grade commercial and governmental instruments, and therefore bear low market risk.

Restricted Cash and Cash Equivalents. Restricted cash and cash equivalents consist of cash that is being held by the Company acting as an agent for the disbursement of certain state social and care services programs. We record an offsetting liability when we initially receive such cash from the programs. We relieve both restricted cash and cash equivalents and the related liability when amounts are disbursed. We earn an administrative fee based on a percentage of the funds disbursed on behalf of the government social and care service programs.

Reserves on Accounts Receivable. We maintain reserves for estimated potential sales returns and uncollectible accounts receivable. Accounts receivable are reported net of uncollectible accounts receivable on our consolidated balance sheets.

Our standard contracts generally do not contain provisions for clients to return products or services. However, 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.

Allowances for doubtful accounts and other uncollectible accounts receivable related to estimated losses resulting from our clients' inability to make required payments are established based on our assessment of the collectability of client accounts, including review of our historical experience of bad debt expense and the aging of our accounts receivable balances, net of specifically reserved accounts and amounts billed prior to revenue recognition. Specific reserves are based on our estimate of the probability of collection for certain accounts. We regularly review the adequacy of these allowances by considering internal factors such as historical experience, credit quality and age of the client receivable balances as well as external factors such as economic conditions that may affect a client's ability to pay and review of major third-party credit-rating agencies, as needed. Accounts are written off as uncollectible only after we have expended extensive collection efforts.

Equipment and Improvements. Equipment and improvements are stated at cost less accumulated depreciation and amortization. Repair and maintenance costs that do not improve service potential or extend economic life are expensed as incurred. Depreciation and amortization of equipment and improvements are recorded over the estimated useful lives of the assets, or the related lease terms if shorter, by the straight-line method. Useful lives generally have the following ranges:

- Computer equipment - 3 to 5 years
- Furniture and fixtures - 3 to 7 years
- Leasehold improvements - lesser of lease term or estimated useful life of asset

Depreciation expense related to our equipment and improvements was \$8,172, \$10,298, and \$10,498 for the years ended March 31, 2020, 2019, and 2018, respectively.

Capitalized Software Costs. Software development costs, consisting primarily of employee salaries and benefits and certain third party costs, incurred in the development of new software solutions and enhancements to existing software solutions for external sale are expensed as incurred, and reported as net research and development costs in the consolidated statements of net income and comprehensive income, until technological feasibility has been established. After technological feasibility is established, any additional software development costs are capitalized. Amortization of capitalized software is recorded on a straight-line basis over the estimated economic life of the related product, which is typically three years. The total of capitalized software costs incurred in the development of products for external sale are reported as capitalized software costs within our consolidated balance sheets.

We also incur costs related to the development of software applications for our internal-use and for the development of software-as-a-service ("SaaS") based solutions sold to our clients. The development costs of our SaaS-based solutions are considered internal-use for accounting purposes. Our internal-use capitalized development costs are stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets, which is typically three years. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized, whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Capitalized software costs for the development of SaaS-based solutions are reported as capitalized software costs within our consolidated balance sheets and capitalized software costs for the development of our internal-use software applications are reported as equipment and improvements within our consolidated balance sheets.

We periodically reassess the estimated economic life and the recoverability of our capitalized software costs. If we determine that capitalized amounts are not recoverable based on the expected net cash flows to be generated from sales of the applicable software solutions, the amount by which the unamortized capitalized costs exceed the net realizable value is written off as a charge to earnings. The net realizable value is estimated as the expected future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and client support required to satisfy our responsibility at the time of sale. In addition to the assessment of net realizable value, we review and adjust the remaining estimated lives of our capitalized software costs, if necessary. We also perform a periodic review of our software solutions and dispose of fully amortized capitalized software costs after such products are determined to be no longer used by our clients.

Business Combinations. In accordance with the accounting for business combinations, we allocate the purchase price of the acquired business to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The fair values of acquired assets and liabilities assumed represent our best estimate of fair value. The estimated fair value of the acquired tangible and intangible assets and liabilities assumed were determined using multiple valuation approaches depending on the type and nature of tangible or intangible asset acquired or liabilities assumed, including but not limited to the income approach, the excess earnings method and the relief from royalty method approach. The purchase price allocation methodology contains uncertainties as it requires us to make assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities, including, but not limited to, intangible assets, goodwill, deferred revenue, and contingent consideration liabilities. We estimate the fair value of the contingent consideration liabilities, as needed, based on our projection of expected results and the estimated probability of achievement. The process to develop the estimate of fair values in many cases requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies. 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. Any adjustments to fair value subsequent to the measurement period are reflected in the consolidated statements of net income and comprehensive income.

Goodwill. Goodwill acquired in a business combination is measured as the excess of the purchase price, or consideration transferred, over the net acquisition date fair values of the assets acquired and the liabilities assumed. Goodwill is not amortized as it has been determined to have an indefinite useful life.

As part of our annual goodwill impairment test, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we conduct a two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their carrying values. If the carrying amount of the reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss.

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.

Intangible Assets. Intangible assets consist of trade names, customer relationships, and software technology, all of which are associated with our acquisitions.

The intangible assets are recorded at fair value and are reported net of accumulated amortization. We currently amortize the intangible assets over periods ranging from 5 to 10 years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed. We assess the recoverability of intangible assets at least annually or whenever adverse events or changes in circumstances indicate that impairment may have occurred. If the future undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, impairment is deemed to have occurred and a loss is recognized to reduce the carrying value of the intangible assets to fair value, which is determined by discounting estimated future cash flows. In addition to the impairment assessment, we routinely review the remaining estimated lives of our intangible assets and record adjustments, if deemed necessary.

Long-Lived Assets. We assess our long-lived assets for potential impairment periodically or whenever adverse events or changes in circumstances indicate that impairment may have occurred. If necessary, recoverability of the assets is evaluated based on the future undiscounted cash flows expected to result from the use of the related assets compared to the carrying value of such assets. If impairment is deemed to have occurred, a loss is recognized to reduce the carrying value of the long-lived assets to fair value, which is determined by discounting the estimated future cash flows. In addition to the impairment assessment, we routinely review the remaining estimated lives of our long-lived assets and record adjustments, if deemed necessary.

Income Taxes. Income taxes are provided based on current taxable income and the future tax consequences of temporary differences between the basis of assets and liabilities for financial and tax reporting. The deferred income tax assets and liabilities represent the future state and federal tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred income taxes are also recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. At each reporting period, we assess the realizable value of deferred tax assets based on, among other things, estimates of future taxable income and adjust the related valuation allowance as necessary. We make a number of assumptions and estimates in determining the appropriate amount of expense to record for income taxes. The assumptions and estimates consider the taxing jurisdiction in which we operate as well as current tax regulations. Accruals are established for estimates of tax effects for certain transactions and future projected profitability based on our interpretation of existing facts and circumstances.

Advertising Costs. Advertising costs are expensed as incurred. We do not have any direct-response advertising. Advertising costs, which include trade shows and conventions, were approximately \$6,044, \$8,226, and \$9,073 for the years ended March 31, 2020, 2019, and 2018, respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of net income and comprehensive income.

Earnings per Share. We provide a dual presentation of "basic" and "diluted" earnings per share ("EPS"). Shares below are in thousands.

