QUALITY SYSTEMS, INC
Form 10-K
May 19, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-12537
QUALITY SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

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

(949) 255-2600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 Par Value	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 þ No o
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 o No þ
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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
þ	o	o	o	o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2016: $582,893,000 (based on the closing sales price of the Registrant's common stock as reported on the NASDAQ Global Select Market on that date of $11.32 per share).*
The Registrant has no non-voting common equity.
The number of outstanding shares of the Registrant's common stock as of May 17, 2017 was 62,698,811 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 2017 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended March 31, 2017 are incorporated herein by reference in Part III of this Annual Report on Form 10-K where indicated.

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2017 ANNUAL REPORT ON FORM 10-K

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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,” “sho “would,” “could,” “may,” and similar expressions also identify forward-looking statements. These forward-looking statements include, without limitation, discussions of our product development plans, business strategies, future operations, financial condition and prospects, developments in and the impacts of government regulation and legislation 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 “we,” “us,” “our” or the “Company” as used throughout this Report refers collectively to Quality Systems, Inc. and its wholly-owned subsidiaries, unless otherwise indicated.

PART I

ITEM 1. BUSINESS

Company Overview

Quality Systems, Inc., known to our clients as NextGen Healthcare, provides software, services and analytics solutions to the ambulatory care market. We are a healthcare information technology and services company that delivers the foundational capabilities to organizations that want to promote healthy communities. Our technology provides a customizable platform that empowers physician practice success, enriches the patient care experience and lowers the cost of healthcare.

We primarily derive revenue by developing and marketing software and services that automate certain aspects of practice management (“PM”) and electronic health records (“EHR”) for ambulatory care practices. In addition, our software and services facilitate interoperability. Our software can be licensed and delivered on-premise or in the cloud as software-as-a-service (“SaaS”). Our services include maintenance and support, professional services, and complementary services such as managed cloud services, revenue cycle management (“RCM”) and electronic data interchange (“EDI”). We market and sell our solutions through a dedicated sales force and to a much lesser extent, through resellers. Our clients span the entire ambulatory market from large multi-specialty to small single specialty practices and include networks of practices such as physician hospital organizations (“PHOs”), management service organizations (“MSOs”), accountable care organizations (“ACOs”), ambulatory care centers and community health centers.

We have a history of enhancing our solutions through both organic and inorganic activities. Over the last few years, we have entered into strategic transactions to complement and enhance our product portfolio in the ambulatory care market. In October 2015, we divested our former Hospital Solutions division. In January 2016, we acquired HealthFusion Holdings, Inc. ("HealthFusion") and in April 2017, we acquired Entrada, Inc. ("Entrada").

Quality Systems, Inc. was incorporated in California in 1974. Our principal offices are located at 18111 Von Karman Ave., Suite 800, Irvine, California, 92612. Our websites are located at www.nextgen.com and www.qsii.com. We operate on a fiscal year ending on March 31.

Our Strategy

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

- Focus on the ambulatory client segment. In October 2015, we sold our former Hospital Solutions division to focus on our core ambulatory clients. Further, a recent operational reorganization better allows us to serve the needs of our ambulatory clients through a simpler, more nimble, and focused organization. We believe it is essential to protect, build

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and sell new capabilities within our ambulatory client segment. We are focused on our core by increasing quality and the serviceability of our solutions. We intend to continue to enhance the capabilities of our NextGen Ambulatory flagship product. At the same time, we intend to expand the capability of the highly scalable, pure cloud-based and mobile-enabled MediTouch® platform.

- Platform as a service. With the introduction of our API 2.0 framework and our continued leverage of the Mirth interoperability platform, we will continue our evolution to plug and play extensibility and information sharing that allows our customers to innovate and deploy high-fidelity extensions to our core applications without the costs, risks (security, performance, etc.) or complexity commonly associated with direct binding. We have also introduced platform-enabled automation capabilities to empower our clients to drive cost out of their processes while supporting their needs to implement the highly personalized workflows that are required to support value based care. Our acquisition of Entrada and its cloud-based, mobile application in April 2017 demonstrates our commitment to innovation that becomes essential for practitioners by improving their clinical productivity with documentation support services that seamlessly integrate into their electronic health record. We believe there is significant opportunity to extend the solutions we offer existing and new clients through value-added services such as RCM and EDI.
- Population health software and services. We are migrating into applications, analytics and services that will enable our clients to proactively manage the health of patient populations. We are establishing strong development partnerships with our most innovative customers who are actively participating in shared-risk contracts, and working together with them to create progressive population health capabilities. We support extraordinary information sharing capabilities vital to managing patient populations through Mirth interoperability offerings.

Business Organization

We continue to evaluate the organizational structure of our company with the objective of achieving greater synergies and further integration of our products and services, in support of our business strategies. In fiscal year 2016, we initiated a three-phase plan intended to better position our organization for future success. In the first phase, we redesigned the organization to more effectively support the execution of our strategy. This phase included implementing a series of actions with the objective of enabling a more efficient, integrated and client-centered delivery of the holistic solutions that we believe is required by our ambulatory care clients. During this phase, we transformed our management team with the appointment of a new Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Operating Officer, and Chief Strategy Officer. Under phase two of our reorganization, we have continued to build our infrastructure and enhance our healthcare information technology capabilities to drive future revenue growth. The phase includes a multi-year initiative, called NextGen 2.0, to merge our business units into a more streamlined, functional-based organization structure and to realign our organizational structure by consolidating the sales, marketing, information services, and software development responsibilities into single, company-wide roles to achieve greater efficiency. The third phase of the plan will consist of developing and marketing the services and solutions that we believe will accelerate revenue growth. The first phase was completed in April 2016, when we announced a corporate restructuring plan, which was approved by our Board of Directors.

As a result of our ongoing reorganization efforts, we also refined the measurement of our segment data to better reflect our current internal organizational structure. Our reportable segments changed effective July 1, 2016 and may change again due to such changes in the organization of our business. Our operating segments consist of the Software and Related Solutions segment and the RCM and Related Services segment, which is consistent with the disaggregated financial information used and evaluated by our chief operating decision maker (consisting of our Chief Executive Officer) to assess performance and make decisions about the allocation of resources. Revenue and gross profit are the key measures of segment profitability used by our chief operating decision maker to measure segment operating performance and to make key business decisions. The revenues and gross profit of each segment are derived from distinct product and services within each segment. The Software and Related Solutions segment aggregates the revenues and gross profit of our software-related products and services, including software license and hardware, software-related subscription services, support and maintenance, EDI and data services, and certain professional services, such as implementation, training, and consulting. The RCM and Related Services segment aggregates the

revenues and gross profit of our RCM services and certain related ancillary service offerings. A growing number of our clients are simultaneously utilizing software or services from more than one of our divisions. To enhance our ability to cross sell products and services, we are further integrating our products and services to provide a more robust and comprehensive platform.

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The following table breaks down our reported segment revenue and segment growth (decline) in revenue by division for the fiscal years ended March 31, 2017, 2016 and 2015. Additional information regarding our operating segment data is set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 15, “Operating Segment Information” of our notes to consolidated financial statements included elsewhere in this Report.

	Segment Revenue Breakdown Fiscal Year Ended March 31,			Segment Revenue Growth (Decline) Fiscal Year Ended March 31,		
	2017	2016	2015	2017	2016	2015
Software and Related Solutions	$423,593	$398,449	$395,259	6.3 %	0.8 %	9.1 %
RCM and Related Services	86,031	86,559	76,962	(0.6)%	12.5 %	15.3%
Hospital Solutions [1]	—	7,469	18,004	(100)%	(58.5)%	15.3%
Consolidated	$509,624	$492,477	$490,225	3.5 %	0.5 %	10.2%

[1] The former Hospital Solutions division was divested in October 2015 and therefore, does not represent a distinct operating segment. Historical amounts for Hospital Solutions have not been revised.

Industry Background and Market Opportunity

We believe there are significant opportunities and challenges in the ambulatory healthcare market due to changes in regulations and requirements that have occurred over the past several years. We have seen Health Information Technology for Economic and Clinical Health portion of the American Recovery and Reinvestment Act of 2009 ("HITECH Act") drive the adoption of EHRs, the Patient Protection and Affordable Care Act in 2010 (“ACA”) drive fundamental changes to the health insurance industry, and most recently, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) is driving value-based payment reform. We believe MACRA may be the most important of the three regulations for our market because it permanently changes how ambulatory healthcare providers are reimbursed by Medicare. It offers certainty and a timeline for the market’s move away from volume-based, fee-for-service models to value-based payment models that reward the delivery of lower cost, high quality care. Because of the scope and complexity of the changes in the 962-page proposed rule, we are focused on educating our clients and the market about these changes and ensuring that we are providing the solutions needed to thrive under the new payment systems established by MACRA.

HCIT solutions have become the catalyst for propelling healthcare into this outcomes-based era and many of our clients are paving the way. As part of the healthcare transformation that is taking place, providers will be held accountable for proactively managing the health of entire patient populations and delivering higher quality care at lower costs. As such, healthcare organizations are likely to invest in healthcare technology and technology-enabled services that will help identify patient risk, engage patients, coordinate care, and determine when intervention is needed to improve clinical and financial outcomes. We are well positioned to provide the solutions providers need to reach these goals. Additionally, we believe there will be an increasing demand for revenue cycle management services that are aligned and integrated with clinical technology solutions. This is another positive development for us since our RCM and Related Services segment provides revenue cycle solutions that are integrated with, and optimize, our technologies for better results. Through our Mirth products, we provide our clients with the ability to securely share data, or interoperability, is also essential to transform the healthcare delivery system into one that provides better care, smarter spending, and healthier people.

Today, our company and our clients are leaders in driving healthcare transformation. As healthcare continues to change, our focus is to help our clients adapt, thrive, and deliver the best patient care possible.

Products and Services

Software and Subscriptions

NextGen® Ambulatory Electronic Health Records (NextGen® Ambulatory EHR). Our EHR 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. Its configurable clinical content supports all of the required critical quality measures ("CQMs") in Quality Reporting Document Architecture ("QRDA") format. Our EHR version 5.8 offering is ONC 2014 Edition certified as a complete EHR.

NextGen® Ambulatory Practice Management Systems (NextGen® PM). Our PM 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. NextGen® PM is a highly configurable, cost-effective, and proven solution that enables the management of both single and multi-practice settings. It is designed to drive efficiency, increase revenue, and speed cash flow through greater practice control. It has achieved full accreditation with the Practice Management Systems Accreditation Program ("PMSAP") from the Electronic Healthcare Network Accreditation Commission ("EHNAC").

NextGen® MediTouch®. MediTouch® is a cloud-based EHR and PM solution for physicians, and medical billing services. The product expands our offering to the ambulatory client base and enhances our cloud-based technology platform for the needs of

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smaller and growing practices. It will also facilitate providing a broad mix of additional NextGen solutions to the HealthFusion client base. Our MediTouch® EHR is 2014 compliant and ONC certified.

NextGen® Interoperability Solutions. NextGen® interoperability, powered by Mirth technology, enables patient data from disparate systems to be easily and securely shared, aggregated, and put to work, regardless of EHR, PM, or other HCIT platform or location. Providers have simple access to aggregated, actionable data to better treat patients using a complete longitudinal medical record, manage transitions of care, coordinate care plans, and manage chronic conditions. NextGen® interoperability solutions facilitate improved clinical and financial outcomes across organizations. Interoperability product offerings include Mirth Connect, Mirth Results, Mirth Match, Mirth Mail, Mirth Appliance, and Mirth Care Enterprise.

NextGen® Share. This interoperability solution, developed using Mirth technology, helps providers safely and securely send and manage referrals, and accurately exchange clinical content, all without leaving their NextGen® Ambulatory EHR application. It allows easy, secure exchange of data with third-party providers, payers, and organizations.

NextGen® HIE. This vendor-agnostic health information exchange (“HIE”) is a Mirth solution. It facilitates cross-enterprise data sharing, enabling individual physician practices in a given community to selectively share critical data, such as demographics, referrals, medications lists, allergies, diagnoses, lab results, histories and more.

NextGen® Patient Portal. NextGen® Patient Portal drives patient engagement and satisfaction with easy, intuitive, 24x7 access to payments, scheduling, personal health information, and communication. It facilitates and simplifies comprehensive information exchange, offering anytime, anywhere access from PCs, tablets, and smart phones.

NextGen® Mobile Health Solutions. NextGen® Mobile Health Solutions are anchored by the Entrada platform which enables physicians and other caregivers to quickly and easily create relevant documentation within the EHR without sacrificing productivity. A true EHR mobile experience, the Entrada platform provides a fast, easy way for caregivers to view and share real-time clinical content and complete key EHR tasks from their mobile device. Included in the Mobile Health Solutions are Mobile Scribe which offers full EHR template support via remote assistance and Rhythm which offers both front-end speech and back-end transcription within a single mobile workflow.

QSIDental Web® (“QDW”). QDW, our cloud-based, SaaS practice management and clinical software solution, is marketed primarily to the multi-location dental group practice market in which the QSI Dental Division remains a dominant player. QDW is at the forefront of web-enabled dental applications and cloud computing and represents a significant growth opportunity for us to sell to our existing client base and new clients.

NextGen® Electronic Dental Record ("EDR"). NextGen® EDR is our most fully integrated dental solution available, combining setup and user functions, while integrating alerts and communication with our ambulatory PM, and serves as a single database for reporting across EHR and EDR records. Our patient records management shared by dentists and physicians increase productivity and safety while reducing costs. Integration with our NextGen® ambulatory solutions provides a comprehensive community solution for federally qualified health centers (“FQHCs”), community health centers (“CHCs”), corrections, and tribal health practices.

Services

NextGen® Revenue Cycle Management Services (NextGen® RCM Services). Our RCM services partners with private ambulatory and hospital-based physicians and groups to implement the NextGen® product suite using best practices and enables clients to tailor scalable RCM services that help them streamline workflow, identify and fix revenue leaks, increase cash flow, and optimize revenue. RCM services include 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 a top performing provider of RCM services as reported in the KLAS Ambulatory RCM Services Report, most recently released in 2016.

NextGen® EDI and NextGen® Clearinghouse Solutions. NextGen® EDI provides direct interfaces between our products and external third party systems, as well as transaction-based services. They help automate paper-based or telephony-intensive manual communications between patients and/or providers and/or payers. They also help check insurance benefits and identify patient financial responsibility. Our full-service electronic claims clearinghouse solutions help reduce claim denials through personalized claims processing and electronic remittance advice tools.

This helps providers improve claims efficiency, get paid faster, and manage the full claims life cycle at favorable costs.

NextGen® Managed Cloud Services. These new, scalable, cloud hosting services reduce the burden of information technology ("IT"). They speed implementations, simplify upgrades, cut technology costs significantly, offer the latest technology, and provide 24/7 monitoring and support by an expanded team of technical experts. Clients can benefit from cloud access to a secure, hosted IT infrastructure and regardless of size, can scale and enjoy the advantages of a cloud-based environment for its EHR and PM systems, enabling them to focus more on care and the practice, not on IT.

Professional Services. We offer a variety of professional services to our clients. Such services include training, project management, functional and detailed specification preparation, configuration, testing, and installation services. We generally charge for professional services on a time and materials basis, but we also charge on a fixed fee basis for projects with milestone payments utilizing mutually agreed upon functional and detailed specifications. We offer NextGen® “E-learning”, an on-line learning subscription service, which allows end-users to self-manage their learning. Our consulting services, which include physician, professional, and technical consulting, assist clients with optimizing their staffing and software solutions,

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enhancing financial and clinical outcomes, achieving regulatory requirements in the drive to value-based care, to meet the evolving requirements of healthcare reform.

Client Service and Support. Our technical services staff provide 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. The charge for support and maintenance varies, depending upon the related level of service and other factors, including the related software license fee. By remaining current on support and maintenance fees, clients also receive access to future unspecified versions of the software, on a when-available basis, as part of support services. To further improve and simplify our client's Client Service and Support experience, we recently implemented an Online Client Success Community that allows clients to access support, knowledge articles and documentation, and interact with peers one-on-one, all in one portal.

Proprietary Rights

We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws 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. The industry is highly fragmented and includes numerous competitors. Our principal existing competitors in the healthcare information systems and services market include: Allscripts Healthcare Solutions, Inc., athenahealth, Inc., Cerner Corporation, eClinicalWorks, Epic Systems Corporation, GE Healthcare, Greenway Health, LLC, Practice Fusion, and other competitors.

The practice management, EHR, interoperability and connectivity markets, in particular, are subject to rapid changes in technology, and we expect that competition in these market segments could increase as new competitors enter the market. We believe our principal competitive advantages are the features and capabilities of our products and services, our high level of client support, and our extensive experience in the industry.

The RCM market is also intensely competitive as other healthcare information systems companies, such as athenahealth, Inc., GE Healthcare, McKesson Corporation, and Allscripts Healthcare Solutions, Inc., are also in the market of selling both PM and EHR software and medical billing, collection and claims services.

Research and Development

The healthcare information management and computer software and hardware industries are characterized by rapid technological change requiring us to engage in continuing investments to update, enhance and improve our systems. During the years ended March 31, 2017, 2016 and 2015, we expended approximately $86.6 million $80.3 million, and $83.8 million, respectively, on research and development activities, including capitalized software costs of $8.2 million, $14.7 million, and $14.6 million, respectively. The majority of such expenditures are currently targeted on our software license and software related subscription services products lines. In addition, a portion of our product

enhancements have resulted from software development work performed under contracts with our clients.

Sales and Marketing

We sell and market our products primarily through a direct sales force and to a lesser extent, through a reseller channel. Software license sales to resellers represented less than 10% of total revenue for the years ended March 31, 2017, 2016 and 2015.

Our direct sales force typically makes presentations to potential clients by demonstrating the system and our capabilities on the prospective client’s premises. Sales efforts aimed at smaller practices can be performed on the prospective clients’ premises, or remotely via telephone or Internet-based presentations. Both the direct and reseller channel sales force are concentrating on more multi-product sales opportunities.