	Fiscal Year Ended March 31,		
	2020	2019	2018
Earnings per share — Basic:			
Net income	\$ 7,498	\$ 24,494	\$ 2,420
Weighted-average shares outstanding — Basic	65,474	64,417	63,435
Net income per common share — Basic	<u>\$ 0.11</u>	<u>\$ 0.38</u>	<u>\$ 0.04</u>
Earnings per share — Diluted:			
Net income	\$ 7,498	\$ 24,494	\$ 2,420
Weighted-average shares outstanding	65,474	64,417	63,435
Effect of potentially dilutive securities	138	183	5
Weighted-average shares outstanding — Diluted	<u>65,612</u>	<u>64,600</u>	<u>63,440</u>
Net income per common share — Diluted	<u>\$ 0.11</u>	<u>\$ 0.38</u>	<u>\$ 0.04</u>

The computation of diluted net income per share does not include 1,807, 1,963 and 2,984 options for the years ended March 31, 2020, 2019, and 2018, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

Share-Based Compensation. The following table shows total share-based compensation expense included in the consolidated statements of net income and comprehensive income for the fiscal year ended March 31, 2020, 2019, and 2018:

	Fiscal Year Ended March 31,		
	2020	2019	2018
Costs and expenses:			
Cost of revenue	\$ 2,051	\$ 1,252	\$ 938
Research and development costs	3,875	2,919	2,038
Selling, general and administrative	13,768	11,931	9,220
Total share-based compensation	<u>19,694</u>	<u>16,102</u>	<u>12,196</u>
Estimated income tax benefit	(4,726)	(3,859)	(4,125)
Decrease in net income	<u>\$ 14,968</u>	<u>\$ 12,243</u>	<u>\$ 8,071</u>

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

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 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 consolidated results of operations or cash flows. Comparative information in this Annual Report on Form 10-K has not been adjusted and continues to be reported under the previous lease accounting rules. Refer to Note 5 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, and we currently do not expect the adoption of this new standard to have a material impact 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.

3. Revenue from Contracts with Customers

Adoption of ASC 606

We adopted ASC 606 and all related amendments as of April 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning after April 1, 2018 are presented under ASC 606, while prior period comparative information has not been adjusted and continues to be reported under the accounting standards in effect for those prior periods.

The adjustments to reflect the cumulative effect of the changes to the balances of our previously reported consolidated balance sheet as of March 31, 2018 for the adoption of ASC 606 are summarized as follows:

	As Reported March 31, 2018	ASC 606 Transition Adjustments	Adjusted April 1, 2018
ASSETS			
Accounts receivable, net	\$ 84,962	\$ 2,380	\$ 87,342
Contract assets	—	13,446	13,446
Prepaid expenses and other current assets	17,360	(223)	17,137
Deferred income taxes, net	9,219	(2,884)	6,335
Contract assets, net of current	—	2,731	2,731
Other assets	18,795	6,679	25,474
LIABILITIES			
Contract liabilities	54,079	4,174	58,253
Accrued compensation and related benefits	27,910	745	28,655
Other current liabilities	48,317	9,964	58,281
Contract liabilities, net of current	1,173	(1,173)	—
SHAREHOLDERS' EQUITY			
Retained earnings	78,708	8,419	87,127

We recorded a net increase to retained earnings of \$8,419 as of April 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to (i) revenue cycle management (“RCM”) and related services revenue whereby revenue recognition may be accelerated under ASC 606 for software, subscriptions, support and maintenance, and professional services included with RCM arrangements as the timing of revenue recognition is based upon the transfer of value of the promised goods or services to our clients, which may occur prior to the time that client collections occur, (ii) the amortization of capitalized direct sales commissions costs over a longer period of time under ASC 606, and (iii) the income tax impact of the cumulative transition adjustment. Further, we recorded reclassifications to present certain unbilled amounts as contract assets and sales returns reserves and certain customer liabilities as other current liabilities, which were both previously recorded within accounts receivables on our consolidated balance sheets.

We applied the practical expedient permitting the recognition of revenue in the amount to which the entity has a right to invoice based on the actual usage by the customers for our electronic data interchange (“EDI”) services and other transaction-based services. We have reflected the aggregate effect of all contract modifications occurring prior to the ASC 606 adoption date when (i) identifying the satisfied and unsatisfied performance obligations, (ii) determining the transaction price, and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

The adoption of ASC 606 had no transition impact on cash provided by or used in operating, financing or investing activities reported in our consolidated statement of cash flows.

The impact of the adoption of ASC 606 on our consolidated balance sheet and consolidated statements of net income and comprehensive income for the year ended March 31, 2019, assuming that the previous revenue recognition guidance in ASC 605 had been in effect, is summarized as follows:

	March 31, 2019		
	As reported under ASC 606	Adjustments due to adoption of ASC 606	As disclosed under ASC 605
ASSETS			
Accounts receivable, net	\$ 87,459	\$ 1,220	\$ 88,679
Contract assets	13,242	(13,242)	—
Income taxes receivable	3,682	409	4,091
Prepaid expenses and other current assets	20,946	692	21,638
Deferred income taxes, net	6,194	4,457	10,651
Contract assets, net of current	3,747	(3,747)	—
Other assets	32,478	(12,611)	19,867
LIABILITIES			
Contract liabilities	56,009	(1,348)	54,661
Accrued compensation and related benefits	25,663	712	26,375
Other current liabilities	41,064	(7,838)	33,226
Contract liabilities, net of current	—	888	888
SHAREHOLDERS' EQUITY			
Retained earnings	111,621	(15,236)	96,385
Fiscal Year Ended March 31, 2019			
	As reported under ASC 606	Adjustments due to adoption of ASC 606	As disclosed under ASC 605
Revenues:			
Recurring	\$ 473,921	\$ (430)	\$ 473,491
Software, hardware, and other non-recurring	55,252	(1,448)	53,804
Total revenue	529,173	(1,878)	527,295
Total cost of revenue	246,697	159	246,856
Gross profit	282,476	(2,037)	280,439
Operating expenses:			
Selling, general and administrative	164,879	6,762	171,641
Research and development costs, net	80,994	—	80,994
Amortization of acquired intangibles	4,344	—	4,344
Restructuring costs	640	—	640
Total operating expenses	250,857	6,762	257,619
Income from operations	31,619	(8,799)	22,820
Interest and other income, net	(2,331)	—	(2,331)
Income before provision for income taxes	29,288	(8,799)	20,489
Provision for income taxes	4,794	(1,982)	2,812
Net income	<u>\$ 24,494</u>	<u>\$ (6,817)</u>	<u>\$ 17,677</u>

As of March 31, 2019, the reported balances include the cumulative effect adjustments of adopting ASC 606.

Revenue Recognition and Performance Obligations

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

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

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

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

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

	Fiscal Year Ended March 31,		
	2020	2019	2018
Recurring revenues:			
Subscription services	\$ 127,602	\$ 117,502	\$ 106,325
Support and maintenance	158,619	160,798	163,805
Managed services	104,549	98,203	113,311
Electronic data interchange and data services	98,543	97,418	92,773
Total recurring revenues	489,313	473,921	476,214
Software, hardware, and other non-recurring revenues:			
Software license and hardware	27,270	35,122	34,017
Other non-recurring services	23,656	20,130	20,788
Total software, hardware and other non-recurring revenues	50,926	55,252	54,805
Total revenues	\$ 540,239	\$ 529,173	\$ 531,019

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

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

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

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

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

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

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

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

Transaction Price Allocated to Remaining Performance Obligations

As of March 31, 2020, the aggregate amount of transaction price related to remaining unsatisfied or partially unsatisfied performance obligations over the respective noncancelable contract term was approximately \$483,200 of which we expect to recognize approximately 9% as services are rendered or goods are delivered, 50% over the next 12 months, and the remainder thereafter.

As of March 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 \$451,100, of which we expect to recognize approximately 10% as services are rendered or goods are delivered, 45% over the next 12 months, and the remainder thereafter.

Contract Balances

Contract balances result from the timing differences between our revenue recognition, invoicing, and cash collections. Such contract balances include accounts receivables, contract assets and liabilities, and other customer deposits and liabilities balances. Accounts receivables include invoiced amounts where the right to receive payment is unconditional and only subject to the passage of time. Contract assets 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 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 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 years ended March 31, 2020 and 2019, we recognized \$70,779 and \$65,847, 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 \$24,590 as of March 31, 2020, of which \$7,053 is classified as current and included as prepaid expenses and other current assets and \$17,537 is classified as long-term and included within other assets on our consolidated balance sheets, based on the expected timing of expense recognition. Capitalized commissions costs were \$19,597 as of March 31, 2019, of which \$4,816 was classified as current and \$14,781 was classified as long-term.

During the years ended March 31, 2020 and 2019, we recognized \$8,006 and \$6,292, respectively, of commissions expense. During the year ended March 31, 2018, we recognized \$11,166 of commissions expense under ASC 605. Commissions expense primarily relate to the amortization of capitalized commissions costs, which is included as a selling, general and administrative expense in the consolidated statement of comprehensive income.

4. Fair Value Measurements

The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2020 and March 31, 2019:

	Balance At March 31, 2020	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⁾	\$ 138,012	\$ 138,012	\$ —	\$ —
Restricted cash and cash equivalents	2,307	2,307	—	—
	<u>\$ 140,319</u>	<u>\$ 140,319</u>	<u>\$ —</u>	<u>\$ —</u>
LIABILITIES				
Contingent consideration related to acquisitions	\$ 1,900	\$ —	\$ —	\$ 1,900
	<u>\$ 1,900</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,900</u>

	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	—	—
	<u>\$ 34,522</u>	<u>\$ 34,522</u>	<u>\$ —</u>	<u>\$ —</u>
LIABILITIES				
Contingent consideration related to acquisitions	\$ 1,000	\$ —	\$ —	\$ 1,000
	<u>\$ 1,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,000</u>

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

The following table presents activity in our financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3), as of and for the year ended March 31, 2020:

	Total Liabilities
Balance at March 31, 2018	\$ —
Fair value adjustments	1,000
Balance at March 31, 2019	\$ 1,000
Acquisition (Note 6)	1,850
Fair value adjustments	(950)
Balance at March 31, 2020	\$ 1,900

As of March 31, 2020, the contingent consideration liability balance was \$1,900, which was related to the acquisition of Topaz Information Systems, LLC. As of March 31, 2019, the contingent consideration liability balance was \$1,000, which was related to the acquisition of Inforth Technologies.

During the year ended March 31, 2020, we recorded a net benefit of \$950 from fair value adjustments, of which a \$1,000 benefit was related to the contingent consideration liability from the acquisition of Inforth Technologies and was based on actual earnout achievement through the end of the measurement period, resulting in zero expected earnout payments, and \$50 was related to the accretion of the present value discount of the contingent consideration liability from the acquisition of Topaz Information Systems, LLC. Refer to Note 6 for additional details.

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 had assessed the fair value of the contingent consideration liability on a recurring basis and any adjustments to fair value subsequent to the measurement period were reflected in the 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. The fair value adjustments to contingent consideration liabilities are included as a component of selling, general and administrative expense in the 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.

5. Leases

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

Right-of-use lease assets and corresponding lease liabilities are recognized at commencement date based on the present value of lease payments over the expected lease term. Since the interest rate implicit in our lease arrangements is not readily determinable, we determine an incremental borrowing rate for each lease based on the approximate interest rate on a collateralized basis with similar remaining terms and payments as of the lease commencement date to determine the present value of future lease payments. Our lease terms may include options to extend or terminate the lease. Currently, it is not reasonably certain that we will exercise those options and therefore, we utilize the initial, noncancelable, lease term to calculate the lease assets and corresponding liabilities for all our leases. We have certain insignificant short-term leases with an initial term of twelve months or less that are not recorded in our consolidated balance sheets. Operating right-of-use lease assets are classified as operating lease assets on our 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 consolidated statements of net income and comprehensive income. Total operating lease costs were \$10,309, \$8,174, and \$7,551 for the years ended March 31, 2020, 2019, and 2018, respectively.

Components of operating lease costs are summarized as follows:

	Fiscal Year Ended March 31, 2020	
Operating lease costs	\$	9,558
Short-term lease costs		102
Variable lease costs		827
Less: Sublease income		(178)
Total operating lease costs	\$	<u>10,309</u>

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

	Fiscal Year Ended March 31, 2020	
Cash paid for amounts included in the measurement of operating lease liabilities	\$	11,527
Operating lease assets obtained in exchange for operating lease liabilities		8,494

As of March 31, 2020, our operating leases had a weighted average remaining lease term of 4.3 years and a weighted average discount rate of 4.2%. Future minimum aggregate lease payments under operating leases as of March 31, 2020 are summarized as follows:

For the year ended March 31,		
2021	\$	12,590
2022		12,121
2023		11,504
2024		9,632
2025		7,285
Thereafter		1,785
Total future lease payments		<u>54,917</u>
Less interest		(5,475)
Total lease liabilities	\$	<u>49,442</u>

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	\$	<u>56,860</u>

During the year ended March 31, 2020, we recorded impairments of \$9,373 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, Atlanta, Brentwood, and Phoenix, based on projected sublease rental income and estimated sublease commencement dates. Refer to Note 16 for additional information.

6. Business Combinations

Acquisitions During the Year Ended March 31, 2020

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 10) and cash flows from operations.

On December 17, 2019, we completed the acquisition of OTTO Health, LLC ("OTTO"), pursuant to the Agreement and Plan of Merger, dated December 11, 2019. Based in Boulder, Colorado, OTTO is a telehealth platform that seamlessly integrates into 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 10) and cash flows from operations.

We accounted for the acquisitions as business combinations using the acquisition method of accounting. The purchase price allocation of the Topaz, Medfusion, and OTTO acquisitions are deemed to be preliminary. The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The preliminary fair values of acquired assets and liabilities assumed represent management's estimate of fair value and are subject to change if additional information, such as changes to deferred taxes and/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	(344)	(247)	(59)
Total preliminary purchase price	\$ 11,177	\$ 42,777	\$ 21,960
Preliminary fair value of the net tangible assets acquired and liabilities assumed:			
Acquired cash and cash equivalents	\$ 353	\$ 204	\$ 102
Accounts receivable	1,528	986	51
Prepaid expense and other assets	139	387	79
Equipment and improvements	194	434	—
Operating lease assets	534	—	—
Accounts payable	(224)	(1,360)	(2)
Accrued compensation and related benefits	(155)	(270)	(123)
Contract liabilities	(370)	(529)	(11)
Deferred income tax liability	—	(953)	—
Operating lease liabilities	(240)	—	—
Operating lease liabilities, net of current	(360)	—	—
Other liabilities	(102)	(496)	(26)
Total preliminary net tangible assets acquired and liabilities assumed	1,297	(1,597)	70
Preliminary fair value of identifiable intangible assets acquired:			
Goodwill	5,380	23,524	19,490
Software technology	4,500	13,800	2,400
Customer relationships	—	6,800	—
Trade names	—	250	—
Total preliminary identifiable intangible assets acquired	9,880	44,374	21,890
Total preliminary purchase price	\$ 11,177	\$ 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 March 31, 2020, the fair value of the contingent consideration was \$1,900 (see Note 4). Additionally, the preliminary purchase price of Topaz includes \$1,671 for the settlement of pre-existing liabilities related to pre-acquisition amounts due for products and services previously purchased from us and recognized by Topaz as accounts payable. As a result of the acquisition, these accounts payable balances were effectively settled and accounted for as additional purchase consideration.

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

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

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

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

Acquisitions During the Year Ended March 31, 2018

On January 31, 2018, we completed the acquisition of Inforth Technologies, LLC ("Inforth") pursuant to the Membership Interest Purchase Agreement, dated January 31, 2018. Headquartered in Traverse City, MI, Inforth was one of our premier clinical content and technical services partners specializing in comprehensive solutions for physician practices. The purchase price of Inforth totaled \$4,337 and was funded by cash flows from operations. The acquisition of Inforth also included contingent consideration up to an additional \$4,000 of cash in the form of an earnout, as amended and subject to Inforth achieving certain applicable bookings targets through March 31, 2020. The initial estimated fair value of the contingent consideration was zero based on a Monte Carlo-based valuation model that considered, among other assumptions and inputs, our estimate of projected Inforth applicable bookings. As of March 31, 2020, the fair value of the contingent consideration was zero, reflecting no expected earnout payments (see Note 4).