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Our sales and marketing employees identify prospective clients through a variety of means, including referrals from existing clients, industry consultants, contacts at professional society meetings, trade shows and web-based seminars, trade journal advertising, online advertising, public relations and social media campaigns, direct mail and email campaigns, and telemarketing. Resources have shifted more heavily to Web-based marketing to take advantage of buyers that now tend to do more Web research before contacting a vendor and other benefits of online marketing. In addition, we also focus on thought leadership and content marketing to highlight our industry knowledge, expertise and the successes of our client base.

Our sales cycle can vary significantly and typically ranges from six to twenty-four months from initial contact to contract execution. Software licenses are normally delivered to a client almost immediately upon receipt of an order. Implementation and training services are normally rendered based on a mutually agreed upon timetable. As part of the fees paid by our clients, we normally receive up-front licensing fees. Clients have the option to purchase hosting and maintenance services which, if purchased, are invoiced on a monthly, quarterly or annual basis.

We continue to concentrate our direct sales and marketing efforts on the ambulatory market from large multi specialty to small single specialty practices and include clinically integrated networks of practices such as physician hospital organizations (“PHOs”), management service organizations (“MSOs”), accountable care organizations (“ACOs”), ambulatory care centers and community health centers. IPAs, PHOs and similar networks to which we have sold systems provide use of our software to those group and single physician practices associated with the organization or hospital on either a service basis or by directing us to contract with those practices for the sale of stand-alone systems. 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 the years ended March 31, 2017, 2016 and 2015. Substantially all of our clients are located in the United States.

Employees

As of March 31, 2017, we employed approximately 2,791 individuals, of which 2,771 were full-time employees, and 472 employees were located in Bangalore, India. Aside from our Bangalore facility, which focuses primarily on software development activities, substantially all of our employees and operations are based in the United States. We believe that our future success depends in part upon recruiting and retaining qualified sales, marketing and technical personnel 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 websites are www.qsii.com and 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 under the “Investor Relations” button on our website. Members of the public may also read and copy any materials we file with, or furnish to, the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. To obtain information on the operation of the Public Reference Room, please call the SEC at 1-800-SEC-0330. 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.

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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

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.

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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,

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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.

The integration of new key executives into our management team may interfere with our operations. We have appointed several new key executives, including our Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Strategy Officer, and Chief Operating Officer, and we may hire additional key management team members. These executives will be required to spend a significant amount of time on certain integration and transition efforts in addition to performing their regular duties and responsibilities. If we fail to complete these integrations and transitions in an efficient manner, or if we fail to provide sufficient incentives to

motivate and retain our key executives, our business and prospects may suffer.

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, which we call NextGen 2.0, geared toward realigning our business structure and strategy to rapidly emerging changes in the healthcare industry. As NextGen 2.0 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

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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 our recent acquisitions of HealthFusion and Entrada, 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 HealthFusion and Entrada 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 own a captive facility and use offshore third party partners located in India that subject us to regulatory, economic, social and political uncertainties in India and to laws applicable to US companies operating overseas. We are subject to several risks associated with having a portion of our assets and operations located in India. Many US 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, US 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 US. For example, it may be a local custom for businesses to engage in practices that are prohibited by our internal policies and procedures or US laws and regulations applicable to us, such as the Foreign

Corrupt Practices Act (“FCPA”). The FCPA generally prohibits US 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 US 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 against us, 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 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, and by certain shareholders. The uncertainty associated with substantial unresolved litigation may have an adverse effect on our business. In particular, such litigation could impair our relationships with existing clients and our ability to obtain new clients. Defending such litigation 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.

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There can be no assurance that such litigation 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.

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, 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. During the year ended March 31, 2013, we recorded a $17.4 million goodwill impairment charge relating to our Hospital Solutions Division and during the year ended March 31, 2014, we recorded a $26.0 million impairment charge relating to certain long-lived assets of our Hospital Solutions Division. Also, we announced a pre-tax non-cash charge of approximately $32.2 million recorded in the quarter ended March 31, 2016 relating to the impairment of our previously capitalized investment in the NextGen Now cloud-based software product that was in the process of development. The impairment charge follows our assessment of the NextGen Now development project and the MediTouch platform that we obtained through our recent acquisition of HealthFusion. We determined that the MediTouch platform offers the most efficient path to providing a high-quality, robust, cloud-based solution for ambulatory care. Accordingly, we decided to cease further investment in NextGen Now and discontinue all efforts to use or repurpose the NextGen Now platform. 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, a putative class action 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 the plaintiff, alleging

that the plaintiff breached fiduciary duties owed to the Company, Mr. Razin and Mr. Plochocki. Mr. Razin and Mr. Plochocki have dismissed their claims against Hussein, leaving QSI as the sole plaintiff in the cross-complaint. On June 26, 2015, we filed a motion for summary judgment, which the Court granted on September 16, 2015, dismissing all claims against us. On September 23, 2015, the plaintiff filed an application for reconsideration of the Court's summary judgment order, which the Court denied. On October 28, 2015, the plaintiff filed a motion for summary judgment, seeking to dismiss our cross-complaint, which the Court denied on March 3, 2016. On May 9, 2016, the plaintiff filed a motion for summary adjudication, seeking to again dismiss our cross-complaint, which the Court denied on August 5, 2016. On August 5, 2016, the plaintiff filed a motion for judgment on the pleadings, seeking to again dismiss our cross-complaint, which the Court denied on September 2, 2016. Trial is set for June 1, 2017 on QSI's cross-complaint.

On November 19, 2013, a putative class action complaint was filed on behalf of the shareholders of our Company other than the defendants against us and certain of our officers and directors in the United States District Court for the Central District of California by one of our shareholders. After the Court appointed lead plaintiffs and lead counsel for this action, and recaptioned the action In re Quality Systems, Inc. Securities Litigation, No. 8L13-cv-01818-CJC(JPRx), lead plaintiffs filed an amended complaint on April 7, 2014. The amended complaint, which is substantially similar to the Hussein litigation described in the paragraph above, generally alleges that statements made to our shareholders regarding our financial condition and projected future performance were false and misleading in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the individual defendants are liable for such statements because they are controlling persons under Section 20(a) of the Exchange Act. The complaint seeks compensatory damages, court costs and attorneys' fees. We filed

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a motion to dismiss the amended complaint on June 20, 2014, which the Court granted on October 20, 2014, dismissing the complaint with prejudice. Plaintiffs filed a motion for reconsideration of the Court's order, which the Court denied on January 5, 2015. On January 30, 2015, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit, captioned In re Quality Systems, Inc. Securities Litigation, No. 15-55173. Plaintiffs filed their opening brief and we answered. Oral argument was held on December 5, 2016. The Court's decision remains pending.

On January 24, 2014, a complaint was filed against our Company and certain of our officers and current and former directors in the United States District Court for the Central District of California, captioned Timothy J. Foss, derivatively on behalf of himself and all others similarly situated, vs. Craig A. Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenzweig and Quality Systems, Inc., No. SACV14-00110-DOC-JPPx, by Timothy J. Foss, a shareholder of ours. The complaint arises from the same allegations described above under the captions “Hussein Litigation” and “Federal Securities Class Action” and generally alleges breach of fiduciary duties, abuse of control and gross mismanagement by our directors, in addition to unjust enrichment and insider selling by individual directors. The complaint seeks compensatory damages, restitution and disgorgement of all profits, court costs, attorneys’ fees and implementation of enhanced corporate governance procedures. The parties have agreed to stay this litigation until the United States Court of Appeals for the Ninth Circuit issues a ruling on the pending appeal in the federal securities class action litigation described in the paragraph above.

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 January 4, 2016, 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 HealthFusion and Entrada acquisitions, and in implementing our post-acquisition business strategy with respect to HealthFusion’s and Entrada’s products. Our shift in product focus following the acquisitions may not yield the desired results . We acquired HealthFusion on January 4, 2016 and Entrada on April 14, 2017. 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 HealthFusion and Entrada 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. The HealthFusion acquisition caused us to evaluate the impact of HealthFusion’s existing cloud-based product, MediTouch, on our ongoing efforts to develop and release our NextGen Now cloud-based platform. Our assessment led us to determine

that MediTouch, which was already a production-ready and sellable solution, represented a more prudent investment in our technical future than continuing with the NextGen Now development plans. Accordingly, we abandoned further development of the previously capitalized NextGen Now platform, and instead have redeployed research and development capital toward enhancing and scaling the HealthFusion MediTouch cloud-based platform. This shift resulted in a pre-tax non-cash charge of approximately $32 million relating to the impairment of a portion of our previously capitalized NextGen Now software development costs. If we are unable to successfully integrate HealthFusion and implement post-acquisition revisions to our business strategy and product focus away from NextGen Now development in favor of extending and scaling the MediTouch platform, 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

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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 ourselves 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. 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 substantially all of our systems revenue from traditional software license, implementation and training fees, as well as the resale of computer hardware. Today, the majority of 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

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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

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confidential user information or interrupt our, or our clients', operations. In addition, our EDI and SaaS solutions may be vulnerable to viruses, physical or electronic break-ins and similar disruptions.

Any failure to provide secure infrastructure and/or electronic communication services could result in a lack of trust by our clients causing them to seek out other vendors and/or damage our reputation in the market, making it difficult to obtain new clients.

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 provides -- 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.

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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 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

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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.

The results of the 2016 Congressional and Presidential elections have created new uncertainties. President Donald Trump and leaders of the 115th Congress have stated their intention to make significant changes to existing healthcare laws and regulations, but the future outlook for the various healthcare reform proposals under discussion remains uncertain.

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.

ICD-10 Medical Coding Transition. The CMS mandated that all providers, payers, clearinghouses and billing services implement the use of new patient codes for medical coding, referred to as ICD-10 codes, on or before October 1, 2015. The ICD-10 transition mandate substantially increased the number of medical billing codes by which providers seek reimbursement, increasing the complexity of submitting claims for reimbursement. The ICD-10 code set is also subject to annual updates from CMS. Our efforts to provide services and solutions that enable our clients to continue their compliance with the ICD-10 and potential subsequent mandates could be time consuming and expensive. In addition, due to the effort and expense of complying with the ICD-10 mandate and potential subsequent mandates, our clients may postpone or cancel decisions to purchase our solutions and services. Either of the foregoing, or any future changes to the required ICD-10 code set, could have a material adverse effect on our business, financial condition and results of operations.

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. As a result of 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 health IT developers and/or providers 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. The legislation also requires HHS to add new certification requirements related to interoperability as a condition of a health IT developer achieving or maintaining approved federal government certification status. If our software solutions, health care devices or services are not consistent with interoperability standards imposed by governmental/regulatory authorities or demanded by market forces, we could be forced to incur substantial additional development costs to conform.

FDA Regulation. Although the 21st Century Cures Act took steps to expressly limit the authority of the U.S. Food and Drug Administration ("FDA") to regulate as a medical device electronic health record software functionality, administrative software functionality, and other specified categories of medical software functionality, 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

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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 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, unprecedented government financial resources are being invested in healthcare, including significant 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 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.

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 RCM 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 RCM 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

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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 March 31, 2017. 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;

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- 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.

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One of our current directors, and one of our former directors are each significant shareholders, which makes it possible for them 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 16.4% of the outstanding shares of our common stock at March 31, 2017. In addition, a former director, who owns approximately 9.1% (based on the most recently available publicly filed information) of the outstanding shares of our common stock at March 31, 2017, likely maintains a large enough ownership stake to reelect himself to our Board of Directors under cumulative voting. 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 likely that these two individuals that are 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, these two 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 one or both of these shareholders 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.

We have suspended our payment of dividends. Our future practice concerning the payment of dividends is uncertain, which could adversely affect the price of our stock. Our credit agreement contains restrictions on our ability to declare and pay dividends. Accordingly, we suspended payment of dividends following our previously declared January 4, 2016 dividend payment, and we announced that we do not expect to pay dividends for at least the next twelve months from that time. Prior to suspending dividends, we had paid a quarterly dividend commencing with the conclusion of our first fiscal quarter of 2008 (June 30, 2007), with our Board of Directors declaring a quarterly cash dividend ranging from $0.125 to its most recent level of $0.175 per share on our outstanding shares of common stock, each quarter thereafter. Our dividends were generally distributable on or about the fifth day of each of the months of October, January, April and July. With our payment of dividends currently suspended, the payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including without limitation, our credit agreement, operating cash flows, financial condition, operating results, and sufficiency of funds based on our then-current and anticipated cash needs and capital requirements. Unfulfilled expectations regarding future dividends could adversely affect the price of our stock.

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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, 2017, we leased an aggregate of approximately 551,200 square feet of space with lease agreements expiring at various dates, of which approximately 446,300 square feet of space are utilized for continuing operations and 104,900 square feet of space are being subleased or have been vacated as part of our reorganization efforts, as detailed further below:

	Square Feet	Notes
Primary Operating Locations		
Horsham, Pennsylvania	92,800	(2) (4)
Irvine, California	83,100	(1) (2) (4)
Bangalore, India	73,800	(4)
St. Louis, Missouri	54,900	(3)
San Diego, California	40,000	(2) (4)
Atlanta, Georgia	35,500	(2) (4)
Hunt Valley, Maryland	34,000	(3)
North Canton, Ohio	22,100	(3)
South Jordan, Utah	7,300	(3)
Other locations	2,800	
Total Primary Operating Locations	446,300	
Vacated or Subleased Locations		
Austin, Texas	43,700	
Costa Mesa, California	25,100	
Horsham, Pennsylvania	17,200	
Solana Beach, California	12,000	
Other locations	6,900	
Total Vacated or Subleased Locations	104,900	
Total Leased Properties	551,200	

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(1) Location of our corporate office
(2) Primary locations of the Software and Related Solutions operating segment
(3) Primary locations of the RCM and Related Services operating segment
(4) Locations of our research and development functions

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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 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 14, “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

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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 on the NASDAQ Global Select Market under the symbol "QSII."

The following table sets forth for the quarters indicated the high and low sales prices for each period indicated, as reported on the NASDAQ Global Select Market:

	High	Low
Three Months Ended		
June 30, 2015	$17.95	$15.33
September 30, 2015	$17.06	$12.01
December 31, 2015	$16.74	$12.11
March 31, 2016	$17.50	$12.51
June 30, 2016	$15.31	$11.10
September 30, 2016	$13.04	$11.13
December 31, 2016	$14.18	$10.61
March 31, 2017	$15.90	$13.07

At May 17, 2017, there were approximately 288 holders of record of our common stock.

Dividends

Our future practice concerning the payment of dividends is uncertain. We entered into a revolving credit agreement in January 2016 (refer to Note 9, "Line of Credit" of our notes to consolidated financial statements included elsewhere in this Report for additional information), which contains restrictions on our ability to declare and pay dividends. Accordingly, we suspended payment of dividends following our previously declared January 4, 2016 dividend payment, and we announced that we do not expect to pay dividends for at least the next twelve months from that time. The payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including without limitation, our credit agreement, operating cash flows, financial condition, operating results, and sufficiency of funds based on our then-current and anticipated cash needs and capital requirements.

Prior to suspending dividends, we had paid a quarterly dividend commencing with the conclusion of our first fiscal quarter of 2008 (June 30, 2007), with our Board of Directors declaring a quarterly cash dividend ranging from $0.125 to its most recent level of $0.175 per share on our outstanding shares of common stock, each quarter thereafter. Our dividends were generally distributable on or about the fifth day of each of the months of October, January, April and July. Our Board of Directors declared the following dividends during the last two years:

Declaration Date	Record Date	Payment Date	Per Share Dividend
May 20, 2015	June 12, 2015	July 6, 2015	$ 0.175
July 22, 2015	September 11, 2015	October 5, 2015	0.175
October 21, 2015	December 11, 2015	January 4, 2016	0.175
Fiscal year 2016			$ 0.525

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.

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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, 2017 assuming $100 was invested on March 31, 2012 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 Quality Systems, Inc., The NASDAQ Composite Index
And The NASDAQ Computer & Data Processing Index

* $100 invested on March 31, 2012 in stock or index, including reinvestment of dividends. Fiscal year ended March 31.

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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, 2017 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,				
	2017	2016	2015	2014	2013
Statements of net income and comprehensive income data:					
Revenue	$509,624	$492,477	$490,225	$444,667	$460,229
Cost of revenue	223,134	225,615	223,164	220,163	189,652
Gross profit	286,490	266,862	267,061	224,504	270,577
Selling, general and administrative	163,623	156,234	158,172	149,214	148,353
Research and development costs, net	78,341	65,661	69,240	41,524	30,865
Amortization of acquired intangible assets	10,435	5,367	3,693	4,805	4,859
Impairment of assets	—	32,238	—	5,873	17,400
Restructuring costs	7,078	—	—	—	—
Income from operations	27,013	7,362	35,956	23,088	69,100
Interest income	14	428	111	269	76
Interest expense	(3,156)	(1,304)	(341)	—	(183)
Other expense, net	(262)	(166)	(62)	(356)	(79)
Income before provision for income taxes	23,609	6,320	35,664	23,001	68,914
Provision for income taxes	5,368	663	8,332	7,321	26,190
Net income	$18,241	$5,657	$27,332	$15,680	$42,724
Basic net income per share	$0.30	$0.09	$0.45	$0.26	$0.72
Diluted net income per share	$0.29	$0.09	$0.45	$0.26	$0.72
Basic weighted average shares outstanding	61,818	60,635	60,259	59,918	59,392
Diluted weighted average shares outstanding	62,010	61,233	60,849	60,134	59,462
Dividends declared per common share	$—	$0.525	$0.70	$0.70	$0.70

	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013
Balance sheet data:					
Cash, cash equivalents, and marketable securities	$37,673	$36,473	$130,585	$113,801	$118,011
Working capital	$18,108	$45,931	$100,893	$124,782	$158,156
Total assets	$473,221	$530,790	$460,521	$451,351	$452,126
Long-term line of credit	$15,000	$105,000	$—	$—	$—
Total liabilities	$168,178	$261,413	$176,981	$156,261	$145,077
Total shareholders' equity	$305,043	$269,377	$283,540	$295,090	$307,049

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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, 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.

Company Overview

Quality Systems, Inc., known to our clients as NextGen Healthcare, provides software, services and analytics solutions to the ambulatory care market. We are a healthcare information technology and services company that delivers the foundational capabilities to organizations that want to promote healthy communities. Our technology provides a customizable platform that empowers physician practice success, enriches the patient care experience and lowers the cost of healthcare.

We primarily derive revenue by developing and marketing software and services that automate certain aspects of practice management ("PM") and electronic health records ("EHR") for ambulatory care practices. In addition, our software and services facilitate interoperability. Our software can be licensed and delivered on-premise or in the cloud as software-as-a-service ("SaaS"). Our services include maintenance and support, professional services, and complementary services such as managed cloud services, revenue cycle management ("RCM") and electronic data interchange ("EDI"). We market and sell our solutions through a dedicated sales force and to a much lesser extent, through resellers. Our clients span the entire ambulatory market from large multi-specialty to small single specialty practices and include networks of practices such as physician hospital organizations ("PHOs"), management service organizations ("MSOs"), accountable care organizations ("ACOs"), ambulatory care centers and community health centers.

We have a history of enhancing our solutions through both organic and inorganic activities. Over the last few years, we have entered into strategic transactions to complement and enhance our product portfolio in the ambulatory care market. In October 2015, we divested our former Hospital Solutions division. In January 2016, we acquired HealthFusion Holdings, Inc. ("HealthFusion") and in April 2017, we acquired Entrada, Inc. ("Entrada").

Quality Systems, Inc. was incorporated in California in 1974. Our principal offices are located at 18111 Von Karman Ave., Suite 800, Irvine, California, 92612. Our websites are located at www.nextgen.com and www.qsii.com. We operate on a fiscal year ending on March 31.

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.

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Revenue Recognition

We generate revenue from sales of licensing rights and subscriptions to our software products, hardware and third party software products, support and maintenance services, revenue cycle management and related services ("RCM"), electronic data interchange and data services (“EDI”), and professional services, such as implementation, training, and consulting performed for clients who use our products.

We generally recognize revenue provided that persuasive evidence of an arrangement exists, fees are considered fixed or determinable, delivery of the product or service has occurred, and collection is considered probable. Revenue from the delivered elements (generally software licenses) are generally recognized upon physical or electronic delivery. In certain transactions where collection is not considered probable, the revenue is deferred until collection occurs. If the fee is not fixed or determinable, then the revenue recognized in each period (subject to application of other revenue recognition criteria) will be the lesser of the aggregate amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees were being recognized using the residual method. We assess whether fees are considered fixed or determinable at the inception of the arrangement and negotiated fees generally are based on a specific volume of products to be delivered and not subject to change based on variable pricing mechanisms, such as the number of units copied or distributed or the expected number of users.

A typical system sale may contain multiple elements, but most often includes software licenses, maintenance and support, implementation and training. Revenue on arrangements involving multiple elements is generally allocated to each element using the residual method when evidence of fair value only exists for the undelivered elements. The fair value of an element is based on vendor-specific objective evidence (“VSOE”), which is based on the price charged when the same element is sold separately. We generally establish VSOE for the related undelivered elements based on the bell-shaped curve method. VSOE is established on maintenance for certain clients based on stated renewal rates only if the rate is determined to be substantive and falls within our customary pricing practices. VSOE calculations are updated and reviewed on a quarterly or annual basis, depending on the nature of the product or service.

Under the residual method, we defer revenue related to the undelivered elements based on VSOE of fair value of each undelivered element and allocate the remainder of the contract price, net of all discounts, to the delivered elements. If VSOE of fair value of any undelivered element does not exist, all revenue is deferred until VSOE of fair value of the undelivered element is established or the element has been delivered.

Revenue related to arrangements that include hosting services is recognized in accordance to the revenue recognition criteria described above only if the client has the contractual right to take possession of the software at any time without incurring a significant penalty, and it is feasible for the client to either host the software on its own equipment or through another third party. Otherwise, the arrangement is accounted for as a service contract in which the entire arrangement is deferred and recognized over the period that the hosting services are being provided.

From time to time, we offer future purchase discounts on our products and services as part of our arrangements. Such discounts that are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, that are incremental to the range of discounts typically given in comparable transactions, and that are significant, are assessed as an additional element of the arrangement. Revenue deferred related to future purchase options are not recognized until either the client exercises the discount offer or the offer expires.

Revenue from professional services, including implementation, training, and consulting services, are generally recognized as the corresponding services are performed. Revenue from software related subscription services and support and maintenance revenue are recognized ratably over the contractual service period. Revenue from EDI and data services and other transaction processing services are recognized at the time the services are provided to clients. Revenue from RCM and related services is derived from services fees for ongoing billing, collections, and other related services, and are generally calculated as a percentage of total client collections. We recognize RCM and related services revenue at the time collections are made by the client as the services fees are not fixed or determinable until such time.

We record revenue net of sales tax obligation in the consolidated statements of net income and comprehensive income.

The amount and timing of revenue recognized in a given period is affected by our judgment as to whether an arrangement includes multiple elements and if so, the allocation of revenue to each element. We generally apply the residual method for the revenue recognition of our multiple element arrangements and estimate the fair value of the undelivered elements based on VSOE. Establishing VSOE on our undelivered elements requires judgment. We establish VSOE for each undelivered element as the price charged when the same element is sold separately and generally evidenced when a substantial majority of historical standalone transactions fall within a reasonably narrow range using the bell-shaped curve method. In our determination of VSOE, we also consider service type, client type, and other variables. Our revenue recognition is based on our ability to maintain VSOE. Although not currently expected, certain events may occur, such as modification to or lack of consistency in our selling and pricing practices that could result in changes to our determination of VSOE. VSOE calculations are updated and reviewed on a quarterly or annual basis, depending on the nature of the product or service.

We also must apply judgment in determining the appropriate timing and recognition of certain revenue deferrals. In certain transactions where collection risk is high, the revenue is deferred until collection occurs. If the fee is not fixed or determinable, then

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the revenue recognized in each period (subject to application of other revenue recognition criteria) will be the lesser of the aggregate amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees were being recognized using the residual method. We assess whether fees are considered fixed or determinable at the inception of the arrangement and negotiated fees generally are based on a specific volume of products to be delivered and not subject to change based on variable pricing mechanisms, such as the number of units copied or distributed or the expected number of users.

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.

Reserves on Accounts Receivable

We maintain reserves for potential sales returns and uncollectible accounts receivable. In aggregate, such reserves reduce our gross accounts receivable to its estimated net realizable value.

Our standard contracts generally do not contain provisions for clients to return products or services. However, we historically have accepted sales returns under certain circumstances. Accordingly, we estimate sales return reserves, including reserves for returns and other credits, based upon the rate of historical returns by revenue type in relation to the corresponding gross revenues and recognize revenue, net of an allowance for sales returns. If we are unable to estimate the returns, revenue recognition may be delayed until the rights of return period lapses, provided also, that all other criteria for revenue recognition have been met. If we experience changes in practices related to sales returns or changes in actual return rates that deviate from the historical data on which our reserves had been established, our revenues may be adversely affected.

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 historical experience of bad debt expense and the aging of our accounts receivable balances, net of deferred revenue and specifically reserved accounts. Specific reserves are based on our estimate of the probability of collection for certain troubled accounts. Accounts are written off as uncollectible only after we have expended extensive collection efforts.

Our allowances for doubtful accounts are based on our assessment of the collectibility of client 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. 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.

Software Development Costs

Software development costs, consisting primarily of employee salaries and benefits, incurred in the research and development of new software products and enhancements to existing software products 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 external software development costs are capitalized. Amortization of capitalized software is recorded using the greater of the ratio of current revenues to the total of current and expected revenues of the related product or the straight-line method 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 to develop software applications for our internal-use and costs for the development of Software as a Service ("SaaS") based products sold to our clients. The development costs of our SaaS-based products are considered internal-use for accounting purposes. Our internal-use capitalized costs are stated at cost and amortized using the straight-line method over the estimated useful lives of the assets, which is typically three to seven 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 developing SaaS-based products are reported as capitalized software costs within our consolidated balance sheets and capitalized software costs for developing 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 a determination is made that capitalized amounts are not recoverable based on the estimated net cash flows to be generated from sales of the applicable software product, the amount by which the unamortized capitalized costs of a software product exceed the net realizable value is written off as a charge to earnings. The net realizable value is the estimated future gross revenues from that product

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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.

During the year ended March 31, 2016, we recorded a $32.2 million non-cash impairment charge after making a determination that the previously capitalized software costs related to the NextGen Now development project was not recoverable. Refer to the "Impairment of Assets" section below for additional information.

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

We completed our acquisition of HealthFusion during the year ended March 31, 2017, which was accounted for as a purchase business combination using the acquisition method of accounting.

In accordance with the acquisition method of accounting for business combinations, we allocate 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 quoted market prices, 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 based on the probability of achieving certain business milestones and/or management's forecast of expected results. 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. 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. Any adjustments to fair value subsequent to the measurement period are reflected in the consolidated statements of net income and comprehensive income.

We currently do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material

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.

We test goodwill for impairment annually during our first fiscal quarter, referred to as the annual test date. We will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting-unit level, which is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component.

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.

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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 currently 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 and contracts, customer relationships, and software technology, all of which arose in connection with our acquisitions.

These intangible assets are recorded at fair value and are stated net of accumulated amortization. We currently amortize intangible assets using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed.

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 our employee stock options plans, employee share purchase plans, restricted stock awards, and restricted performance stock awards and shares. See Note 13, “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 the stock options under our equity incentive plans is based on the number of options expected to vest. 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 the restricted performance stock awards and shares is 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.

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Trends and Events in Our Business

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

We believe healthcare is more heavily influenced by regulatory and national health projects than by the cycles of our economy. The healthcare industry has been significantly impacted by the Obama Administration's broad healthcare reform efforts, including the Health Information Technology for Economic and Clinical Health portion of the American Recovery and Reinvestment Act of 2009 ("HITECH Act") and the Patient Protection and Affordable Care Act ("ACA") that provided significant incentives to health care organizations for "Meaningful Use" adoption and interoperable electronic health record solutions.

We also believe that healthcare reform, including the repeal of the sustainable growth rate (SGR) formula as part of the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), and a movement towards a value-based, pay-for-performance model and quality initiative efforts will stimulate demand for robust electronic health record solutions as well as new health information technology solutions from bundled billing capabilities to patient engagement and population health management. We believe MACRA may be the most important of the three regulations for our market because it permanently changes how ambulatory healthcare providers are reimbursed by Medicare. It offers certainty and a timeline for the market’s move away from volume-based, fee-for-service models to value-based payment models that reward the delivery of lower cost, high quality care.

While we expect to benefit from the increasing demands for greater efficiency as well as government support for increased adoption of electronic health records, the market for physician based electronic health records software is becoming increasingly saturated while physician group practices are rapidly being consolidated by hospitals, insurance payers and other entities. Hospital software providers are leveraging their position with their hospital clients to gain market share with hospital owned physician practices. Insurance providers and large physician groups are also consolidating physician offices creating additional opportunity for ambulatory software providers like us. Our strategy is to focus on addressing the growing needs of accountable care organizations around interoperability, patient engagements, population health, and data analytics.

We believe that our core strength lies in the central role our software products and services play in the delivery of healthcare by the primary physician in an ambulatory setting. We intend to remain at the forefront of upcoming new regulatory requirements and meaningful use requirements for stimulus payments. We intend to continue the development and enhancement of our software solutions to support healthcare reform, such as the recently enacted MACRA, which promotes the transition from fee-for-service to value-based, pay-for-performance and patient-centric and quality initiatives such as accountable care organizations. Key elements of our future software development will be to expand our interoperability capabilities enhancing the competitiveness of our software offerings, make our products more intuitive and easy to use, and to enhance the capability of our MediTouch® Platform to allow us to deliver our software over the cloud to larger ambulatory care practices.

We have a history of enhancing our solutions through both organic and inorganic activities. Over the last few years, we have entered into strategic transactions to complement and enhance our product portfolio in the ambulatory care market. In October 2015, we divested our former Hospital Solutions division. In January 2016, we acquired HealthFusion Holdings, Inc. ("HealthFusion") and in April 2017, we acquired Entrada, Inc. ("Entrada").

We continue to evaluate the organizational structure of our company with the objective of achieving greater synergies and further integration of our products and services, in support of our business strategies. In fiscal year 2016, we initiated a three-phase plan intended to better position our organization for future success. In the first phase, we redesigned the organization to more effectively support the execution of our strategy. This phase included implementing a series of actions with the objective of enabling a more efficient, integrated and client-centered delivery of the holistic solutions that we believe is required by our ambulatory care clients. During this phase, we transformed our management team with the appointment of a new Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Operating Officer, and Chief Strategy Officer. Under phase two of our reorganization, we have continued to build our infrastructure and enhance our healthcare information technology capabilities to drive future revenue growth. The phase includes a multi-year initiative, called NextGen 2.0, to merge

our business units into a more streamlined, functional-based organization structure and to realign our organizational structure by consolidating the sales, marketing, information services, and software development responsibilities into single, company-wide roles to achieve greater efficiency. The third phase of the plan will consist of developing and marketing the services and solutions that we believe will accelerate revenue growth. The first phase was completed in April 2016, when we announced a corporate restructuring plan, which was approved by our Board of Directors.
The overall plan also includes a multi-year initiative, called NextGen 2.0, to merge our business units into a more streamlined, functional-based organization structure and to realign our organizational structure by consolidating the sales, marketing, information services, and software development responsibilities into single, company-wide roles to achieve greater efficiency.
Under our reorganization plan, we incurred approximately $7,078 of reorganization-related charges in the year ended March 31, 2017, consisting principally of severance, other one-time termination benefits, and facilities-related costs.
We have and intend to continue investments in our infrastructure, including but not limited to maintaining and expanding sales, marketing and product development activities to improve patient care and reduce healthcare costs, providing industry-leading, integrated clinical and administrative healthcare data systems, services, and expertise to clinical, medical, technology, and healthcare business professionals while continuing our strong commitment of service in support of our client satisfaction programs. These investments in our infrastructure will continue while maintaining reasonable expense discipline. We strive to add new clients and expand our relationship with existing clients through delivery of add-on and complementary products and

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services and believe that our client base that is using our software on a daily basis is a strategic asset. We intend to leverage this strategic asset by expanding our product and service offerings towards this client base.

Led by our vision and mission, we are resetting our strategy and structure to deliver value to our clients. To achieve a lower-cost, increased capability structure, our new management team is building what we believe is an aligned, client-focused organization, supported by a recurring revenue stream and a large and diverse existing client base.

We strive to be the trusted partner for clients of all sizes, integrating services and software into a consolidated solution that enables an efficient and effective caregiver and patient experience while driving positive financial outcomes. As a healthcare information technology and services company, we plan to continue investing in our current capabilities as well as building and/or acquiring new capabilities as we guide our clients through an evolving healthcare marketplace that is transitioning from fee-for-service to fee-for-value reimbursement models. With approximately 90,000 providers using our solutions, we are enabling care and believe we can truly transform the delivery of care through the following strategic priorities, including focus on the ambulatory client segment, platform as a service, and population health software and services. Refer to “Item 1. Business” included elsewhere in this Report for additional information on each of our strategic priorities.

As a healthcare information technology and services company, we plan to continue investing in our current capabilities as well as building and/or acquiring new capabilities as we guide our clients from fee-for-service to fee-for-value payer reimbursement models. With approximately 90,000 providers using our solutions, we are enabling care and believe we can truly transform the delivery of care.

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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, 2017, 2016, and 2015 (certain percentages below may not sum due to rounding):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Revenues:			
Software license and hardware	12.9 %	14.3 %	16.7 %
Software related subscription services	17.1	11.2	9.1
Total software, hardware and related	29.9	25.6	25.8
Support and maintenance	31.2	33.5	34.5
Revenue cycle management and related services	16.2	16.9	15.1
Electronic data interchange and data services	17.5	16.7	15.6
Professional services	5.2	7.3	9.0
Total revenues	100.0	100.0	100.0
Cost of revenue:			
Software license and hardware	4.8	5.6	5.9
Software related subscription services	7.2	5.4	4.2
Total software, hardware and related	12.0	11.0	10.1
Support and maintenance	5.6	6.4	5.9
Revenue cycle management and related services	11.1	11.7	11.1
Electronic data interchange and data services	10.0	10.2	9.8
Professional services	5.1	6.6	8.6
Total cost of revenue	43.8	45.8	45.5
Gross profit	56.2	54.2	54.5
Operating expenses:			
Selling, general and administrative	32.1	31.7	32.3
Research and development costs, net	15.4	13.3	14.1
Amortization of acquired intangible assets	2.0	1.1	0.8
Impairment of assets	—	6.5	—
Restructuring costs	1.4	—	—
Total operating expenses	50.9	52.7	47.1
Income from operations	5.3	1.5	7.3
Interest income	—	0.1	—
Interest expense	(0.6)	(0.3)	(0.1)
Other expense, net	(0.1)	—	—
Income before provision for income taxes	4.6	1.3	7.3
Provision for income taxes	1.1	0.1	1.7
Net income	3.6 %	1.1 %	5.6 %

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Revenues

The following table presents our consolidated revenues for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Revenues:			
Software license and hardware	$65,547	$70,523	$81,649
Software related subscription services	87,050	55,403	44,592
Total software, hardware and related	152,597	125,926	126,241
Support and maintenance	158,803	165,200	169,219
Revenue cycle management and related services	82,552	83,006	74,237
Electronic data interchange and data services	88,951	82,343	76,358
Professional services	26,721	36,002	44,170
Total revenues	$509,624	$492,477	$490,225

We generate revenue from sales of licensing rights and subscriptions to our software products, hardware and third party software products, support and maintenance services, revenue cycle management and related services ("RCM"), electronic data interchange and data services (“EDI”), and professional services, such as implementation, training, and consulting performed for clients who use our products.