On August 16, 2017, we completed the acquisition of EagleDream Health, Inc. ("EagleDream") pursuant to the Agreement and Plan of Merger, dated July 31, 2017. Headquartered in Rochester, NY, EagleDream provides cloud-based analytics that drives meaningful insight across clinical, financial and administrative data to optimize practice performance. The purchase price of EagleDream totaled \$25,609, which included certain working capital and other customary adjustments, and was partially funded by a draw against our revolving credit agreement (see Note 10).

On April 14, 2017, we completed our acquisition of Entrada, Inc. ("Entrada") pursuant to the terms of the Agreement and Plan of Merger, dated April 11, 2017. Based in Nashville, TN, Entrada is a leading provider of cloud-based solutions that are reshaping the way care is delivered by leveraging the power of mobile whenever and wherever care happens. Entrada's best-in-class mobile application integrates with multiple clinical platforms and all major electronic health record systems. Entrada enables organizations to maximize their existing technology investments while simultaneously enhancing physician and staff productivity. The acquisition of Entrada and its cloud-based, mobile application is part of our commitment to deliver systematic solutions that meet its clients' transforming work requirements to become increasingly nimble and mobile. The purchase price of Entrada totaled \$33,958, which included certain working capital and other customary adjustments and was primarily funded by a draw against our revolving credit agreement (see Note 10).

We accounted for the acquisitions noted above as business combinations using the acquisition method of accounting. The purchase price allocations of the Inforth, EagleDream, and Entrada acquisitions are considered final.

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 dates. 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 acquisition of Inforth is considered deductible for tax purposes, and goodwill arising from the acquisitions of EagleDream and Entrada are not deductible for tax purposes.

The final purchase price for the acquisitions of Inforth, EagleDream, and Entrada are summarized as follows:

	Inforth	EagleDream	Entrada
Initial purchase price	\$ 4,000	\$ 26,000	\$ 34,000
Settlement of pre-existing net liabilities	337	—	—
Working capital adjustment and other adjustments	—	(391)	(42)
Total purchase price	<u>\$ 4,337</u>	<u>\$ 25,609</u>	<u>\$ 33,958</u>
Fair value of the net tangible assets acquired and liabilities assumed:			
Acquired cash and cash equivalents	\$ 25	\$ 573	\$ 102
Accounts receivable	6	217	1,836
Prepaid expense and other assets	—	20	145
Equipment and improvements	—	—	163
Capitalized software costs	—	—	364
Deferred income tax asset	—	—	117
Accounts payable	—	(115)	(639)
Accrued compensation and related benefits	(49)	(691)	(120)
Contract liabilities	—	(394)	(234)
Deferred income tax liability	—	(1,707)	—
Other liabilities	(22)	(122)	(444)
Total net tangible assets acquired and liabilities assumed	<u>(40)</u>	<u>(2,219)</u>	<u>1,290</u>
Fair value of identifiable intangible assets acquired:			
Goodwill	1,177	14,428	17,268
Software technology	3,200	12,800	10,500
Customer relationships	—	600	3,300
Trade names	—	—	1,600
Total identifiable intangible assets acquired	<u>4,377</u>	<u>27,828</u>	<u>32,668</u>
Total purchase price	<u>\$ 4,337</u>	<u>\$ 25,609</u>	<u>\$ 33,958</u>

The software technology intangible assets acquired from Inforth will be amortized over 5 years. The customer relationships and software technology intangible assets acquired from EagleDream will be amortized over 8 years and 5 years, respectively. The weighted average amortization period for the acquired EagleDream intangible assets is 5.1 years. The customer relationships, trade names, and software technology intangible assets acquired from Entrada will be amortized over 10 years, 5 years, and 5 years, respectively. The weighted average amortization period for the acquired Entrada intangible assets is 6.1 years.

The revenues, earnings, and pro forma effects of the Inforth, EagleDream, and Entrada acquisitions would not have been material to our results of operations, individually and in aggregate, and are therefore not presented.

7. Goodwill

We test goodwill for impairment annually during our first fiscal quarter, referred to as the annual test date. Based on our qualitative assessment for the current fiscal year, we have determined that there was no impairment to our goodwill as of June 30, 2019. 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.

During the years ended March 31, 2020 and March 31, 2019, we did not identify any events or circumstances 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 March 31, 2020 was \$267,165. The carrying amount of goodwill as of March 31, 2019 was \$218,771.

8. Intangible Assets

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

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

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

Amortization expense related to customer relationships and trade names recorded as operating expenses in the consolidated statements of net income and comprehensive income was \$4,143, \$4,344, and \$7,810 for the years ended March 31, 2020, 2019 and 2018, respectively. Amortization expense related to software technology recorded as cost of revenue was \$18,393, \$17,152, and \$15,570 for the years ended March 31, 2020, 2019, and 2018, respectively.

The following table summarizes the remaining estimated amortization of definite-lived intangible assets as of March 31, 2020:

	Estimated Remaining Amortization Expense		
	Operating Expense	Cost of Revenue	Total
For the year ended March 31,			
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	1,846	3,573	5,419
2026 and beyond	2,563	2,493	5,056
Total	<u>\$ 17,482</u>	<u>\$ 40,327</u>	<u>\$ 57,809</u>

9. Capitalized Software Costs

Our capitalized software costs are summarized as follows:

	March 31, 2020	March 31, 2019
Gross carrying amount	\$ 75,212	\$ 59,782
Accumulated amortization	(38,208)	(21,927)
Net capitalized software costs	<u>\$ 37,004</u>	<u>\$ 37,855</u>

During the year ended March 31, 2020, we recorded \$3,198 of impairments related to the write down of previously capitalized software development costs for certain technology that will no longer be utilized in any future software solutions. During the year ended March 31, 2019, we retired \$13,453 of fully amortized capitalized software costs that are no longer being utilized by our client base. Amortization expense related to capitalized software costs was \$17,085, \$11,338, and \$6,518 for the years ended March 31, 2020, 2019, and 2018, respectively, and is recorded as cost of revenue in the consolidated statements of net income and comprehensive income.

The following table presents the remaining estimated amortization of capitalized software costs as of March 31, 2020. The estimated amortization is comprised of (i) amortization of released products and (ii) the expected amortization for products that are not yet available for sale based on their estimated economic lives and projected general release dates.

For the year ended March 31,		
2021	\$	22,000
2022		10,300
2023		4,500
2024		204
Total	\$	<u>37,004</u>

10. Line of Credit

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

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

The revolving loans under the 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 six months Eurodollar deposits plus 1%, and (b) for Eurodollar loans, the LIBOR-based rate for one, two, three or six 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. We will also pay a commitment fee of between 0.25% and 0.45%, payable quarterly in arrears, on the average daily unused amount of the revolving facility based on our total leverage ratio from time to time.

The revolving loans under the Credit Agreement are subject to customary representations, warranties and ongoing affirmative and negative covenants and agreements. The negative covenants include, among other things, limitations on indebtedness, liens, asset sales, mergers and acquisitions, investments, transactions with affiliates, dividends and other restricted payments, subordinated indebtedness and amendments to subordinated indebtedness documents and sale and leaseback transactions. The Credit Agreement also requires us to maintain (1) a maximum net leverage ratio of 3.00 to 1.00 and (2) a minimum fixed charge coverage ratio of 3.00 to 1.00 at the end of each fiscal quarter through the term of the loan. We were in compliance with all financial and non-financial covenants under the Credit Agreement as of March 31, 2020.

As of March 31, 2020, we had \$129,000 in outstanding loans and \$171,000 of unused credit under the Credit Agreement. As of March 31, 2019, we had \$11,000 in outstanding loans and \$289,000 of unused credit under the Original Credit Agreement. The interest rates as of March 31, 2020 and 2019 was approximately 2.3% and 4.0%, respectively.

During the years ended March 31, 2020, 2019, and 2018, we recorded \$1,274, \$2,055, and \$1,812 of interest expense (excluding amortization of deferred debt issuance costs), respectively, and the weighted average interest rates were approximately 2.4%, 3.7%, and 2.8% respectively.

As of March 31, 2020 and 2019, total unamortized debt issuance costs were \$2,124 and \$2,834, respectively. Costs incurred in connection with securing the Credit Agreement, including fees paid to legal advisors and third parties, are deferred and amortized to interest expense over the term of the Credit Agreement. Deferred debt issuance costs are reported as a component of other assets on the consolidated balance sheets. During the years ended March 31, 2020, 2019, and 2018, we recorded \$710, \$710, and \$1,610, respectively, in amortization of deferred debt issuance costs.

11. Composition of Certain Financial Statement Captions

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

	March 31, 2020	March 31, 2019
Cash and cash equivalents	\$ 138,012	\$ 33,079
Restricted cash and cash equivalents	2,307	1,443
Cash, cash equivalents, and restricted cash	<u>\$ 140,319</u>	<u>\$ 34,522</u>

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 consolidated balance sheets.

	March 31, 2020	March 31, 2019
Accounts receivable, gross	\$ 83,555	\$ 93,513
Allowance for doubtful accounts	(3,549)	(6,054)
Accounts receivable, net	<u>\$ 80,006</u>	<u>\$ 87,459</u>

Prepaid expenses and other current assets are summarized as follows:

	March 31, 2020	March 31, 2019
Prepaid expenses	\$ 18,025	\$ 15,548
Capitalized commissions costs	7,053	4,816
Other current assets	1,227	582
Prepaid expenses and other current assets	<u>\$ 26,305</u>	<u>\$ 20,946</u>

Equipment and improvements are summarized as follows:

	March 31, 2020	March 31, 2019
Computer equipment	\$ 34,756	\$ 28,923
Internal-use software	17,796	17,084
Furniture and fixtures	12,477	11,660
Leasehold improvements	13,681	15,150
Equipment and improvements, gross	78,710	72,817
Accumulated depreciation and amortization	(58,874)	(51,413)
Equipment and improvements, net	<u>\$ 19,836</u>	<u>\$ 21,404</u>

Other assets are summarized as follows:

	March 31, 2020	March 31, 2019
Capitalized commission costs	\$ 17,537	\$ 14,781
Deposits	6,074	5,318
Debt issuance costs	2,124	2,834
Other noncurrent assets	7,921	9,545
Other assets	<u>\$ 33,656</u>	<u>\$ 32,478</u>

Accrued compensation and related benefits are summarized as follows:

	March 31, 2020	March 31, 2019
Accrued vacation	\$ 10,469	\$ 9,893
Accrued bonus	10,396	11,598
Accrued commissions	2,087	3,418
Accrued payroll	840	754
Accrued compensation and related benefits	<u>\$ 23,792</u>	<u>\$ 25,663</u>

Other current and noncurrent liabilities are summarized as follows:

	March 31, 2020	March 31, 2019
Sales returns reserves and other customer liabilities	\$ 6,395	\$ 7,838
Accrued hosting costs	4,652	4,674
Customer credit balances and deposits	4,260	3,988
Accrued EDI expense	3,511	2,037
Accrued royalties	3,113	3,090
Accrued employee benefits and withholdings	3,002	2,426
Accrued consulting and outside services	2,520	3,874
Accrued outsourcing costs	2,378	2,128
Care services liabilities	2,307	1,443
Accrued legal expense	2,119	699
Accrued self insurance expense	2,054	2,225
Sales tax payable	1,222	509
Contingent consideration related to acquisitions	—	1,000
Deferred rent and related lease obligations	—	2,196
Other accrued expenses	3,819	2,937
Other current liabilities	<u>\$ 41,352</u>	<u>\$ 41,064</u>
Contingent consideration related to acquisitions	\$ 1,900	\$ —
Uncertain tax positions	1,203	1,677
Deferred rent and related lease obligations	—	9,927
Other liabilities	178	208
Other noncurrent liabilities	<u>\$ 3,281</u>	<u>\$ 11,812</u>

12. Income Taxes

The provision for (benefit of) income taxes consists of the following components:

	Fiscal Year Ended March 31,		
	2020	2019	2018
Current:			
Federal taxes	\$ 408	\$ 1,159	\$ (2,788)
State taxes	858	(238)	(1,073)
Foreign taxes	874	744	678
Total current taxes	<u>2,140</u>	<u>1,665</u>	<u>(3,183)</u>
Deferred:			
Federal taxes	\$ (3,578)	\$ 3,752	\$ 2,949
State taxes	(1,682)	(428)	(2,510)
Foreign taxes	(119)	(195)	(86)
Total deferred taxes	<u>(5,379)</u>	<u>3,129</u>	<u>353</u>
Provision for (benefit of) income taxes	<u>\$ (3,239)</u>	<u>\$ 4,794</u>	<u>\$ (2,830)</u>

The provision for (benefit of) income taxes differs from the amount computed at the federal statutory rate as follows:

	Fiscal Year Ended March 31,		
	2020	2019	2018
Tax expense at United States federal statutory rate ⁽¹⁾	\$ 895	\$ 6,150	\$ (129)
Items affecting federal income tax rate:			
Research and development tax credits	(4,705)	(4,647)	(4,179)
Return to provision true-ups	(1,868)	(149)	(2,229)
Impact of foreign operations	(683)	(304)	(365)
Impact of audit settlements	(61)	967	428
Impact of valuation allowance	(49)	(33)	(101)
Qualified production activities income deduction	—	—	(4)
Foreign transition tax - Tax Reform	—	210	1,381
Revaluation of deferred tax balances - Tax Reform	—	231	2,328
Impact of amended returns	67	391	196
Compensation	125	(169)	620
Impact of deferred adjustments	159	132	415
Acquisition expenses	229	(2)	304
State income taxes	687	1,502	1,291
Non-deductible expenses	903	140	98
Impact of uncertain tax positions	1,062	375	(2,884)
Provision for (benefit of) income taxes	<u>\$ (3,239)</u>	<u>\$ 4,794</u>	<u>\$ (2,830)</u>

⁽¹⁾ Federal statutory rate was 21.0%, 21.0% and 31.5% for March 31, 2020, 2019 and 2018, respectively.

The net deferred tax assets and liabilities in the accompanying consolidated balance sheets consist of the following:

	March 31, 2020	March 31, 2019
Deferred tax assets:		
Compensation and benefits	\$ 11,966	\$ 10,707
Operating lease liabilities	11,430	—
Deferred revenue	10,546	7,171
Research and development credit	9,643	10,089
Net operating losses	8,812	5,320
Allowance for doubtful accounts	1,819	2,156
Foreign deferred taxes	1,574	1,455
Deferred rent	—	3,143
Other	—	690
Total deferred tax assets	<u>55,790</u>	<u>40,731</u>
Deferred tax liabilities:		
Intangibles assets	\$ (12,477)	\$ (15,806)
Capitalized software	(9,931)	(4,900)
Prepaid expense	(7,842)	(6,407)
Operating right-of-use assets	(6,667)	—
Accelerated depreciation	(1,405)	(1,606)
Accounts receivable	(1,251)	(2,255)
Other	(145)	—
Total deferred tax liabilities	<u>(39,718)</u>	<u>(30,974)</u>
Valuation allowance	(5,452)	(3,563)
Deferred tax assets, net	<u>\$ 10,620</u>	<u>\$ 6,194</u>

The deferred tax assets and liabilities have been shown net in the accompanying consolidated balance sheets as noncurrent.