Consolidated revenue for the year ended March 31, 2017 increased $17.1 million compared to the prior year due mostly to a $31.6 million increase in software related subscription services and $6.6 million increase in EDI, partially offset by a $9.3 million decrease in professional services, $6.4 million decrease in support and maintenance, $5.0 million decrease in software license and hardware, and $0.5 million decrease in RCM. The increase in software related subscription services was primarily driven by a full year of sales related to the MediTouch® cloud-based solution acquired from HealthFusion in January 2016, combined with growth in subscriptions related to our interoperability, patient portal, and QSIDental Web product offerings as we continue to expand our client base. The increase in EDI is partially attributed to the acquisition of HealthFusion and growth in EDI transaction volume due to addition of new clients and further penetration of our existing client base. The decline in software license and hardware revenue was mostly caused by a shift in market dynamics toward cloud-based solutions and away from perpetual license arrangements, which has also resulted in lower demand for our professional services, including implementation, training, and consulting services. The decline in support and maintenance is due primarily to the disposition of the former Hospital Solutions division in October 2015, which accounted for $5.3 million of the decrease, and net attrition in products sold with accompanying maintenance. The lower RCM revenue is due to customer attrition and a decline in new bookings.

Consolidated revenue for the year ended March 31, 2016 increased $2.3 million compared to the year ended March 31, 2015 due to higher software related subscription services, RCM, and EDI revenue, partially offset by lower software license and hardware, professional services, and support and maintenance revenue. The $11.1 million decline in software license and hardware revenue compared to the year ended March 31, 2015 reflects the increasingly saturated end-market for electronic health records software and the disposition of the former Hospital Solutions division, which contributed to $1.9 million of the total decrease in software license and hardware revenue. Software related subscription services revenue increased $10.8 million compared to the year ended March 31, 2015 primarily due to additional revenues from the acquisition of HealthFusion, combined with growth in subscriptions related to our interoperability, patient portal, and QSIDental Web product offerings, offset by a $1.9 million decrease primarily related to the disposition of the former Hospital Solutions division. Support and maintenance revenue decreased $4.0 million, which consists of a $4.9 million decrease related to the former Hospital Solutions division, partially offset by growth in support and maintenance related to our interoperability solutions and other ambulatory software products. RCM and EDI revenue grew by $8.8 million and $6.0 million, respectively, compared to the year ended March 31, 2015, due to addition of new clients and further penetration of our existing client base. The acquisition of

HealthFusion also partially contributed to the increase in EDI revenues. Professional services revenue decreased $8.2 million compared to the year ended March 31, 2015, due to the recent decline in system sales, resulting in lower client demand for our core software products and related implementation, training, and consulting services. The disposition of the former Hospital Solutions division also contributed to $1.7 million of the decrease in professional services revenue compared to the year ended March 31, 2015.

Consolidated bookings reflect the estimated annual value of our executed contracts and are adjusted to include the effect of pre-acquisition bookings for HealthFusion and exclude the historical impact of the former Hospital Solutions division. For the year ended March 31, 2017, consolidated bookings were $125.5 million, which decreased compared to $141.7 million in the prior year primarily due to lower sales of perpetual license arrangements associated with a shift in market dynamics and a decline in new RCM bookings, as described above. Consolidated bookings decreased in the year ended March 31, 2016 compared to $175.4 million in the year ended March 31, 2015, which was primarily driven by lower sales of perpetual license arrangements.

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Recurring service revenue, consisting of software related subscription services, support and maintenance, RCM, and EDI, represented 82%, 78%, and 74% of total revenue for the years ended March 31, 2017, 2016, and 2015, respectively.

We expect to benefit from the growth of a replacement market driven by an expected consolidation of electronic health records vendors. We also anticipate the creation of new opportunities in connection with the evolution of healthcare from a fee-for-services reimbursement model to a pay-for-performance model around the management of patient populations. Through our acquisition of HealthFusion in January 2016, we obtained a highly scalable, pure cloud-based and mobile-enabled platform with capabilities that we intend to expand to serve the requirements of larger ambulatory practices. When combined with our Mirth-branded products, we can offer our clients a full suite of cloud-based solutions that better enable our clients to focus on care delivery. While it remains difficult to assess the relative impact or the timing of positive and negative trends affecting the aforementioned market opportunities, we believe we are well positioned to remain a leader in serving the evolving market needs for healthcare information technology.

Gross Profit

The following table presents our consolidated cost of revenue and gross profit for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Total cost of revenue	$223,134	$225,615	$223,164
Gross profit	286,490	266,862	267,061
Gross margin %	56.2 %	54.2 %	54.5 %

Cost of revenue consists primarily of compensation expense, including share-based compensation, for personnel that deliver our products and services. Cost of revenue also includes amortization of capitalized software costs and acquired technology, third party consultant and outsourcing costs, costs associated with our EDI business partners and clearinghouses, hosting service costs, third party software costs and royalties, and other costs directly associated with delivering our products and services. Refer to Note 7, "Intangible Assets" and Note 8, "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.

Share-based compensation expense included in cost of revenue was $0.5 million, $0.4 million, and $0.4 million for the years ended March 31, 2017, 2016, and 2015, respectively, and is included in the amounts in the table above.

Gross profit for the year ended March 31, 2017 increased $19.6 million compared to the prior year due primarily to the higher revenues as discussed above, combined with a $2.5 million decrease in cost of revenue. Cost of revenue decreased due to lower payroll costs associated with delivering support and maintenance and professional services and lower amortization of previously capitalized software development costs that became fully amortized during the year, partially offset by higher amortization of the software technology intangible asset acquired from HealthFusion. The increase in the gross margin percentage to 56.2% for the year ended March 31, 2017 compared to 54.2% in the prior year period primarily reflects higher profitability related to sales of the MediTouch® cloud-based solution acquired from HealthFusion in January 2016, offset by lower profitability of professional services as the demand for such services have declined at a quicker pace than the associated payroll costs.

Gross profit decreased $0.2 million for the year ended March 31, 2016 compared to the year ended March 31, 2015 due primarily to a decline in high-margin software license sales associated with the market saturation noted above and a decline in gross profit associated with the disposition of the former Hospital Solutions division, offset by increases in gross profit associated with higher software and related subscription services, RCM, and EDI revenues and contributions to gross profit from the acquisition of HealthFusion.

Selling, General and Administrative Expense

The following table presents our consolidated selling, general and administrative expense for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,					
	2017		2016		2015	
Selling, general and administrative	$163,623		$156,234		$158,172	
Selling, general and administrative, as a percentage of revenue	32.1	%	31.7	%	32.3	%

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, acquisition and transaction-related costs, and other general corporate and administrative expenses.

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Share-based compensation expense included in selling, general and administrative expenses was $6.1 million, $2.6 million, and $2.7 million for the years ended March 31, 2017, 2016, and 2015, respectively, and is included in the amounts in the table above. The increase in share-based compensation expense for the year ended March 31, 2017 compared to the prior year is due to higher issuances of equity awards to officers and employees as incentive compensation. Refer to Note 13, "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 $7.4 million for the year ended March 31, 2017 compared to the prior year primarily due to higher incremental costs associated with HealthFusion acquired in January 2016, higher legal expense related to shareholder litigation, partially offset by lower payroll costs associated with our reorganization efforts and lower acquisition costs.

Selling, general and administrative expenses for the year ended March 31, 2016 decreased $1.9 million compared to the year ended March 31, 2015 primarily due to a $6.3 million decrease in legal expenses associated mostly with shareholder litigation defense costs (net of insurance recoveries), a $2.1 million decrease in sales commissions related to a decline in new system sales, a $1.5 million decrease in equipment and software maintenance expense, and a $0.7 million decrease in facilities and utilities expense, offset by a $2.7 million increase in bad debt expense, a $2.7 million increase in salaries and benefits, $2.3 million higher transaction costs associated mostly with the acquisition of HealthFusion and a $1.8 million loss on the disposition of the former Hospital Solutions division (including related incremental direct costs).

Research and Development Costs, net

The following table presents our consolidated net research and development costs, capitalized software costs, and gross expenditures prior to capitalization, for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Gross expenditures	$86,590	$80,336	$83,841
Capitalized software costs	(8,249)	(14,675)	(14,601)
Research and development costs, net	$78,341	$65,661	$69,240
Research and development costs, net, as a percentage of revenue	15.4%	13.3%	14.1%
Capitalized software costs as a percentage of gross expenditures	9.5%	18.3%	17.4%

Gross research and development expenditures, including costs expensed and costs capitalized, consist of compensation expense, including share-based compensation for research and development personnel, certain third-party consultant fees, software maintenance costs, and other costs related to new product development and enhancement to our existing products. We intend to continue to invest heavily in research and development expenses as we continue to bring additional functionality and features to the medical community and develop a new integrated inpatient and outpatient, web-based software platform.

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

Share-based compensation expense included in research and development costs was $1.0 million, $0.3 million, and $0.4 million for the years ended March 31, 2017, 2016, and 2015, respectively, and is included in the amounts in the table above.

Net research and development costs for the year ended March 31, 2017 increased $12.7 million compared to the prior year due to a $6.3 million increase in our gross expenditures, combined with a $6.4 million decrease in capitalized software costs. The increase in gross expenditures is primarily the result of incremental costs from HealthFusion and higher costs related to development of the next versions of our software products, partially offset by lower gross

expenditures from the discontinuation of the former NextGen Now development project during the fourth quarter of fiscal 2016 and lower personnel costs associated with our reorganization efforts. The reduction in capitalized software costs and rate of software capitalization is primarily due to the discontinuation of the former NextGen Now development project and the recent releases of the next major version of our core software products. 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.

Net research and development costs for the year ended March 31, 2016 decreased $3.6 million compared to the year ended March 31, 2015 primarily due to lower gross expenditures related to the former NextGen Now development project, which was discontinued during the fourth quarter of fiscal 2016. Refer to the "Impairment of Assets" section below for additional information.

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Amortization of Acquired Intangible Assets

The following table presents our amortization of acquired intangible assets for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Amortization of acquired intangible assets	$10,435	$5,367	$3,693

Amortization of acquired intangible assets included in operating expense consist of the amortization related to our customer relationships, trade name, and contracts intangible assets acquired as part of our business combinations. Refer to Note 7, "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, 2017 increased $5.1 million, compared to the prior year period due to additional amortization of the customer relationships and trade name intangible assets related to the acquisition of HealthFusion. Amortization of acquired intangible assets for the year ended March 31, 2016 increased $1.7 million compared to the prior year due to additional amortization of the customer relationships and trade name intangible assets related to the acquisition of HealthFusion.

Impairment of Assets

During the year ended March 31, 2016, we recorded a non-cash impairment charge of $32.2 million that is reflected within the impairment of assets caption in our consolidated statements of net income and comprehensive income. The impairment relates to the previously capitalized investment in the former NextGen Now development project, which we had deemed to have zero net realizable value. The impairment charge did not result in any cash expenditures. The impairment charge followed our assessment of the NextGen Now development project and the MediTouch platform that we obtained through our acquisition of HealthFusion. We had determined that the MediTouch platform offered the most efficient path to providing a high-quality, robust, cloud-based solution for ambulatory care and decided to cease further investment in NextGen Now and immediately discontinued all efforts to use or repurpose the NextGen Now platform.

Restructuring Costs

During the year ended March 31, 2017, we recorded $7.1 million of restructuring costs within operating expenses in our consolidated statements of net income and comprehensive income. The restructuring costs resulted from a restructuring plan that we announced in April 2016, and such costs consist 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. Also included in restructuring costs was $1.7 million 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 have vacated each of the locations or portions thereof and are actively marketing the locations for sublease. As of March 31, 2017, the remaining restructuring liability associated with payroll-related costs was $0.6 million, which we expect to settle in the first quarter of fiscal 2018, and the remaining lease obligation, net of estimated projected sublease rentals, was $2.3 million. Refer to Note 14, "Commitments, Guarantees, and Contingencies," of our notes to consolidated financial statements included elsewhere in this Report for estimated timing of payments related to remaining lease obligations. The restructuring plan was substantially complete by the end of fiscal 2017.

The restructuring is part of a three-phase plan initiated in fiscal year 2016 that was intended to better position our organization for future success. In the first phase, we redesigned the organization to more effectively support the execution of our strategy. This phase included implementing a series of actions with the objective of enabling a more efficient, integrated and client-centered delivery of the holistic solutions that we believe is required by our ambulatory care clients. During this phase, we transformed our management team with the appointment of a new Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Operating Officer, and Chief Strategy Officer. Under phase two of our reorganization, we have continued to build our infrastructure and enhance our healthcare

information technology capabilities to drive future revenue growth. The third phase of the plan will consist of developing and marketing the services and solutions that we believe will accelerate revenue growth.

The overall plan also includes a multi-year initiative, called NextGen 2.0, to merge our business units into a more streamlined, functional-based organization structure and to realign our organizational structure by consolidating the sales, marketing, information services, and software development responsibilities into single, company-wide roles to achieve greater efficiency. As a result, our reportable segments have changed and may change again due to such changes in the organization of our business.

Refer to Note 15, "Restructuring Plan" of our notes to consolidated financial statements included elsewhere in this Report for additional information.

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Interest and Other Income and Expense

The following table presents our interest expense for the for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Interest income	$14	$428	$111
Interest expense	(3,156)	(1,304)	(341)
Other expense, net	(262)	(166)	(62)

Interest income relates primarily to our marketable securities. Interest expense relates to our revolving credit agreement that was entered into in January 2016 and the related amortization of deferred debt issuance costs. Refer to Note 9, “Line of Credit” of our notes to consolidated financial statements included elsewhere in this Report for additional information. Other expense and income relates primarily to net realized gains and losses on our marketable securities.

Interest expense for the year ended March 31, 2017 increased $1.9 million compared to the prior year, and interest expense for the year ended March 31, 2016 increased $1.0 million compared to the year ended March 31, 2015. The increases in interest expense is associated with our revolving credit agreement entered into in January 2016 and the related amortization of deferred debt issuance costs. As of March 31, 2017, we had $15.0 million in outstanding loans under the revolving credit agreement.

All other fluctuations in interest and other income and expense are not deemed significant.

Provision for Income Taxes

The following table presents our provision for income taxes for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Provision for income taxes	$5,368	$663	$8,332
Effective tax rate	22.7 %	10.5 %	23.4 %

The effective tax rate for the year ended March 31, 2017 increased compared to the prior year primarily because the lower income before taxes in the prior year caused the rate reconciling items to have a more significant impact to the effective tax rate.

The effective tax rate for the year ended March 31, 2016 decreased compared to the year ended March 31, 2015 primarily as a result of favorable tax benefits from the federal research and development tax credit and other permanent items having a more significant effective tax rate impact due to lower income before taxes for the year ended March 31, 2016. The Internal Revenue Service statute related to research and development credits expired on December 31, 2014 and was retroactively reinstated and made permanent in December 2015. The research and development credits claimed for the year ended March 31, 2016 represent credits for the twelve-month period.

Refer to Note 11, “Income Tax” of our notes to consolidated financial statements included elsewhere in this Report for a reconciliation of the federal statutory income tax rate to our effective tax rate.

Net Income

The following table presents our net income (in thousands) and net income per share and for the years ended March 31, 2017, 2016, and 2015:

	Fiscal Year Ended March 31,		
	2017	2016	2015
Net income	$18,241	$5,657	$27,332
Net income per share:			
Basic	$0.30	$0.09	$0.45

Diluted	$0.29	$0.09	$0.45

As a result of the foregoing changes in revenue and expense, net income for the fiscal year ended March 31, 2017 increased $12.6 million compared to the prior year period.

As a result of the foregoing changes in revenue and expense, net income for the year ended March 31, 2016 decreased $21.7 million compared to the year ended March 31, 2015. The significant decrease is primarily due to the $32.2 million impairment of previously capitalized software costs related to the former NextGen Now development project, offset by a decrease in provision for income taxes as a result of lower pre-tax net income.

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Operating Segment Information

Effective July 1, 2016, we revised our reportable operating segments. As part of our ongoing reorganization efforts, we refined the measurement of our segment data to better reflect our current internal organizational structure whereby certain functions that formerly existed within each individual operating segment have changed. Our operating segments consist of the Software and Related Solutions segment and the RCM and Related Services segment, which is consistent with the disaggregated financial information used and evaluated by our chief operating decision maker (consisting of our Chief Executive Officer) to assess performance and make decisions about the allocation of resources. Revenue and gross profit are the key measures of segment profitability used by our chief operating decision maker to measure segment operating performance and to make key business decisions. The revenues and gross profit of each segment are derived from distinct product and services within each segment. The Software and Related Solutions segment aggregates the revenues and gross profit of our software-related products and services, including software license and hardware, software-related subscription services, support and maintenance, EDI and data services, and certain professional services, such as implementation, training, and consulting. The RCM and Related Services segment aggregates the revenues and gross profit of our RCM services and certain related ancillary service offerings.

Operating segment data for the years ended March 31, 2017, 2016, and 2015 is summarized in the table below. Prior period data has been retroactively reclassified to present all segment information on a comparable basis. The change in reportable segments has no impact to consolidated revenues and consolidated cost of revenue, nor does it affect our presentation of revenue and cost of revenue on the consolidated statements of net income and comprehensive income.

	Fiscal Year Ended March 31,		
	2017	2016	2015
Revenue:			
Software and Related Solutions	$423,593	$398,449	$395,259
RCM and Related Services	86,031	86,559	76,962
Hospital Solutions [1]	—	7,469	18,004
Consolidated revenue	$509,624	$492,477	$490,225
Gross profit:			
Software and Related Solutions	$278,121	$252,136	$256,922
RCM and Related Services	28,274	27,694	21,514
Hospital Solutions [1]	—	2,568	4,876
Unallocated cost of revenue [2]	(19,905)	(15,536)	(16,251)
Consolidated gross profit	$286,490	$266,862	$267,061

[1] The former Hospital Solutions division was divested in October 2015 and therefore, does not represent a distinct operating segment. Historical amounts for Hospital Solutions have not been revised.

[2] Consists of amortization of acquired software technology and amortization of capitalized software costs not allocated to the operating segments for the purposes of measuring performance.

Software and Related Solutions

Software and Related Solutions revenue for the year ended March 31, 2017 increased $25.1 million and gross profit increased $26.0 million compared to the prior year. The increase in revenues was driven by an increase in our software related subscription services and EDI revenue, partially offset by lower professional services, support and maintenance, and software license and hardware revenue, as described above in further details in the "Revenues" section. The increase in gross profit is due primarily to the increases in revenue combined with a decrease in cost of revenue, as described above in further detail in the "Gross Profit" section.

Software and Related Solutions revenue for the year ended March 31, 2016 increased $3.2 million while gross profit decreased $4.8 million compared to the year ended March 31, 2015. The increase in revenues was driven by higher software related subscription services and EDI revenue, partially offset by lower software license and hardware,

professional services, and support and maintenance revenue. The decrease in gross profit is due primarily to a decline in high-margin software license sales that reflects the increasingly saturated end-market for electronic health records software, partially offset by increases in gross profit related to higher software related subscription services revenue. Our goals for Software and Related Solutions include further enhancement of our existing products, including 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 further development and enhancements of our portfolio of specialty focused templates within our electronic health records software. We intend to remain at the forefront of upcoming new regulatory requirements, including meaningful use requirements for stimulus payments and

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recent healthcare reform that is driving the transition towards pay-for-performance, value-based reimbursement models. We believe that the expanded requirements for continued eligibility for incentive payments under meaningful use rules will result in an expanded replacement market for electronic health records software. We also intend to continue selling additional software and services to existing clients, expanding penetration of connectivity and other services to new and existing clients, and capitalizing on growth and cross selling opportunities within RCM and Related Services. Our acquisitions of Entrada and HealthFusion will allow us expand our client base and cloud-based solution capabilities in the ambulatory market and meet the needs of practices of increasing size and complexity. Our acquisitions of Mirth and Gennius improve our competitiveness in the markets and provide new clients and expanded markets for Software and Related Solutions and also support our strategy to focus on accountable care organizations around interoperability, patient engagements, population health and collaborative care management, and enterprise analytics. We believe we are well-positioned within the evolving healthcare market to deliver products and services that address the growing importance of quality collaborative care and shift from fee-for-service to value-based, pay-for-performance care.

We believe that our operating results are attributed to a strong brand name and reputation within the marketplace for healthcare information technology software and services and investments in sales and marketing activities, including new marketing campaigns, Internet advertising investments, tradeshow attendance and other expanded advertising and marketing expenditures.

RCM and Related Services

RCM and Related Services revenue for the year ended March 31, 2017 decreased $0.5 million and gross profit increased $0.6 million compared to the prior year. The lower RCM revenue is due to customer attrition and a decline in new bookings. The increase in gross profit is due to a reduction in employee-related costs, partially offset by the lower revenues.

RCM and Related Services revenue for the year ended March 31, 2016 increased $9.6 million and gross profit increased $6.2 million compared to the year ended March 31, 2015. The increase in RCM revenue was driven by the addition of new clients during the year and organic growth achieved through cross selling and ramping up of RCM services provided to our existing clients, which also resulted in higher gross profit.

We believe that a significant opportunity exists to continue cross selling RCM services to our existing clients. The portion of existing NextGen clients who are using RCM services is approximately 10%. We are actively pursuing efforts to achieve faster growth from expanded efforts to leverage our existing sales force towards selling RCM services. We also believe that ongoing increases in the complexity of medical billing and collections processes, including the migration to value-based reimbursement models, will create additional opportunities for RCM and Related Services.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Cash and cash equivalents and marketable securities	$37,673	$36,473	$130.585
Unused portion of revolving credit agreement [1]	235,000	145,000	—
Total liquidity	$272,673	$181,473	$130,585
Net income	$18,241	$5,657	$27,332
Net cash provided by operating activities	$110,592	$40,796	$82,758

[1] As of March 31, 2017, we had our outstanding loans of $15.0 million under our $250.0 million revolving credit agreement.

Our principal sources of liquidity are our cash generated from operations, driven mostly by our net income and working capital management, our cash and cash equivalents, and our revolving credit agreement. In April 2017, we acquired Entrada for total cash consideration of approximately $34.0 million, subject to certain adjustments in accordance with the terms of the Agreement and Plan of Merger, which was primarily funded by a draw down of our revolving credit agreement. In May 2017, we paid $18.8 million to settle the contingent consideration liability related to the acquisition of HealthFusion.

Cash and Cash Equivalents

As of March 31, 2017, our cash and cash equivalents balance of $37.7 million compares to $36.5 million of cash, cash equivalents and marketable securities as of March 31, 2016. Our outstanding loans under our revolving credit agreement was $15.0 million as of March 31, 2017.

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

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

We believe that our cash and cash equivalents and marketable securities on hand at March 31, 2017, together with our cash flows from operations and liquidity provided by our revolving credit agreement, will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months.

Cash Flows from Operating Activities

The following table summarizes our consolidated statements of cash flows for the years ended March 31, 2017, 2016, and 2015 (in thousands):

	Fiscal Year Ended March 31,		
	2017	2016	2015
Net income	$18,241	$5,657	$27,332
Non-cash expenses	62,147	81,013	23,546
Cash from net income, as adjusted	$80,388	$86,670	$50,878
Change in deferred revenue	$(5,493)	$(8,390)	$(5,610)
Change in accounts receivable	5,535	9,929	4,744
Change in other assets and liabilities	30,162	(47,413)	32,746
Net cash provided by operating activities	$110,592	$40,796	$82,758

For the year ended March 31, 2017, cash provided by operating activities increased $69.8 million compared to the prior year period. The increase in cash flows was primarily due to $77.6 million changes other assets and liabilities, as noted in the table above, of which $75.2 million was associated with changes in income taxes receivable and payable. Net cash provided from net income, as adjusted for non-cash expenses, decreased $6.3 million because the increase of $12.6 million in net income was offset by $18.9 million lower non-cash expenses. The decrease in non-cash expenses was due to a non-cash impairment charge of $32.2 million related to the discontinuation of the former NGNow development project recorded in the prior year, partially offset by higher amortization of intangibles associated with the acquisition of HealthFusion. Refer to the "Net Income" section above for additional details regarding the fluctuations in net income. Cash provided by operating activities increased $5.5 million due to an overall decline in accounts receivable from prior year as a result of higher current year collections and aggressive working capital management, which was offset by a $5.5 million associated with a decline in deferred revenue caused by lower system sales and a shift in market dynamics toward cloud-based solutions.

For the year ended March 31, 2016, cash provided by operating activities declined $42.0 million compared to the year ended March 31, 2015, which was caused by a $77.8 million decline attributed to changes in assets and liabilities, partially offset by an increase of $35.8 million in cash flows due to higher net income, excluding non-cash expenses. The reduction in cash flows due to changes in assets and liabilities is mostly attributed to payments of income taxes during the period and payments of accrued bonuses in the current fiscal year related to the fiscal 2015 incentive compensation plans.

Cash Flows from Investing Activities

Net cash used in investing activities for the years ended March 31, 2017, 2016, and 2015 was $11.4 million, $190.4 million, and $24.5 million, respectively. The $179.0 million net decrease in cash used in investing activities for the

year ended March 31, 2017 compared to the prior year is primarily due to $163.8 million of cash paid (net of cash acquired) for the acquisition of HealthFusion in January 2016, $7.1 million higher net proceeds from sales of marketable securities used to make principal payments on our revolving line of credit, $6.4 million decrease in additions to capitalized software associated with the discontinuation of the former NextGen Now development project, and $1.8 million decrease in additions to equipment and improvements.

The $165.9 million net increase in cash used in investing activities for the year ended March 31, 2016 compared to the year ended March 31, 2015 is primarily due to the $163.8 million of cash paid (net of cash acquired) for the acquisition of HealthFusion, $7.5 million increase in additions to equipment and improvements, $0.1 million increase in additions to capitalized

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software, offset by a $3.2 million net proceeds from sales of marketable securities, and $2.3 million in cash paid for the acquisition of Gennius in the year ended March 31, 2015.

Cash Flows from Financing Activities

Net cash used in financing activities for the year ended March 31, 2017 was $88.7 million compared to net cash provided by financing activities of $57.8 million in the prior year. The $146.5 million net increase in cash used in financing activities is due to $90.0 million in principal repayments on our revolving line of credit in the current year, compared to net proceeds of $105.0 million related to our revolving credit agreement in the prior year, partially offset by $42.9 million in dividends paid to shareholders and payments of $5.4 million in debt issuance and other related fees in the prior year.

Net cash provided by financing activities for the year ended March 31, 2016 was $57.8 million, and cash used in financing activities for the year ended March 31, 2015 was $42.4 million. The increase in cash flows from financing activities during the year ended March 31, 2016 compared to the year ended March 31, 2015 is primarily related to our revolving credit agreement, in which we received proceeds of $173.5 million, made principal payments of $68.5 million, and paid $5.4 million in debt issuance and other related fees.

Contractual Obligations

The following table summarizes our significant contractual obligations at March 31, 2017 and the effect that such obligations are expected to have on our liquidity and cash in future periods (in thousands):

		For the year ended March 31,					
Contractual Obligations	Total	2018	2019	2020	2021	2,022	2023 and beyond
Operating lease obligations	$60,109	$8,136	$8,350	$8,067	$8,037	$7,713	$19,806
Remaining lease obligations for vacated properties [1]	6,599	2,487	1,413	794	816	551	538
Line of credit obligations (Note 9)	15,000	—	—	—	15,000	—	—
Contingent consideration liabilities	18,817	18,817	—	—	—	—	—
Purchase commitments [2]	3,800	1,250	1,250	1,300			—
Total	$104,325	$30,690	$11,013	$10,161	$23,853	$8,264	$20,344

[1] Remaining lease obligations for vacated properties relates to remaining lease obligations at certain locations, including Austin, Solana Beach, Costa Mesa, and a portion of Horsham, that we have vacated and are actively marketing the locations for sublease as part of our reorganization efforts. Refer to Note 16 for additional details. Total obligations have not been reduced by projected sublease rentals or by minimum sublease rentals of $1.6 million due in future periods under non-cancelable subleases.

[2] Purchase commitments relates to payments due under certain non-cancelable agreements to purchase goods and services.

The deferred compensation liability as of March 31, 2017 was $6.6 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, 2017 was $4.8 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.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As of March 31, 2017 and March 31, 2016, 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, 2017 and March 31, 2016, we had $15.0 million and $105.0 million, respectively, in outstanding loans under our revolving credit agreement. The revolving loans under the agreement bear interest at our option of either, (a) a base rate based on the highest of (i) the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A., as its prime rate, (ii) the greater of (A) the federal funds effective rate and (B) the overnight bank funding rate (as determined by the Federal Reserve Bank of New York) plus 0.50% and (iii) the one-month British Bankers Association London Interbank Offered Rate ("LIBOR") plus 1.00%) plus an applicable margin based on our leverage ratio from time to time, ranging from 0.50% to 1.50%, or (b) a LIBOR-based rate (subject to a floor of 0.00%) plus an applicable margin based on our leverage ratio from time to time, ranging from 1.50% to 2.50%. 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, 2017 would result in a corresponding change in our annual interest expense of approximately $0.2 million. Refer to Note 9, “Line of Credit” of our notes to consolidated financial statements included elsewhere in this Report for additional information.
As of March 31, 2017 and March 31, 2016, 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 and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Security Exchange Act of 1934, as amended, the "Exchange Act") as of March 31, 2017, 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 the 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
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 and principal financial 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, 2017 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, 2017.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2017 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, 2017, 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.

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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 2017 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 2017 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 2017 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 2017 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 2017 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
(a) Documents filed as part of this Annual Report on Form 10-K:

ITEM 16. FORM 10-K SUMMARY
None.

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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	January 11, 1996
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	June 14, 2005
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	October 11, 2005
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	March 6, 2006
3.5		Amended and Restated Bylaws of Quality Systems, Inc., effective October 30, 2008		8-K	3.1	October 31, 2008
3.6		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	October 6, 2011
10.1	*	Form of Non-Qualified Stock Option Agreement for Amended and Restated 1998 Stock Option Plan		10-Q	10.2	December 23, 2004
10.2	*	Form of Incentive Stock Option Agreement for Amended and Restated 1998 Stock Option Plan		10-Q	10.1	December 23, 2004
10.3	*	Amended and Restated 1998 Stock Option Plan		10-K	10.10.1	June 14, 2005
10.4	*	Second Amended and Restated 2005 Stock Option and Incentive Plan		DEF14A	Appendix I	July 1, 2011
10.5	*	Form of Nonqualified Stock Option Agreement for 2005 Stock Incentive Plan		8-K	10.2	June 5, 2007
10.6	*	Form of Incentive Stock Option Agreement for 2005 Stock Incentive Plan		8-K	10.3	June 5, 2007
10.7	*	2009 Quality Systems, Inc. Amended and Restated Deferred Compensation Plan.		10-K	10.8	May 30, 2013
10.8	*	Form of Outside Directors Amended and Restated Restricted Stock Agreement		8-K	10.2	February 2, 2010
10.9	*	Form of Outside Director's Restricted Stock Unit Agreement		8-K	10.1	August 15, 2011
10.10	*	Employment Arrangement dated September 19, 2012 between Quality Systems, Inc., and Daniel Morefield		8-K	10.1	September 25, 2012
10.11	*	Form of Indemnification Agreement		8-K	10.1	January 28, 2013
10.12	*	Form of Executive Officer Restricted Stock Agreement		8-K	10.2	May 28, 2013
10.13	*	Description of 2014 Director Compensation Program		8-K	10.3	May 28, 2013

10.14	*	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	July 17, 2013
10.15	*	Share Purchase Agreement by and among Quality Systems, Inc., each of the shareholders of Mirth Corporation identified on Annex A thereto, and Jon Teichrow dated as of September 9, 2013	10-Q	2.1	October 31, 2013
10.16	*	Form of Performance-Based Restricted Stock Unit Agreement.	10-K	10.17	May 29, 2014
10.17	*	Quality Systems, Inc. 2014 Employee Share Purchase Plan	DEF14A	Annex A	June 27, 2014
10.18	*	Executive Employment Agreement, dated June 3, 2015, between Quality Systems, Inc. and John R. Frantz	8-K	10.1	June 4, 2015
10.19	*	Separation Agreement and General Release, dated June 24, 2015, between Quality Systems, Inc. and Steven Plochocki	8-K	10.1	June 24, 2015
10.20	*	Quality Systems, Inc. 2015 Equity Incentive Plan	8-K	10.1	August 14, 2015
10.21	*	Form of Employee Restricted Stock Award Grant Notice and Restricted Stock Award Agreement for 2015 Equity Incentive Plan	8-K	10.2	August 14, 2015
10.22	*	Form of Outside Director Restricted Stock Award Grant Notice and Restricted Stock Award Agreement for 2015 Equity Incentive Plan	8-K	10.3	August 14, 2015
10.23	*	Form of Stock Option Grant Notice, Option Agreement and Notice of Exercise for 2015 Equity Incentive Plan	8-K	10.4	August 14, 2015

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10.24	*	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	October 30, 2015	
10.25		Description of 2016 Director Compensation Program	8-K	10.1	December 8, 2015	
10.26	*	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	January 29, 2016	
10.27	*	Employment Offer Letter, dated January 27, 2016, between David Metcalfe and Quality Systems, Inc.	8-K	10.1	January 28, 2016	
10.28	*	Employment Offer Letter, dated February 16, 2016, between James R. Arnold and Quality Systems, Inc.	8-K	10.1	February 18, 2016	
10.29		Description of 2017 Director Compensation Program	8-K	10.1	August 18, 2016	
10.30	*	Form of Change of Control Severance Agreement, entered into with the Company's named executive officers effective December 27, 2016.	8-K	10.1	January 3, 2017	
10.31	*	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	January 3, 2017	
10.32	*	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	January 3, 2017	
10.33	*	Separation Agreement and General Release, dated March 31, 2017, between Daniel J. Morefield and Quality Systems, Inc.	8-K	10.1	April 4, 2017	
10.34		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	April 12, 2017	
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	**	XBRL Instance
101.SCH	**	XBRL Taxonomy Extension Schema
101.CAL	**	XBRL Taxonomy Extension Calculation
101.DEF	**	XBRL Taxonomy Extension Definition

101.LAB ** XBRL Taxonomy Extension Label
101.PRE ** XBRL Taxonomy Extension Presentation

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* 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 section.

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

Date: May 19, 2017

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below hereby constitutes and appoints John R. Frantz and James R. Arnold, 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.

Signature	Title	Date
/s/ Jeffrey H. Margolis Jeffrey H. Margolis	Chairman of the Board and Director	May 19, 2017
/s/ Craig A. Barbarosh	Vice Chairman of the Board and Director	May 19, 2017

Craig A. Barbarosh

/s/ John R. Frantz John R. Frantz	Chief Executive Officer (Principal Executive Officer) and Director	May 19, 2017
/s/ James R. Arnold James R. Arnold	Chief Financial Officer (Principal Financial Officer)	May 19, 2017
/s/ George H. Bristol George H. Bristol	Director	May 19, 2017
/s/ James C. Malone James C. Malone	Director	May 19, 2017
/s/ Morris Panner Morris Panner	Director	May 19, 2017
/s/ D. Russell Pflueger D. Russell Pflueger	Director	May 19, 2017
/s/ Sheldon Razin Sheldon Razin	Chairman Emeritus and Director	May 19, 2017
/s/ Lance E. Rosenzweig Lance E. Rosenzweig	Director	May 19, 2017

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Quality Systems, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Quality Systems, Inc. and its subsidiaries at March 31, 2017 and March 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, 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 these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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.