As of March 31, 2020 and 2019, we had federal net operating loss (“NOL”) carryforwards of \$24,216 and \$17,419, respectively. The federal NOL carryforwards were inherited in connection with our acquisitions of HealthFusion in January 2016, Gennius in March 2015, Entrada in April 2017, EagleDream in August 2017, and Medfusion in December 2019. The NOL carryforwards expire in various amounts starting in fiscal 2030 for both federal and state tax purposes. As of March 31, 2020, we had state NOL carryforwards of approximately \$3,727 (tax effected), related to the HealthFusion, Entrada, EagleDream, and Medfusion acquisitions state NOL tax attribute. The utilization of the federal NOL carryforwards is subject to limitations under the rules regarding changes in stock ownership as determined by the Internal Revenue Code.

As of March 31, 2020 and 2019, the research and development tax credit carryforward available to offset future federal and state taxes was \$12,399 and \$11,072, respectively. The federal credits include credits inherited in connection with our acquisition of Medfusion in December 2019. The credits expire in various amounts starting in fiscal 2021.

We expect to receive the full benefit of the deferred tax assets recorded with the exception of certain state credits and NOL carryforwards for which we have recorded a valuation allowance.

Notwithstanding the United States taxation of the deemed repatriated foreign earnings as a result of the one-time Transition Tax, we intend to continue investing these earnings indefinitely outside of the United States. If we determine that all or a portion of our foreign earnings are no longer to be indefinitely reinvested, we may be subject to additional foreign withholding taxes and state income taxes in the United States beyond the Tax Reform's one-time Transition Tax. In the event that we distribute the foreign earnings to the United States, we will incur and record foreign withholding related taxes and U.S. state taxes of approximately \$2,600 and \$500, respectively.

The Taxation Laws (Amendment) Act, 2019 was enacted on December 12, 2019 to lower corporate tax rates in India. We opted not to elect for the reduced tax rate for various factors for the year ended March 31, 2020.

Uncertain tax positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits, which is recorded within other noncurrent liabilities in our consolidated balance sheet, is as follows:

Balance as of March 31, 2018	\$	2,419
Additions for prior year tax positions		1,405
Reductions for prior year tax positions		(930)
Balance as of March 31, 2019		2,894
Additions for prior year tax positions		1,372
Additions for current year tax positions		781
Reductions for prior year tax positions		(855)
Balance as of March 31, 2020	\$	4,192

During the year ended March 31, 2020, we recorded additional net liabilities of \$1,298 related to various federal and state tax planning benefits recorded in the current year for prior year tax positions. If recognized, the total amount of unrecognized tax benefit that would decrease the income tax provision is \$4,192.

Our practice is to recognize interest related to income tax matters as interest expense in the consolidated statements of net income and comprehensive income. We had approximately \$174 and \$209 of accrued interest related to income tax matters as of March 31, 2020 and 2019, respectively. We recognized interest income of \$35 for the year ended March 31, 2020 and interest expense of \$19, and \$86 in the years ended March 31, 2019 and 2018, respectively, related to income tax matters in the consolidated statements of net income and comprehensive income. No penalties related to income tax matters were accrued or recognized in our consolidated financial statements for all periods presented.

We are no longer subject to United States federal income tax examinations for tax years before fiscal year ended 2016. With a few exceptions, we are no longer subject to state or local income tax examinations for tax years before fiscal year ended 2015. During fiscal year ended March 31, 2020, our income tax examination by the Internal Revenue Service was formally completed for the tax years March 31, 2014 through March 31, 2016. We do not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statute of limitations within the next twelve months.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), signed into law on March 27, 2020, has resulted in significant changes to the U.S. federal corporate tax law. Additionally, several state and foreign jurisdictions have enacted additional legislation and or comply with federal changes. As the enactment dates of this law was prior to the end of our reporting period, we have considered the applicable tax law changes in our current and deferred income tax expense as of March 31, 2020. We will continue analyzing the applications of the CARES Act and include the material impact to future income tax provisions, if applicable.

13. Employee Benefit Plans

We provide a 401(k) plan to substantially all of our employees. Participating employees may defer up to the Internal Revenue Service limit per year based on the Internal Revenue Code. The annual contribution is determined by a formula set by our Board of Directors ("Board") and may include matching and/or discretionary contributions. The amount of the Company match is discretionary and subject to change. The retirement plans may be amended or discontinued at the discretion of the Board. Net contributions of \$4,658, \$5,206 and \$4,205 were made by the Company to the 401(k) plan for the years ended March 31, 2020, 2019, and 2018, respectively.

We have a deferred compensation plan (the "Deferral Plan") for the benefit of those employees who qualify. Participating employees may defer up to 75% of their salary and 100% of their annual bonus for a Deferral Plan year. In addition, we may, but are not required to, make contributions into the Deferral Plan on behalf of participating employees, and the amount of the Company match is discretionary and subject to change. Each employee's deferrals together with earnings thereon are accrued as part of our long-term liabilities. Investment decisions are made by each participating employee from a family of mutual funds. The deferred compensation liability was \$5,300 and \$5,905 at March 31, 2020 and 2019, respectively. To offset this liability, we have purchased life insurance policies on some of the participants. The Company is the owner and beneficiary of the policies and the cash values are intended to produce cash needed to help make the benefit payments to employees when they retire or otherwise leave the Company. We intend to hold the life insurance policy until the death of the plan participant. The cash surrender value of the life insurance policies for deferred compensation was \$7,029 and \$9,546 at March 31, 2020 and 2019, respectively. The values of the life insurance policies and our related obligations are included on the accompanying consolidated balance sheets in long-term other assets and long-term deferred compensation, respectively. We made contributions of \$74, \$71 and \$66 to the Deferral Plan for the years ended March 31, 2020, 2019, and 2018, respectively.

14. Share-Based Awards

Employee Stock Option and Incentive Plans

In October 2005, our shareholders approved a stock option and incentive plan (the "2005 Plan") under which 4,800,000 shares of common stock were reserved for the issuance of awards, including incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance shares, performance units (including performance options) and other share-based awards. The 2005 Plan provides that our employees and directors may, at the discretion of the Board 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 March 31, 2020, there were 227,020 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 the 2015 Equity, (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 March 31, 2020, there were 2,774,330 outstanding options, 2,312,779 outstanding shares of restricted stock awards, 23,186 outstanding shares of performance stock awards, and 6,884,156 shares available for future grant under the Amended 2015 Plan.

The following table summarizes the stock option transactions during the years ended March 31, 2020, 2019, and 2018:

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, 2017	2,885,415	\$ 15.41	6.2	\$ 3,150
Granted	1,479,000	\$ 14.56	7.5	
Exercised	(216,405)	\$ 16.62	5.8	\$ 119
Forfeited/Canceled	(477,840)	\$ 18.90	3.1	
Outstanding, March 31, 2018	3,670,170	\$ 15.51	6.2	\$ 766
Granted	326,130	\$ 16.40	6.8	
Exercised	(375,645)	\$ 15.49	4.7	\$ 1,589
Forfeited/Canceled	(451,730)	\$ 18.00	4.9	
Expired	(2,400)	\$ 28.15		
Outstanding, March 31, 2019	3,166,525	\$ 15.36	5.5	\$ 7,040
Exercised	(55,325)	\$ 15.87	4.3	\$ 138
Forfeited/Canceled	(75,450)	\$ 23.38	1.5	
Expired	(34,400)	\$ 43.04		
Outstanding, March 31, 2020	3,001,350	\$ 14.83	4.7	\$ —
Vested and expected to vest, March 31, 2020	2,825,186	\$ 14.83	4.6	\$ —
Exercisable, March 31, 2020	1,909,678	\$ 14.83	4.3	\$ —

Share-based compensation expense related to stock options was \$3,826, \$3,936, and \$2,953 for the years ended March 31, 2020, 2019, and 2018, respectively.

There were no stock options granted during the year ended March 31, 2020. During the years ended March 31, 2019 and 2018, we granted total stock options of 326,130 and 1,479,000, respectively, to purchase shares of common stock under the Amended 2015 Plan at an exercise price equal to the market price of our common stock on the date of grant, as summarized below.

Option Grant Date	Number of Shares	Exercise Price	Vesting Terms ⁽¹⁾	Expiration
May 30, 2018	241,130	\$ 16.83	Four Years	June 1, 2026
August 3, 2018	60,000	\$ 21.27	Four Years	August 3, 2026
November 2, 2018	25,000	\$ 15.09	Four Years	November 2, 2026
Fiscal year 2019 grants	326,130			
June 13, 2017	249,000	\$ 16.37	Four Years	June 13, 2025
May 24, 2017	60,000	\$ 14.57	Four Years	May 24, 2025
August 4, 2017	25,000	\$ 16.13	Four Years	August 4, 2025
October 31, 2017	915,000	\$ 14.07	Four Years	October 31, 2025
December 4, 2017	230,000	\$ 14.38	Four Years	December 4, 2025
Fiscal year 2018 grants	1,479,000			

⁽¹⁾ Unless otherwise indicated, options vest in equal annual installments on each grant anniversary date commencing one year following the date of grant

We utilize the Black-Scholes valuation model for estimating the fair value of share-based compensation with the following assumptions:

	Year Ended March 31, 2019	Year Ended March 31, 2018
Expected term	6.1 - 6.3 years	5.6 - 6.1 years
Expected volatility	34.6% - 36.8%	37.0% - 37.7%
Expected dividends	0.0%	0.0%
Risk-free rate	2.8% - 3.1%	1.9% - 2.2%

The weighted-average grant date fair value of stock options granted during the years ended March 31, 2019 and 2018 was \$7.18 and \$5.59 per share, respectively.

Non-vested stock option award activity during the years ended March 31, 2020, 2019, and 2018 is summarized as follows:

Non-Vested Stock Option Award Summary	Number of Shares	Weighted- Average Grant-Date Fair Value per Share
Outstanding, March 31, 2017	2,073,295	\$ 5.09
Granted	1,479,000	5.59
Vested	(621,440)	4.92
Forfeited/Canceled	(273,850)	4.57
Outstanding, March 31, 2018	2,657,005	\$ 5.18
Granted	326,130	7.18
Vested	(778,900)	5.12
Forfeited/Canceled	(358,380)	5.36
Outstanding, March 31, 2019	1,845,855	\$ 5.52
Vested	(745,033)	5.29
Forfeited/Canceled	(9,150)	6.42
Outstanding, March 31, 2020	<u>1,091,672</u>	\$ 5.67

As of March 31, 2020, \$4,191 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 1.4 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 years ended March 31, 2020, 2019, and 2018 was \$3,940, \$3,985, and \$3,059, respectively.

Restricted stock awards activity during the years ended March 31, 2020, 2019, and 2018 is summarized as follows:

Restricted Stock	Number of Shares	Weighted- Average Grant-Date Fair Value per Share
Outstanding, March 31, 2017	902,948	\$ 12.92
Granted	1,424,441	15.00
Vested	(386,226)	14.26
Canceled	(120,253)	14.29
Outstanding, March 31, 2018	1,820,910	\$ 14.52
Granted	885,845	18.14
Vested	(642,695)	14.63
Canceled	(348,102)	14.79
Outstanding, March 31, 2019	1,715,958	\$ 16.29
Granted	1,529,831	16.93
Vested	(764,290)	16.05
Canceled	(168,719)	17.06
Outstanding, March 31, 2020	<u>2,312,780</u>	\$ 16.74

Share-based compensation expense related to restricted stock awards was \$14,706, \$10,875, and \$8,536 for the years ended March 31, 2020, 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 March 31, 2020, \$28,225 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 23,186 shares are currently outstanding. The performance stock awards vest in four equal increments on each of the first four anniversaries of the grant date, subject in each case to the executive officer's continued service and achievement of certain Company performance goals, including strong stock price performance. Share-based compensation expense related to the performance stock awards was \$246 for the year ended March 31, 2020.

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 \$123 and \$534 for the years ended March 31, 2020 and 2019, respectively.

On December 26, 2019 and January 27, 2020, the Compensation Committee of the Board approved a total of 279,587 performance stock unit awards to be granted to certain executives and non-executive members of the executive leadership team, which vest only in the event certain performance goals are achieved and with continuous service through the date the goals are certified. Approximately 80% of the performance stock units are tied to the Company's fiscal year 2021 revenue goal and 20% are tied to the Company's fiscal year 2022 revenue goal. Performance stock unit awards funded for fiscal year 2021 and fiscal year 2022 revenue performance will be modified for cumulative 3-year total shareholder return ("TSR") on the three-year grant anniversary, which is also the cliff vest date. The number of shares to be issued may vary between 50% and 150% of the number of performance stock units depending on performance, and no such shares will be issued if threshold performance is not achieved. The weighted-average grant date fair value of the awards was \$16.02 per share, which was estimated using a Monte Carlo-based valuation model for the awards based on total shareholder return and using a probability-adjusted achievement rate combined with the market price of the common stock on the date of grant for the awards based on revenue targets. Share-based compensation expense related to the performance stock unit awards was \$309 for the year ended March 31, 2020.

Employee Share Purchase Plan

On August 11, 2014, our shareholders approved an Employee Share Purchase Plan (the "Purchase Plan") under which 4,000,000 shares of common stock were reserved for future grant. The Purchase Plan allows eligible employees to purchase shares through payroll deductions of up to 15% of total base salary at a price equal to 90% of the lower of the fair market values of the shares as of the beginning or the end of the corresponding offering period. Any shares purchased under the Purchase Plan are subject to a six-month holding period. Employees are limited to purchasing no more than 1,500 shares on any single purchase date and no more than \$25 in total fair market value of shares during any one calendar year. As of March 31, 2020, we have issued 586,102 shares under the Purchase Plan and 3,413,898 shares are available for future issuance.

Share-based compensation expense recorded for the employee share purchase plan was \$484, \$481, and \$362 for the years ended March 31, 2020, 2019, and 2018, respectively.

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 the Company as the sole plaintiff in the cross-complaint. On June 26, 2015, we filed a motion for summary judgment with respect to Hussein's claims, which the Court granted on September 16, 2015, dismissing all of Hussein's claims against us. On September 23, 2015, Hussein filed an application for reconsideration of the Court's summary judgment order, which the Court denied. Hussein filed a renewed application for reconsideration of the Court's summary judgment order on August 3, 2017. The Court again denied Hussein's application. On October 28, 2015, May 9, 2016, and August 5, 2016, Hussein filed a motion for summary judgment, motion for summary adjudication, and motion for judgment on the pleadings, respectively, seeking to dismiss our cross-complaint. The Court denied each motion. Trial on our cross-complaint began June 12, 2017. On July 26, 2017, the Court issued a statement of decision granting Hussein's motion for judgment on our cross-complaint. Final judgment over Hussein's claims and our cross-claims was entered on January 9, 2018. Hussein has noticed his appeal of the order granting summary judgment over his claims, and we noticed a cross-appeal on the court's statement of decision granting Hussein's motion for judgment on our cross-complaint. On October 8, 2019, the California State Court of Appeal for the Fourth Appellate District, Division Three, reversed the Superior Court's grant of summary judgment against Hussein's affirmative claims and affirmed the trial court's judgement after a bench trial against the Company on its breach of fiduciary duty claims against Hussein. We petitioned the California Court of Appeal to rehear the matter with respect to Hussein's affirmative claims. The Court modified its opinion but denied the Company's rehearing petition on November 7, 2019. We filed a petition for review with the Supreme Court of California on November 18, 2019, which was denied on January 15, 2020. As a result, the case has returned to the trial court for resolution. 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. The time within which the plaintiff could file a petition for writ of certiorari to the Supreme Court has expired so this matter is now concluded.