/s/ PricewaterhouseCoopers LLP
Irvine, California
May 19, 2017

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QUALITY SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2017	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$37,673	$27,176
Restricted cash and cash equivalents (Note 2)	4,916	5,320
Marketable securities	—	9,297
Accounts receivable, net (Note 10)	83,407	94,024
Inventory	158	555
Income taxes receivable	2,679	32,709
Prepaid expenses and other current assets	17,969	14,910
Total current assets	146,802	183,991
Equipment and improvements, net	27,426	25,790
Capitalized software costs, net	13,607	13,250
Deferred income taxes, net	11,265	8,198
Intangibles, net	69,213	91,675
Goodwill	185,898	188,837
Other assets	19,010	19,049
Total assets	$473,221	$530,790
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$4,618	$11,126
Deferred revenue	52,383	57,935
Accrued compensation and related benefits	24,513	18,670
Income taxes payable	405	91
Other current liabilities	46,775	50,238
Total current liabilities	128,694	138,060
Deferred revenue, net of current	1,394	1,335
Deferred compensation	6,629	6,357
Line of credit	15,000	105,000
Other noncurrent liabilities	16,461	10,661
Total liabilities	168,178	261,413
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock		
$0.01 par value; authorized 100,000 shares; issued and outstanding 62,455 and 60,978 shares at March 31, 2017 and March 31, 2016, respectively	625	610
Additional paid-in capital	228,549	211,262
Accumulated other comprehensive loss	(358)	(481)
Retained earnings	76,227	57,986
Total shareholders' equity	305,043	269,377
Total liabilities and shareholders' equity	$473,221	$530,790

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

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

	Fiscal Year Ended March 31,		
	2017	2016	2015
Revenues:			
Software license and hardware	$65,547	$70,523	$81,649
Software related subscription services	87,050	55,403	44,592
Total software, hardware and related	152,597	125,926	126,241
Support and maintenance	158,803	165,200	169,219
Revenue cycle management and related services	82,552	83,006	74,237
Electronic data interchange and data services	88,951	82,343	76,358
Professional services	26,721	36,002	44,170
Total revenues	509,624	492,477	490,225
Cost of revenue:			
Software license and hardware	24,654	27,506	28,803
Software related subscription services	36,744	26,622	20,672
Total software, hardware and related	61,398	54,128	49,475
Support and maintenance	28,317	31,329	28,866
Revenue cycle management and related services	56,370	57,591	54,406
Electronic data interchange and data services	51,102	50,153	48,244
Professional services	25,947	32,414	42,173
Total cost of revenue	223,134	225,615	223,164
Gross profit	286,490	266,862	267,061
Operating expenses:			
Selling, general and administrative	163,623	156,234	158,172
Research and development costs, net	78,341	65,661	69,240
Amortization of acquired intangible assets	10,435	5,367	3,693
Impairment of assets	—	32,238	—
Restructuring costs	7,078	—	—
Total operating expenses	259,477	259,500	231,105
Income from operations	27,013	7,362	35,956
Interest income	14	428	111
Interest expense	(3,156)	(1,304)	(341)
Other expense, net	(262)	(166)	(62)
Income before provision for income taxes	23,609	6,320	35,664
Provision for income taxes	5,368	663	8,332
Net income	$18,241	$5,657	$27,332
Other comprehensive income:			
Foreign currency translation, net of tax	80	(382)	(117)
Unrealized gain on marketable securities, net of tax	43	93	107
Comprehensive income	$18,364	$5,368	$27,322
Net income per share:			
Basic	$0.30	$0.09	$0.45
Diluted	$0.29	$0.09	$0.45
Weighted-average shares outstanding:			
Basic	61,818	60,635	60,259
Diluted	62,010	61,233	60,849

Dividends declared per common share	$—	$0.525	$0.70

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

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QUALITY SYSTEMS, 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, 2014	60,206	$ 602	$194,739	$99,931	$ (182)	$ 295,090
Common stock issued under stock plans, net of shares withheld for taxes	79	1	383	—	—	384
Common stock issued for earnout settlement	18	—	284	—	—	284
Tax benefit related to stock options	—	—	(228)	—	—	(228)
Stock-based compensation	—	—	3,472	—	—	3,472
Dividends declared	—	—	—	(42,784)	—	(42,784)
Components of other comprehensive income (loss):						
Unrealized gain on marketable securities	—	—	—	—	107	107
Translation adjustments	—	—	—	—	(117)	(117)
Net income	—	—	—	27,332	—	27,332
Balance, March 31, 2015	60,303	603	198,650	84,479	(192)	283,540
Common stock issued under stock plans, net of shares withheld for taxes	241	3	989	—	—	992
Common stock issued for earnout settlement	434	4	9,269	—	—	9,273
Tax benefit related to stock options	—	—	(941)	—	—	(941)
Stock-based compensation	—	—	3,295	—	—	3,295
Dividends declared	—	—	—	(32,150)	—	(32,150)
Components of other comprehensive income (loss):						
Unrealized gain on marketable securities	—	—	—	—	93	93
Translation adjustments	—	—	—	—	(382)	(382)
Net income	—	—	—	5,657	—	5,657
Balance, March 31, 2016	60,978	610	211,262	57,986	(481)	269,377
Common stock issued under stock plans, net of shares withheld for taxes	1,043	11	1,299	—	—	1,310
Common stock issued for earnout settlement	434	4	9,269	—	—	9,273
Tax benefit related to stock options	—	—	(879)	—	—	(879)
Stock-based compensation	—	—	7,598	—	—	7,598
Components of other comprehensive income:						
Unrealized gain on marketable securities	—	—	—	—	43	43
Translation adjustments	—	—	—	—	80	80
Net income	—	—	—	18,241	—	18,241
Balance, March 31, 2017	62,455	$ 625	$228,549	$76,227	$ (358)	$ 305,043

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

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

	Fiscal Year Ended March 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	$18,241	$5,657	$27,332
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,080	8,834	9,323
Amortization of capitalized software costs	7,892	9,891	12,817
Amortization of other intangibles	22,462	11,014	7,127
Amortization of debt issuance costs	1,076	258	—
Loss on disposal of equipment and improvements	530	205	51
Provision for bad debts	5,082	3,573	855
Provision for inventory obsolescence	418	48	25
Share-based compensation	7,598	3,295	3,472
Deferred income taxes	(129)	10,030	(12,061)
Change in fair value of contingent consideration	4,247	261	1,937
Restructuring costs, net of amounts paid	2,891	—	—
Loss on disposition of Hospital Solutions Division	—	1,366	—
Impairment of assets	—	32,238	—
Changes in assets and liabilities, net of amounts acquired:			
Accounts receivable	5,535	9,929	4,744
Inventory	(21)	17	187
Accounts payable	(6,590)	(271)	1,281
Deferred revenue	(5,493)	(8,390)	(5,610)
Accrued compensation and related benefits	5,237	(5,914)	8,098
Income taxes	34,740	(40,471)	18,178
Deferred compensation	272	607	941
Other assets and liabilities	(3,476)	(1,381)	4,061
Net cash provided by operating activities	110,592	40,796	82,758
Cash flows from investing activities:			
Additions to capitalized software costs	(8,249)	(14,675)	(14,601)
Additions to equipment and improvements	(12,165)	(14,013)	(6,531)
Proceeds from sales and maturities of marketable securities	9,291	8,795	11,077
Purchases of marketable securities	—	(6,637)	(12,123)
Payments for acquisitions, net of cash acquired	(282)	(163,843)	(2,345)
Net cash used in investing activities	(11,405)	(190,373)	(24,523)
Cash flows from financing activities:			
Proceeds from line of credit	—	173,509	—
Principal repayments on line of credit	(90,000)	(68,509)	—
Proceeds from issuance of shares under employee plans	1,310	992	383
Dividends paid	—	(42,850)	(42,770)
Payment of debt issuance costs	—	(5,382)	—
Net cash provided by (used in) financing activities	(88,690)	57,760	(42,387)
Net increase (decrease) in cash and cash equivalents	10,497	(91,817)	15,848
Cash and cash equivalents at beginning of period	27,176	118,993	103,145
Cash and cash equivalents at end of period	$37,673	$27,176	$118,993

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QUALITY SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(In thousands)

	Fiscal Year Ended March 31,		
	2017	2016	2015
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	$ 4,800	$ 33,246	$ 3,814
Cash refunds from income taxes	29,575	2,344	1,291
Cash paid for interest	1,958	781	—
Common stock issued for settlement of share-based contingent consideration	9,273	9,273	—
Non-cash investing and financing activities:			
Tenant improvement allowance from landlord	$ 4,813	$ 2,933	$ —
Dividends declared but not paid	—	—	10,700
Unpaid additions to equipment and improvements	82	295	849
On January 4, 2016, we acquired HealthFusion in a transaction summarized as follows:			
Fair value of net assets acquired	$ —	$ 198,258	$ —
Cash paid, net of cash acquired	—	(163,843)	—
Unpaid portion of purchase price	—	(282)	—
Fair value of contingent consideration	—	(16,700)	—
Liabilities assumed	$ —	$ 17,433	$ —
On March 11, 2015, we acquired Gennius in a transaction summarized as follows:			
Fair value of net assets acquired	$ —	$ —	$ 2,571

Cash paid	—	—	(2,345)
Liabilities assumed	$ —	$ —	$ 226

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

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QUALITY SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017 and 2016
(In thousands, except shares and per share data)

1. Organization of Business

Description of Business

Quality Systems, Inc., primarily through its NextGen Healthcare subsidiary, provides technology-based solutions and services to the ambulatory care market in the United States. Our solutions provide our clients with the ability to redesign patient care and other workflow processes while improving productivity through the facilitation of managed access to patient information. We help promote healthy communities by empowering physician practice success and enriching the patient care experience while lowering the cost of healthcare.

We primarily derive revenue by developing and marketing software and services that automate certain aspects of practice management (“PM”) and electronic health records (“EHR”) for medical and dental practices. Our software can be licensed on a perpetual, on-premise basis, hosted in a private cloud or, in certain instances, as a software-as-a-service (“SaaS”) solution. We market and sell our solutions through a dedicated sales force and to a much lesser extent, through resellers. Our clients include single and small practice physicians, networks of practices such as physician hospital organizations (“PHOs”), management service organizations (“MSOs”), accountable care organizations (“ACOs”), ambulatory care centers, community health centers and medical and dental schools. We also provide implementation, training, support and maintenance for software and complementary services such as revenue cycle management (“RCM”) and electronic data interchange (“EDI”).

We have a history of developing new and enhanced technologies. Over the course of a number of years, we have also made strategic acquisitions to complement and enhance our product portfolio in the ambulatory care, RCM, and hospital markets. In October 2015, we divested our former Hospital Solutions Division. In January 2016, we acquired HealthFusion Holdings, Inc. ("HealthFusion") and in April 2017, we acquired Entrada, Inc. ("Entrada").

Quality Systems, Inc. was incorporated in California in 1974. Our principal offices are located at 18111 Von Karman Ave., Suite 800, Irvine, California, 92612. Our websites are located at www.nextgen.com and www.qsii.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 Quality Systems, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). Each of the terms “we,” “us,” or “our” as used herein refers collectively to the Company, unless otherwise stated. All intercompany accounts and transactions have been eliminated.

Business Segments. The Company has prepared operating segment information based on the manner in which management disaggregates the Company’s operations for making internal operating decisions. Effective July 1, 2016, we revised our reportable operating segments. See Note 15 for additional details.

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.

Revenue Recognition. We generate revenue from sales of licensing rights and subscriptions to our software products, hardware and third party software products, support and maintenance services, RCM, EDI, and professional services,

such as implementation, training, and consulting performed for clients who use our products.

We generally recognize revenue provided that persuasive evidence of an arrangement exists, fees are considered fixed or determinable, delivery of the product or service has occurred, and collection is considered probable. Revenue from the delivered elements (generally software licenses) are generally recognized upon physical or electronic delivery. In certain transactions where collection is not considered probable, the revenue is deferred until collection occurs. If the fee is not fixed or determinable, then the revenue recognized in each period (subject to application of other revenue recognition criteria) will be the lesser of the aggregate amounts due and payable or the amount of the arrangement fee that would have been recognized if the fees were being recognized using the residual method. We assess whether fees are considered fixed or determinable at the inception of the arrangement and negotiated fees generally are based on a specific volume of products to be delivered and not subject to

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change based on variable pricing mechanisms, such as the number of units copied or distributed or the expected number of users.

A typical system sale may contain multiple elements, but most often includes software licenses, maintenance and support, implementation and training. Revenue on arrangements involving multiple elements is generally allocated to each element using the residual method when evidence of fair value only exists for the undelivered elements. The fair value of an element is based on vendor-specific objective evidence ("VSOE"), which is based on the price charged when the same element is sold separately. We generally establish VSOE for the related undelivered elements based on the bell-shaped curve method. VSOE is established on maintenance for certain clients based on stated renewal rates only if the rate is determined to be substantive and falls within our customary pricing practices. VSOE calculations are updated and reviewed on a quarterly or annual basis, depending on the nature of the product or service.

Under the residual method, we defer revenue related to the undelivered elements based on VSOE of fair value of each undelivered element and allocate the remainder of the contract price, net of all discounts, to the delivered elements. If VSOE of fair value of any undelivered element does not exist, all revenue is deferred until VSOE of fair value of the undelivered element is established or the element has been delivered.

Revenue related to arrangements that include hosting services is recognized in accordance to the revenue recognition criteria described above only if the client has the contractual right to take possession of the software at any time without incurring a significant penalty, and it is feasible for the client to either host the software on its own equipment or through another third party. Otherwise, the arrangement is accounted for as a service contract in which the entire arrangement is deferred and recognized over the period that the hosting services are being provided.

From time to time, we offer future purchase discounts on our products and services as part of our arrangements. Such discounts that are incremental to the range of discounts reflected in the pricing of the other elements of the arrangement, that are incremental to the range of discounts typically given in comparable transactions, and that are significant, are assessed as an additional element of the arrangement. Revenue deferred related to future purchase options are not recognized until either the client exercises the discount offer or the offer expires.

Revenue from professional services, including implementation, training, and consulting services, are generally recognized as the corresponding services are performed. Revenue from software related subscription services and support and maintenance revenue are recognized ratably over the contractual service period. Revenue from EDI and data services and other transaction processing services are recognized at the time the services are provided to clients.

Revenue from RCM and related services is derived from services fees for ongoing billing, collections, and other related services, and are generally calculated as a percentage of total client collections. We recognize RCM and related services revenue at the time collections are made by the client as the services fees are not fixed or determinable until such time.

We record revenue net of sales tax obligation in the consolidated statements of net income and comprehensive income.

Cash and Cash Equivalents. Cash and cash equivalents consist primarily of cash and money market funds with original maturities of less than 90 days. We had cash deposits held at U.S. banks and financial institutions at March 31, 2017 of which $36,572 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 invest 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.

Marketable Securities. Marketable securities are classified as available-for-sale and are recorded at fair value, based on quoted market rates when observable or valuation analysis when appropriate. Unrealized gains and losses, are

included in shareholders' equity. Realized gains and losses on investments are included in other income and expense.

Accounts Receivable Reserves. We maintain reserves for potential sales returns and uncollectible accounts receivable. In aggregate, such reserves reduce our gross accounts receivable to estimated net realizable value.

Our standard contracts generally do not contain provisions for clients to return products or services. However, we historically have accepted sales returns under certain circumstances. Accordingly, we estimate sales return reserves, including reserves for returns and other credits, based upon the rate of historical returns by revenue type in relation to the corresponding gross revenues and recognize revenue, net of an allowance for sales returns. If we are unable to estimate the returns, revenue recognition may be delayed until the rights of return period lapses, provided also, that all other criteria for revenue recognition have been met. If we experience changes in practices related to sales returns or changes in actual return rates that deviate from the historical data on which our reserves had been established, our revenues may be adversely affected.

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 historical experience of bad debt expense and the

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aging of our accounts receivable balances, net of deferred revenue and specifically reserved accounts. Specific reserves are based on our estimate of the probability of collection for certain troubled accounts. Accounts are written off as uncollectible only after we have expended extensive collection efforts.

Our allowances for doubtful accounts are based on our assessment of the collectibility of client 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.

Inventory. Inventory consists of hardware for specific client orders and spare parts and are valued at lower of cost (first-in, first-out) and net realizable value. Our provision for inventory obsolescence reduces our inventory to net realizable value.

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 $10,080, $8,834, and $9,323 for the years ended March 31, 2017, 2016, and 2015, respectively.

Capitalized Software Costs. Software development costs, consisting primarily of employee salaries and benefits, incurred in the research and development of new software products and enhancements to existing software products 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, additional external-sale software development costs are capitalized. Amortization of capitalized software is recorded using the greater of the ratio of current revenues to the total of current and expected revenues of the related product or the straight-line method over the estimated economic life of the related product, which is typically three years. We perform ongoing assessments of the net realizable value of such capitalized software costs. If a determination is made that capitalized amounts are not recoverable based on the projected undiscounted cash flows to be generated from the applicable software, any excess unamortized capitalized software costs are written off. In addition to the assessment of net realizable value, we routinely review the remaining estimated lives of our capitalized software costs and record adjustments, if deemed necessary. 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 to develop software applications for our internal-use and costs for the development of Software as a Service ("SaaS") based products sold to our clients. The development costs of our SaaS-based products are considered internal-use for accounting purposes. Our internal-use capitalized costs are stated at cost and amortized using the straight-line method over the estimated useful lives of the assets, which is typically three to seven 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 developing SaaS-based products are reported as capitalized software costs within our consolidated balance sheets and capitalized software costs for developing our internal-use software applications are reported as equipment and improvements within our consolidated balance sheets.

During the year ended March 31, 2016, we recorded a $32,238 non-cash impairment charge after making a determination that the previously capitalized software costs related to the NextGen Now development project was not

recoverable. Refer to Note 8 for additional information.

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, 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 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 based on the probability of achieving certain business, strategic, or financial milestones and our projection of expected results, as needed. 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. 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.

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We test goodwill for impairment annually during our first fiscal quarter, referred to as the annual test date. Based on our assessment, we have determined that there was no impairment to our goodwill as of June 30, 2016. We will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting-unit level, which is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component.

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.

During the years ended March 31, 2017 and March 31, 2016, we did not identify any events or circumstances that would require an interim goodwill impairment test.

Intangible Assets. Intangible assets consist of customer relationships, trade names and contracts, and software technology. These intangible assets are recorded at fair value and are reported net of accumulated amortization. We currently amortize the intangible assets over periods ranging from 7 months 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.

We determined that there was no impairment to our intangible assets as of March 31, 2017 and March 31, 2016.

Long-Lived Assets. We assess the recoverability of long-lived 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 long-lived 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 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 adjusts 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 $7,111, $7,890, and $7,079 for the

years ended March 31, 2017, 2016, and 2015, respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of net income and comprehensive income.

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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,		
	2017	2016	2015
Earnings per share — Basic:			
Net income	$18,241	$5,657	$27,332
Weighted-average shares outstanding — Basic	61,818	60,635	60,259
Net income per common share — Basic	$0.30	$0.09	$0.45
Earnings per share — Diluted:			
Net income	$18,241	$5,657	$27,332
Weighted-average shares outstanding	61,818	60,635	60,259
Effect of potentially dilutive securities	192	598	590
Weighted-average shares outstanding — Diluted	62,010	61,233	60,849
Net income per common share — Diluted	$0.29	$0.09	$0.45

The computation of diluted net income per share does not include 2,999, 1,926 and 1,656 options for the years ended March 31, 2017, 2016, and 2015 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 for the fiscal year ended March 31, 2017, 2016, and 2015:

	Fiscal Year Ended March 31,		
	2017	2016	2015
Costs and expenses:			
Cost of revenue	$514	$404	$373
Research and development costs, net	973	318	396
Selling, general and administrative	6,111	2,573	2,703
Total share-based compensation	7,598	3,295	3,472
Income tax benefit	(2,637)	(1,018)	(1,054)
Decrease in net income	$4,961	$2,277	$2,418

Recent Accounting Standards. Recent accounting pronouncements requiring implementation in future periods are discussed below or in the notes, where applicable. 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.
In January 2017, the FASB issued Accounting Standards Update ("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 fourth quarter of fiscal 2020, 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 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted in two scenarios as identified in the new standard. ASU 2017-01 is effective for us in the first quarter of fiscal 2019, and we currently do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

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In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). ASU 2016-18 provides guidance on the classification of restricted cash and cash equivalents in the statement of cash flows. Although it does not provide a definition of restricted cash or restricted cash equivalents, it states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. ASU 2016-18 is effective for us in the first quarter of fiscal 2019, and we currently do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 requires the recognition of current and deferred income taxes for intra-entity asset transfers when the transaction occurs. ASU 2016-16 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. ASU 2016-16 is effective for us in the first quarter of fiscal 2019, and 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 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 is intended to add and clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows to eliminate diversity in practice related to how such cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. ASU 2016-15 is effective for us in the first quarter of fiscal 2019, and we currently do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for and reporting on share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The amendments in this update are to be applied differently upon adoption with certain amendments being applied prospectively, retrospectively and under a modified retrospective transition method. We expect to adopt ASU 2016-09 in the first quarter of fiscal 2018, and we currently do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”), which is intended to improve financial reporting about leasing transactions. The new guidance will require 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. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 is effective for us in the first quarter of fiscal 2020. We are currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Arrangement ("ASU 2015-05"), which requires a customer to determine whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software or as a service contract. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Upon adoption, an entity has the option to apply the provisions of ASU 2015-05 either prospectively to all arrangements entered into or materially modified, or retrospectively. The adoption of this new standard did not have material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern ("ASU 2014-15"), which incorporates and expands upon certain principles that currently exist in U.S. auditing standards. ASU 2014-15 provides guidance regarding management's responsibility to evaluate whether there

is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The new standard requires management to perform interim and annual evaluations and sets forth principles for considering the mitigating effect of management's plans. The standard mandates certain disclosures when conditions give rise to substantial doubt about a company’s ability to continue as a going concern within one year from the financial statement issuance date. ASU 2014-15 is effective for us commencing fiscal year ending March 31, 2017. The adoption of this new standard has not had, and is not expected to have, an impact on our consolidated financial statements.

In May 2014, the FASB, along with the International Accounting Standards Board, issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards and GAAP. The core principle of this updated guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue standard also requires additional disclosure about revenue and provides improved guidance for multiple element arrangements. In July 2015 decision, the FASB issued ASU 2015-14, Deferral of Effective Date ("ASU 2015-14") to delay the effective date by one year. In addition, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, and ASU 2016-20, all of which do not change the core principle of the guidance, but rather help to provide further interpretive clarifications on the new revenue standard. Companies are permitted to adopt this new guidance following either a full retrospective or modified retrospective approach.

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We have performed an initial assessment of the potential impacts to our business processes, systems, and controls that could result from the implementation of the new revenue standard. Additionally, based on our initial assessment, we currently believe that impact on our consolidated financial statements could be material. We expect that revenue related to hardware, EDI, maintenance, and certain subscriptions would remain substantially unchanged, and we are the process of evaluating the impact of the new revenue standard on our other revenue streams. We continue to evaluate all potential impacts of this new revenue standard, including our method of adoption, and our preliminary assessments are subject to change. We expect to implement this new revenue standard when it becomes effective for us in the first quarter of fiscal 2019.

3. Cash and Cash Equivalents

At March 31, 2017 and March 31, 2016, we had cash and cash equivalents of $37,673 and $27,176, respectively. Cash and cash equivalents consist primarily of cash and money market funds with original maturities of less than 90 days.

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, 2017 and March 31, 2016:

	Balance at March 31, 2017	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]	$ 37,673	$ 37,673	$ —	$ —
Restricted cash and cash equivalents	4,916	4,916	—	—
	$ 42,589	$ 42,589	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 18,817	$ —	$ 18,817	$ —
	$ 18,817	$ —	$ 18,817	$ —

	Balance at March 31, 2016	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]	$ 27,176	$ 27,176	$ —	$ —
Restricted cash and cash equivalents	5,320	5,320	—	—
Marketable securities [2]	9,297	9,297	—	—
	$ 41,793	$ 41,793	$ —	$ —
LIABILITIES				
Contingent consideration related to acquisitions	$ 23,843	$ —	$ —	$ 23,843
	$ 23,843	$ —	$ —	$ 23,843

(1) Cash equivalents consist primarily of money market funds.
(2) Marketable securities consist of available-for-sale money market instruments and fixed-income securities, including certificates of deposit, corporate bonds and notes, and municipal securities.
The contingent consideration liability as of March 31, 2017 relates to the acquisition of HealthFusion (see Note 5). Prior to March 31, 2017, the categorization of the framework used to measure fair value of the contingent consideration liability was 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 discount rates and probability-adjusted achievement estimates of certain revenue targets that were not observable in the market. As of the end of the HealthFusion contingent consideration liability measurement period on December 31, 2016, the actual revenue target achievement rate was utilized to compute the ending contingent consideration liability. Accordingly, the contingent consideration liability was transferred into the Level 2 valuation hierarchy because the fair value was determined based on other significant observable inputs.

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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 years ended March 31, 2017:

	Total Liabilities
Balance at March 31, 2015	$ 16,155
Contingent consideration related to acquisition of HealthFusion (Note 5)	16,700
Settlement of share-based contingent consideration related to Mirth	(9,273)
Fair value adjustments, net	261
Balance at March 31, 2016	$ 23,843
Settlement of share-based contingent consideration related to Mirth	(9,273)
Fair value adjustments, net	4,247
Transfer of HealthFusion contingent consideration to Level 2	(18,817)
Balance at March 31, 2017	$ —

During the year ended March 31, 2017, we issued shares of common stock to settle $9,273 in contingent consideration liabilities related to the acquisition of Mirth and recorded $4,247 of net fair value adjustments to contingent consideration liabilities, of which $3,817 was related to HealthFusion and $430 was related to Mirth. 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. During the year ended March 31, 2017, we recorded certain adjustments to HealthFusion goodwill (see Note 5).

5. Business Combinations and Disposals

HealthFusion Acquisition

On January 4, 2016, we completed our acquisition of HealthFusion Holdings, Inc. ("HealthFusion") pursuant to the Agreement and Plan of Merger (the “Merger Agreement"), dated October 30, 2015. HealthFusion provides Web-based, cloud computing software for physicians, medical billing service providers, and hospitals. Its flagship product, MediTouch®, is a fully-integrated, cloud-based software suite consisting of clearinghouse, practice management, electronic health records, and patient portals with rich functionality to enable mobility, workflow automation, and advanced reporting and analytics aimed primarily at small-to-mid-size physician practices. The acquisition of HealthFusion is part of our strategy to expand its client base and cloud-based solution capabilities in the ambulatory market. Over time, we plan to expand the HealthFusion platform to satisfy the needs of practices of increasing size and complexity.

The purchase price totaled $183,049, which included working capital and other customary adjustments and the fair value of contingent consideration related to an additional $25,000 of cash in the form of an earnout, subject to HealthFusion achieving certain revenue targets through December 31, 2016. The initial estimated fair value of contingent consideration of $16,700 was based on a Monte Carlo-based valuation model that considered, among other assumptions and inputs, our estimate of projected HealthFusion revenues. As of March 31, 2017, the fair value of the contingent consideration was $18,817.

The acquisition was initially funded by a draw against the revolving credit agreement (see Note 9), a portion of which was subsequently repaid from existing cash on hand.

We accounted for the HealthFusion acquisition as a purchase business combination using the acquisition method of accounting. 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 fair values of acquired assets and liabilities assumed represent management's 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 of tangible or intangible asset acquired, including but not limited to the income approach, the excess earnings method and the relief from royalty method approach.

The 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.

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Goodwill arising from the acquisition of HealthFusion was determined as the excess of the purchase price over the net acquisition date fair values of the acquired assets and the liabilities assumed, and is not deductible for tax purposes. HealthFusion operates under our Software and Related Solutions segment. During the years ended March 31, 2017, we recorded a $2,938 adjustment to HealthFusion goodwill related to changes in deferred taxes based on the filing of final tax returns. The purchase price for the HealthFusion acquisition was considered final as of March 31, 2017.

The total purchase price for the HealthFusion acquisition is summarized as follows:

Initial purchase price	$165,000
Contingent consideration	16,700
Working capital and other adjustments	1,349
Total purchase price	$183,049

	January 4, 2016
Fair value of the net tangible assets acquired and liabilities assumed:	
Acquired cash and cash equivalents	$2,225
Accounts receivable, net	1,514
Prepaid expenses and other current assets	4,645
Equipment and improvements, net	767
Capitalized software costs, net	307
Other assets	700
Accounts payable	(1,085)
Accrued compensation and related benefits	(533)
Deferred revenue	(1,067)
Deferred income taxes, net	(9,089)
Other liabilities	(2,721)
Total net tangible assets acquired and liabilities assumed	(4,337)
Fair value of identifiable intangible assets acquired:	
Software technology	42,500
Customer relationships	28,500
Trade name	4,000
Goodwill	112,386
Total identifiable intangible assets acquired	187,386
Total purchase price	$183,049

Including the effect of certain acquisition-related fair value adjustments, amortization of acquired intangible assets, and interest expense associated with the revolving credit agreement, the acquisition of HealthFusion contributed revenues of $8,781 and estimated net loss of $1,149 to our consolidated results for the year ended March 31, 2016.

The following table presents unaudited supplemental pro forma consolidated revenue and net income as if the acquisition of HealthFusion had occurred on April 1, 2014 (the beginning of the comparable prior annual reporting period).

	Pro forma year ended March 31, 2016 (unaudited)	Pro forma year ended March 31, 2015 (unaudited)
Combined revenues	518,708	516,579
Combined net income	134	12,471

The pro forma revenue and net income were derived by combining our historical results with HealthFusion's historical results, after applying our accounting policies and making adjustments related to the amortization of acquired intangible assets and interest expense associated with the revolving credit agreement. Specifically, the pro forma

combined net income for the year ended March 31, 2016 includes $14,900 of estimated amortization of acquired intangible assets and $3,600 of estimated interest expense. For the year ended March 31, 2015, the pro forma combined net income includes $15,800 of estimated amortization of acquired intangible assets, $8,300 of estimated acquisition-related fair value adjustments, and $5,200 of estimated interest expense. Acquisition-related transaction costs incurred prior to the acquisition date have been eliminated from pro forma

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combined net income and we also considered the estimated inconsequential tax effects of the acquisition for the purposes of preparing the unaudited supplemental pro forma information.

Hospital Disposition

On October 22, 2015, we closed an Asset Purchase Agreement (the "Purchase Agreement") with Quadramed Affinity Corporation in which we sold and assigned substantially all assets and liabilities of the former Hospital Solutions division. We believe that the Hospital disposition will allow us to focus our efforts and resources on our core ambulatory business. The financial terms of the transaction and the amount of consideration received were not significant. Since the Hospital disposition did not and is not expected to have a major effect on our operations and financial results, separate discontinued operations reporting is not provided.

We incurred a loss on the Hospital disposition of $1,366 in the year ended March 31, 2016, which was recorded in our consolidated statements of net income and comprehensive income as a component of selling, general and administrative expense. The loss was measured as the total consideration received and expected to be received less the lower of carrying value or fair value of the former Hospital Solutions division. Additionally, we incurred $387 in direct incremental costs of disposition and $335 in severance and other employee-related costs in connection with the Hospital disposition during the year ended March 31, 2016, which were recorded in our consolidated statements of net income and comprehensive income as a component of selling, general and administrative expense.

6. Goodwill

We do not amortize goodwill as it has been determined to have an indefinite useful life. During the year ended March 31, 2017, we recorded certain adjustments to HealthFusion goodwill (see Note 5).

We have also determined that the change in reportable operating segments as a result of our ongoing reorganization efforts (see Note 15) did not have a significant impact on the amount of goodwill that is allocated to each reporting unit and each reportable operating segment. Goodwill by reportable operating segment consists of the following:

	March 31, 2017	March 31, 2016
Software and Related Solutions	$153,608	$156,547
RCM and Related Services	32,290	32,290
Total goodwill	$185,898	$188,837

7. Intangible Assets

In connection with the HealthFusion acquisition, we recorded $75,000 of intangible assets related to customer relationships, trade names and software technology (see Note 5 for additional information). We are amortizing the HealthFusion customer relationships over 10 years and trade names and software technology over 5 years. The weighted average amortization period for the total amount of intangible assets acquired is 6.9 years.

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

	March 31, 2017			
	Customer Relationships	Trade Name and Contracts	Software Technology	Total
Gross carrying amount	$50,550	$ 5,480	$ 67,810	$123,840
Accumulated amortization	(28,972)	(2,088)	(23,567)	(54,627)
Net intangible assets	$21,578	$ 3,392	$ 44,243	$69,213
	March 31, 2016			
	Customer Relationships	Trade Name and Contracts	Software Technology	Total
Gross carrying amount	$50,550	$ 7,368	$ 67,810	$125,728
Accumulated amortization	(19,618)	(2,895)	(11,540)	(34,053)

Net intangible assets	$30,932	$ 4,473	$ 56,270	$91,675

Amortization expense related to customer relationships and trade name and contracts recorded as operating expenses in the consolidated statements of net income and comprehensive income was $10,435, $5,368, and $3,709 for the years ended March 31, 2017, 2016 and 2015, respectively. Amortization expense related to software technology recorded as cost of revenue was $12,027, $5,646, and $3,418 for the years ended March 31, 2017, 2016, and 2015, respectively.

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The following table summarizes the remaining estimated amortization of definite-lived intangible assets as of March 31, 2017:

	Estimated Remaining Amortization Expense:		
	Operating Expense	Cost of Revenue	Total
For the year ended March 31,			
2018	7,264	11,851	19,115
2019	4,852	11,851	16,703
2020	3,855	11,851	15,706
2021	3,006	7,968	10,974
2022	1,868	180	2,048
2023 and beyond	4,125	542	4,667
Total	$24,970	$44,243	$69,213

8. Capitalized Software Costs

Our capitalized software costs are summarized as follows:

	March 31, 2017	March 31, 2016
Gross carrying amount	$104,948	$96,699
Accumulated amortization	(91,341)	(83,449)
Net capitalized software costs	$13,607	$13,250

Amortization expense related to capitalized software costs was $7,892, $9,891, and $12,817 for the years ended March 31, 2017, 2016, and 2015, 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, 2017. 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,	
2018	$6,200
2019	5,200
2020	2,000
2021	207
Total	$13,607

During the year ended March 31, 2016, we recorded a non-cash impairment charge of $32,238 that is reflected within the impairment of assets caption in our consolidated statements of net income and comprehensive income. The impairment relates to the previously capitalized investment in the NextGen Now development project, which we deemed to have zero net realizable value. The impairment charge did not result in any cash expenditures. The impairment charge followed our assessment of the NextGen Now development project and the MediTouch platform that we obtained through our acquisition of HealthFusion. We had determined that the MediTouch platform offered the most efficient path to providing a high-quality, robust, cloud-based solution for ambulatory care and decided to cease further investment in NextGen Now and immediately discontinued all efforts to use or repurpose the NextGen Now platform.

9. Line of Credit

On January 4, 2016, we entered into a $250,000 revolving credit agreement (“Credit Agreement”) with JP Morgan Chase Bank, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, and certain other lenders. The Credit Agreement is secured by substantially all of our existing and future property and material

domestic subsidiaries. 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. The Credit Agreement matures on January 4, 2021 and the full balance of the revolving loans and all other obligations under the agreement must be paid at that time. The revolving loans under the Credit Agreement will be available for letters of credit, working capital and general corporate purposes. We were in compliance with all financial and non-financial covenants under the Credit Agreement as of March 31, 2017.