Other Regulatory Matters

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

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 \$2,505 of restructuring costs in the year ended March 31, 2020 within operating expenses in our 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. The payroll-related costs have been substantially paid as of March 31, 2020.

In connection with the restructuring plan, we also vacated portions of certain leased locations and recorded impairments of \$9,373 in the year ended March 31, 2020 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, Atlanta, Brentwood, and Phoenix, 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.

During the years ended March 31, 2019 and 2018, we recorded \$640 and \$611, respectively, of restructuring costs related to adjustments to the estimated fair value of remaining lease obligations for vacated properties associated with our prior restructuring plan. The restructuring costs were comprised of facilities-related costs associated with accruals for the remaining lease obligations at certain locations, including Solana Beach, Costa Mesa, and a portion of Horsham with contractual lease terms ending between January 2018 and September 2023. We estimated the remaining lease obligations at fair value as of the cease-use date for each location based on the future contractual lease obligations, reduced by projected sublease rentals that could be reasonably obtained for the locations after a period of marketing, and adjusted for the effect deferred rents that have been recognized under the lease. The effect of discounting future cash flows using a credit-adjusted risk free rate was not significant. Sublease income and commencement dates were estimated based on data available from rental activity in the local markets. As of March 31, 2019, the remaining lease obligation, net of estimated projected sublease rentals, was \$1,762.

Refer to Note 5 for estimated timing of payments related to remaining lease obligations.

17. Selected Quarterly Operating Results (unaudited)

The following table presents quarterly unaudited consolidated financial information for the eight quarters preceding March 31, 2020. Such information is presented on the same basis as the annual information presented in the accompanying consolidated financial statements. In management's opinion, this information reflects all adjustments that are necessary for a fair statement of the results for these periods.

	Quarter Ended							
	3/31/20	12/31/19	9/30/19	6/30/19	3/31/19	12/31/18	9/30/18	6/30/18
Revenues:								
Recurring	\$ 124,490	\$ 124,787	\$ 120,589	\$ 119,447	\$ 120,151	\$ 117,446	\$ 116,317	\$ 120,007
Software, hardware, and other non-recurring	11,892	12,953	13,667	12,414	14,634	13,421	14,004	13,193
Total revenues	136,382	137,740	134,256	131,861	134,785	130,867	130,321	133,200
Cost of revenue:								
Recurring	51,992	52,197	50,328	50,540	48,174	47,997	47,172	48,153
Software, hardware, and other non-recurring	7,088	6,975	6,563	6,278	5,959	6,576	7,022	7,154
Amortization of capitalized software costs and acquired intangible assets	9,259	8,963	8,843	8,413	7,924	7,098	6,924	6,544
Total cost of revenue	68,339	68,135	65,734	65,231	62,057	61,671	61,118	61,851
Gross profit	68,043	69,605	68,522	66,630	72,728	69,196	69,203	71,349
Operating expenses:								
Selling, general and administrative	43,159	42,841	39,046	40,128	44,710	41,304	34,229	44,636
Research and development costs, net	21,429	20,026	19,789	22,051	19,813	20,682	18,371	22,128
Amortization of acquired intangible assets	1,449	964	865	865	1,028	1,027	1,121	1,168
Impairment of assets	8,218	1,948	1,916	489	—	—	—	—
Restructuring costs	77	546	175	1,707	640	—	—	—
Total operating expenses	74,332	66,325	61,791	65,240	66,191	63,013	53,721	67,932
Income (loss) from operations	(6,289)	3,280	6,731	1,390	6,537	6,183	15,482	3,417
Interest income	111	30	36	79	103	44	40	29
Interest expense	(661)	(435)	(387)	(472)	(595)	(720)	(769)	(730)
Other income (expense), net	632	137	210	(133)	(117)	(227)	237	374
Income (loss) before provision for (benefit of) income taxes	(6,207)	3,012	6,590	864	5,928	5,280	14,990	3,090
Provision for (benefit of) income taxes	(1,965)	(1,403)	509	(380)	2,000	456	1,896	442
Net income (loss)	\$ (4,242)	\$ 4,415	\$ 6,081	\$ 1,244	\$ 3,928	\$ 4,824	\$ 13,094	\$ 2,648
Net income (loss) per share:								
Basic ⁽¹⁾	\$ (0.06)	\$ 0.07	\$ 0.09	\$ 0.02	\$ 0.06	\$ 0.07	\$ 0.20	\$ 0.04
Diluted ⁽¹⁾	\$ (0.06)	\$ 0.07	\$ 0.09	\$ 0.02	\$ 0.06	\$ 0.07	\$ 0.20	\$ 0.04
Weighted-average shares outstanding:								
Basic	65,988	65,493	65,401	65,015	64,749	64,637	64,265	64,019
Diluted	65,988	65,664	65,560	65,353	64,917	64,776	64,857	64,054

⁽¹⁾ Quarterly net income (loss) per share may not sum to annual net income (loss) per share due to rounding.

18. Subsequent Events

In April 2020, we borrowed an additional \$50,000 against the Credit Agreement and our total outstanding loans were \$179,000.

In May 2020, we announced a decision to execute a reduction in our workforce of less than 3% as well as other temporary cost reductions in response to the COVID-19 pandemic.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

		Sales Return Reserve			
		Balance at Beginning of Year	Additions Charged Against Revenue	Deductions	Balance at End of Year
(in thousands)					
For the year ended					
March 31, 2020		\$ 4,759	\$ 7,094	\$ (7,662)	\$ 4,191
March 31, 2019		\$ 5,520	\$ 4,969	\$ (5,730)	\$ 4,759
March 31, 2018		\$ 7,213	\$ 3,964	\$ (5,657)	\$ 5,520

		Allowance for Doubtful Accounts			
		Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
(in thousands)					
For the year ended					
March 31, 2020		\$ 6,054	\$ 3,367	\$ (5,872)	\$ 3,549
March 31, 2019		\$ 3,876	\$ 5,644	\$ (3,466)	\$ 6,054
March 31, 2018		\$ 2,757	\$ 5,913	\$ (4,794)	\$ 3,876

		Valuation Allowance for Deferred Taxes				
		Balance at Beginning of Year	Additions Charged to Costs and Expenses	Acquisition Related Additions	Deductions	Balance at End of Year
(in thousands)						
For the year ended						
March 31, 2020		\$ 3,563	\$ 327	\$ 1,590	\$ (28)	\$ 5,452
March 31, 2019		\$ 2,893	\$ 708	\$ —	\$ (38)	\$ 3,563
March 31, 2018		\$ 2,073	\$ —	\$ 922	\$ (102)	\$ 2,893

NEXTGEN HEALTHCARE, INC.
LIST OF SUBSIDIARIES

<u>Name of Subsidiary</u>	<u>State or Other Jurisdiction of Incorporation or Organization</u>
NextGen Healthcare Information Systems, LLC	California
NXGN Management LLC (f/k/a QSI Management LLC)	California
NextGen Cares Foundation, Inc.	California
NextGen RCM Services, LLC	Missouri
Topaz Information Systems, LLC	Arizona
Medfusion, Inc.	North Carolina
OTTO Health, LLC	Colorado
NextGen Healthcare India Pvt. Ltd.	India
NextGen Interoperability Solutions Limited (f/k/a Mirth Ltd)	United Kingdom

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-234308, 333-22145, 333-63131, 333-67115, 333-129752, 333-198181, and 333-206419) of NextGen Healthcare, Inc. of our report dated June 1, 2020 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Irvine, California

June 1, 2020

**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 Annual Report on Form 10-K 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: June 1, 2020

By: /s/ John R. Frantz

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

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

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

1. I have reviewed this Annual Report on Form 10-K 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: June 1, 2020

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

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

In connection with the Annual Report on Form 10-K of NextGen Healthcare, Inc. (the "Company") for the year ended March 31, 2020 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: June 1, 2020

By: /s/ John R. Frantz

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

Date: June 1, 2020

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

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

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