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The revolving loans under the Credit Agreement bear interest at our option of either, (a) a base rate based on the highest of (i) the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A., as its prime rate, (ii) the greater of (A) the federal funds effective rate and (B) the overnight bank funding rate (as determined by the Federal Reserve Bank of New York) plus 0.50% and (iii) the one-month British Bankers Association London Interbank Offered Rate ("LIBOR") plus 1.00%) plus an applicable margin based on our leverage ratio from time to time, ranging from 0.50% to 1.50%, or (b) a LIBOR-based rate (subject to a floor of 0.00%) plus an applicable margin based on our leverage ratio from time to time, ranging from 1.50% to 2.50%. 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 leverage ratio from time to time.

The revolving loans 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 leverage ratio of (a) 3.00 to 1.00 for any such fiscal quarter ending on or prior to September 30, 2016, (b) 2.75 to 1.00 for any such fiscal quarter ending after September 30, 2016 and on or prior to September 30, 2017 and (c) 2.50 to 1.00 for any such fiscal quarter ending after September 30, 2017; 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.

As of March 31, 2017, we had $15,000 in outstanding loans and $235,000 of unused credit under the Credit Agreement. As of March 31, 2016, we had $105,000 in outstanding loans and $145,000 of unused credit under the Credit Agreement.The interest rates as of March 31, 2017 and 2016 was approximately 2.3% and 2.4%, respectively. During the years ended March 31, 2017 and 2016 we recorded $1,899 and $969 of interest expense, respectively, and the weighted average interest rates were approximately 2.4% and 3.2%, respectively.

Debt issuance costs and other related fees paid to legal advisors and third parties in connection with securing the Credit Agreement totaled $5,382. The deferred debt issuance costs are reported as a component of other assets on the consolidated balance sheet and are being amortized to interest expense over the term of the Credit Agreement. During the years ended March 31, 2017 and 2016 we recorded $1,076 and 258, respectively, in amortization of deferred debt issuance costs related to the Credit Agreement.

10. Composition of Certain Financial Statement Captions

Accounts receivable may include amounts invoiced for undelivered products and services at each period end. Undelivered products and services are included as a component of the deferred revenue balance on the accompanying consolidated balance sheets.

	March 31, 2017	March 31, 2016
Accounts receivable, gross	$93,377	$104,467
Sales return reserve	(7,213)	(7,541)
Allowance for doubtful accounts	(2,757)	(2,902)
Accounts receivable, net	$83,407	$94,024

Inventory is comprised of finished goods of computer systems and components.

Prepaid expenses and other current assets are summarized as follows:

	March 31, 2017	March 31, 2016
Prepaid expenses	$ 14,884	$ 11,804
Other current assets	3,085	3,106

Prepaid expenses and other current assets	$ 17,969	$ 14,910

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Equipment and improvements are summarized as follows:

	March 31, 2017	March 31, 2016
Computer equipment	$ 22,014	$ 32,213
Internal-use software	13,053	10,201
Furniture and fixtures	10,472	9,799
Leasehold improvements	16,360	13,408
Equipment and improvements, gross	61,899	65,621
Accumulated depreciation and amortization	(34,473)	(39,831)
Equipment and improvements, net	$ 27,426	$ 25,790

The current portion of deferred revenues are summarized as follows:

	March 31, 2017	March 31, 2016
Professional services	$ 21,889	$ 23,128
Software license, hardware and other	12,680	14,913
Support and maintenance	9,691	11,902
Software related subscription services	8,123	7,992
Deferred revenue	$ 52,383	$ 57,935

Accrued compensation and related benefits are summarized as follows:

	March 31, 2017	March 31, 2016
Payroll, bonus and commission	$ 15,836	$ 9,683
Vacation	8,677	8,987
Accrued compensation and related benefits	$ 24,513	$ 18,670

Other current and noncurrent liabilities are summarized as follows:

	March 31, 2017	March 31, 2016
Contingent consideration and other liabilities related to acquisitions	$ 18,817	$ 24,153
Care services liabilities	4,957	5,339
Customer credit balances and deposits	4,124	4,123
Accrued consulting and outside services	2,496	3,650
Accrued EDI expense	2,490	2,604
Accrued royalties	2,033	2,341
Accrued self insurance expense	1,697	1,862
Accrued outsourcing costs	1,588	1,604
Deferred rent	1,370	828
Lease obligations	1,057	—
Accrued legal expense	853	864
Employee benefit plan withholdings	739	213
Sales tax payable	448	655
Other accrued expenses	4,106	2,002
Other current liabilities	$ 46,775	$ 50,238
Deferred rent and lease obligations	$ 11,402	$ 6,577
Uncertain tax positions	4,762	3,955

Other liabilities	297	129
Other noncurrent liabilities	$ 16,461	$ 10,661

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11. Income Taxes

The provision for income taxes consists of the following components:

	Fiscal Year Ended March 31,		
	2017	2016	2015
Current:			
Federal taxes	$3,443	$(9,338)	$18,055
State taxes	1,556	(403)	1,887
Foreign taxes	498	374	262
Total current taxes	5,497	(9,367)	20,204
Deferred:			
Federal taxes	$824	$10,474	$(9,804)
State taxes	(879)	(100)	(1,771)
Foreign taxes	(74)	(344)	(297)
Total deferred taxes	(129)	10,030	(11,872)
Provision for income taxes	$5,368	$663	$8,332

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

	Fiscal Year Ended March 31,		
	2017	2016	2015
Current:			
Federal income tax statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
Research and development tax credits	(12.5)	(23.4)	(4.4)
Qualified production activities income deduction	(3.2)	—	(5.4)
Foreign rate differential	(1.7)	(10.2)	(1.6)
Net operating loss carryback	—	9.1	—
Other non-recurring adjustments for state taxes	—	—	(1.8)
Meals and entertainment	0.8	3.7	0.8
Stock option deduction	0.8	3.7	0.6
State income taxes, net of federal benefit	1.4	(5.2)	2.0
Acquisition expenses	5.7	(3.6)	—
Other	(3.6)	1.4	(1.8)
Effective income tax rate	22.7%	10.5%	23.4%

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

	March 31, 2017	March 31, 2016
Deferred tax assets:		
Net operating losses	$11,811	$17,920
Deferred revenue	7,337	10,682
Accrued compensation and benefits	7,063	5,868
Deferred rent	5,446	2,760
Research and development credit	4,328	3,611
Compensatory stock option expense	4,028	2,664
Allowance for doubtful accounts	3,974	4,176
Deferred compensation	2,642	2,586
Foreign deferred taxes	1,173	1,098
State income taxes	329	445
Inventory valuation	232	68
Other	169	265
Total deferred tax assets	48,532	52,143
Deferred tax liabilities:		
Intangible assets	$(18,038)	$(22,972)
Capitalized software costs	(7,494)	(9,644)
Accounts receivable	(5,538)	(5,096)
Accelerated depreciation	(2,348)	(2,434)
Prepaid expenses	(1,776)	(1,249)
Total deferred tax liabilities	(35,194)	(41,395)
Valuation allowance	(2,073)	(2,551)
Deferred tax assets, net	$11,265	$8,198

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

As of March 31, 2017 and March 31, 2016, we had federal net operating loss (“NOL”) carryforwards of $31,032 and $45,202, respectively. The federal NOL carryforwards were inherited in connection with our acquisition of HealthFusion in January 2016 and Gennius in March 2015. The NOL carryforwards expire in various amounts starting on 2029 for both federal and state tax purposes. As of March 31, 2017, we had state NOL carryforwards of approximately $950, related to the HealthFusion acquisition 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, 2017 and March 31, 2016, the research and development tax credit carryforward available to offset future federal and state taxes was $4,328 and $3,611 respectively. The credits expire in various amounts starting in 2019.

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

We have not recorded any U.S. income tax or foreign withholding tax on the earnings of our India foreign subsidiary as these amounts are intended to be indefinitely reinvested. As of March 31, 2017, the cumulative amount of undistributed earnings of our foreign subsidiary was $7,555. Determination of the potential amount of unrecognized deferred U.S. income tax liability and foreign withholding tax is not practicable because of the complexities associated with its hypothetical calculation.

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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, 2015	$3,763
Additions for prior year tax positions	235
Reductions for prior year tax positions	(43)
Balance as of March 31, 2016	$3,955
Additions for prior year tax positions	920
Additions for current year tax positions	139
Reductions for prior year tax positions	(252)
Balance as of March 31, 2017	$4,762

During the year ended March 31, 2017, we recorded additional net liabilities of $668 mostly related to various state tax planning benefits recorded in the current year for prior year tax positions. The total amount of unrecognized tax benefit that, if recognized, would decrease the income tax provision is $4,762.

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 $297 and $129 of accrued interest related to income tax matters as of March 31, 2017 and 2016, respectively. We recognized $170 and $57 of interest related to income tax matters in the consolidated statements of net income and comprehensive income in the years ended March 31, 2017 and 2016, respectively, and $309 in the year ended March 31, 2015. 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 U.S. federal income tax examinations for tax years before fiscal years ended 2014. With a few exceptions, we are no longer subject to state or local income tax examinations for tax years before fiscal years ended 2013. 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.

12. Employee Benefit Plans

We provide a 401(k) plan to substantially all of our employees. Participating employees may defer up to the IRS limit per year based on the IRC. The annual contribution is determined by a formula set by our Board of Directors 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 of Directors. Contributions of $2,735, $1,063 and $949 were made by the Company to the 401(k) plan for the years ended March 31, 2017, 2016, and 2015, 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 $6,629 and $6,357 at March 31, 2017 and 2016, 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 $8,115 and $7,155 at March 31, 2017 and 2016, 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 $65, $120 and $86 to the Deferral Plan for the years ended March 31, 2017, 2016, and 2015, respectively.

13. Share-Based Awards

Employee Stock Option and Incentive Plans

In October 2005, our shareholders approved a stock option and incentive plan (the “2005 Plan”) under which 4,800,000 shares of common stock were reserved for the issuance of awards, including incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, performance shares, performance units (including performance options) and other share-based awards. The 2005 Plan provides that our employees and directors may, at the discretion of the Board of Directors ("Board") or a duly designated compensation committee, be granted certain share-based awards. In the case of option awards granted under the 2005 Plan, the exercise price of each option is determined based on the date of grant and expire no later than 10 years from the date of grant. Awards granted pursuant to the 2005 Plan are subject to the vesting schedule or performance metrics set forth in the agreements pursuant to which they are granted. Upon a change of control of our Company, as such term is defined in the 2005 Plan, awards under the 2005 Plan will fully vest under certain circumstances. The 2005 Plan expired on May 25, 2015. As of March 31, 2017, there were 885,665 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. The 2015 Plan provides that our employees and directors may, at the discretion of the Board of Directors or a duly designated compensation committee, be granted certain share-based awards. In the case of option awards granted under the 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 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 2015 Plan, awards under the 2015 Plan will fully vest under certain circumstances. As of March 31, 2017, there were 1,999,750 outstanding options, 902,948 outstanding shares of restricted stock awards, 118,999 outstanding shares of performance stock awards, and 7,876,341 shares available for future grant under the 2015 Plan.

The following table summarizes the stock option transactions during the years ended March 31, 2017, 2016, and 2015:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, March 31, 2014	1,370,101	$ 27.85	5.8	
Granted	469,650	15.97	7.2	
Forfeited/Canceled	203,575	24.85	4.9	
Outstanding, March 31, 2015	1,636,176	$ 24.82	5.5	$ 8
Granted	1,414,000	$ 15.51	7.6	
Exercised	(800)	$ 15.99	6.2	$ 1
Forfeited/Canceled	(572,090)	$ 24.65	4.6	
Expired	(30,000)	$ 22.81		
Outstanding, March 31, 2016	2,447,286	$ 19.55	6.3	$ 574
Granted	1,146,500	11.30	7.2	
Forfeited/Canceled	(708,371)	16.86	3.4	
Outstanding, March 31, 2017	2,885,415	$ 15.41	6.2	$ 3,150
Vested and expected to vest, March 31, 2017	2,613,171	$ 16.87	6.1	$ 2,496
Exercisable, March 31, 2017	812,120	$ 22.16	4.7	$ 125

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

	Year Ended March 31, 2017	Year Ended March 31, 2016	Year Ended March 31, 2015
Expected term	6.0 - 6.6 years	3.8 - 3.9 years	4.8 years
Expected volatility	36.9% - 37.4%	38.3% - 41.1%	36.1% - 36.6%

Expected dividends	—%	0.0% - 5.3%	4.3% - 4.4%
Risk-free rate	1.2% - 2.1%	1.1% - 1.6%	1.6% - 1.7%

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During the years ended March 31, 2017, 2016, and 2015, a total of 1,146,500, 1,414,000, and 469,650 options, respectively, to purchase shares of common stock were granted under the 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
January 31, 2017	90,000	$ 15.01	Four years	January 31, 2025
November 1, 2016	50,000	$ 12.71	Four years	November 1, 2024
July 11, 2016	150,000	$ 12.60	Four years	July 11, 2024
May 31, 2016	100,000	$ 12.71	Five years	May 31, 2024
May 25, 2016	216,500	$ 12.78	Four years	May 25, 2024
May 24, 2016	540,000	$ 12.93	Four years	May 24, 2024
Fiscal year 2017 grants	1,146,500			
March 1, 2016	450,000	$ 15.60	Four years	March 1, 2024
February 1, 2016	200,000	$ 14.20	Four years	February 1, 2024
January 4, 2016	200,000	$ 16.85	(2)	January 4, 2024
August 17, 2015	150,000	$ 12.80	(3)	August 17, 2023
May 22, 2015	414,000	$ 16.64	Five years	May 22, 2023
Fiscal year 2016 grants	1,414,000			
March 11, 2015	10,000	$ 15.84	Five years	March 11, 2023
September 2, 2014	20,000	$ 15.63	Five years	September 2, 2022
June 3, 2014	439,650	$ 15.99	Five years	June 3, 2022
Fiscal year 2015 grants	469,650			

[1] Options vest in equal annual installments on each grant anniversary date commencing one year following the date of grant.

[2] 100,000 options fully vest on March 31, 2017 and the remaining 100,000 options vest on March 31, 2018.

[3] Option vests in five equal annual installments beginning on July 1, 2016.

The weighted-average grant date fair value of stock options granted during the years ended March 31, 2017, 2016, and 2015 was $5.00, $4.44, and $3.50 per share, respectively.

Non-vested stock option award activity during the years ended March 31, 2017, 2016, and 2015 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Non-vested, March 31, 2014	991,560	$ 7.73
Granted	469,650	3.50
Vested	(269,785)	8.24
Forfeited/Canceled	(123,135)	6.57
Non-vested, March 31, 2015	1,068,290	$ 5.81
Granted	1,414,000	4.44
Vested	(311,740)	5.44
Forfeited/Canceled	(310,800)	5.45
Non-vested, March 31, 2016	1,859,750	$ 4.67

Granted	1,146,500	5.00
Vested	(540,595)	3.87
Forfeited/Canceled	(392,360)	4.50
Non-vested, March 31, 2017	2,073,295	$ 5.09

As of March 31, 2017, $7,834 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 3 years. This amount does not include the cost of new options that may be granted in future

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periods or any changes in our forfeiture percentage. The total fair value of options vested during the years ended March 31, 2017, 2016, and 2015 was $2,090, $1,697, and $2,224, respectively.

Restricted stock awards activity during the years ended March 31, 2017 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding, March 31, 2014	64,571	$ 20.74
Granted	48,414	$ 15.77
Vested	(34,780)	$ 21.33
Outstanding, March 31, 2015	78,205	$ 17.94
Granted	165,634	$ 14.06
Vested	(51,092)	$ 20.14
Canceled	(1,500)	$ 17.95
Outstanding, March 31, 2016	191,247	$ 14.44
Granted	909,456	12.93
Vested	(92,543)	15.25
Canceled	(105,212)	13.00
Outstanding, March 31, 2017	902,948	$ 12.92

Share-based compensation expense related to restricted stock awards was $3,691, $940, and $877 for the years ended March 31, 2017, 2016, and 2015, 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 and three years.

As of March 31, 2017, $8,810 of total unrecognized compensation costs related to restricted stock awards is expected to be recognized over a weighted-average period of 2 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 118,999 share are currently outstanding. The performance stock awards vest in four equal increments on each of the first four anniversaries of the grant date, subject in each case to the executive officer’s continued service and achievement of certain Company performance goals, including strong Company stock price performance. Share-based compensation expense related to the performance stock awards was $78 for the for the fiscal year ended March 31, 2017.

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 $25,000 in total fair market value of shares during any one calendar year. As of March 31, 2017, we have issued 238,622 shares under the Purchase Plan and 3,761,378 shares are available for future issuance.

Share-based compensation expense recorded for the employee share purchase plan was $359, $291, and $116 for the years ended March 31, 2017, 2016, and 2015, respectively.

14. Commitments, Guarantees and Contingencies

We lease facilities and offices under irrevocable operating lease agreements expiring at various dates with rent escalation clauses. Rent expense related to these leases is recognized on a straight-line basis over the lease terms. Rent expense for the years ended March 31, 2017, 2016, and 2015 was $8,610, $7,309 and $7,416, respectively.

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The following table summarizes our significant contractual obligations at March 31, 2017 and the effect that such obligations are expected to have on our liquidity and cash in future periods:

		For the year ended March 31,					
Contractual Obligations	Total	2018	2019	2020	2021	2,022	2023 and beyond
Operating lease obligations	$60,109	$8,136	$8,350	$8,067	$8,037	$7,713	$19,806
Remaining lease obligations for vacated properties [1]	6,599	2,487	1,413	794	816	551	538
Line of credit obligations (Note 9)	15,000	—	—	—	15,000	—	—
Contingent consideration liabilities	18,817	18,817	—	—	—	—	—
Purchase commitments [2]	3,800	1,250	1,250	1,300			—
Total	$104,325	$30,690	$11,013	$10,161	$23,853	$8,264	$20,344

[1] Remaining lease obligations for vacated properties relates to remaining lease obligations at certain locations, including Austin, Solana Beach, Costa Mesa, and a portion of Horsham, that we have vacated and are actively marketing the locations for sublease as part of our reorganization efforts. Refer to Note 16 for additional details. Total obligations have not been reduced by projected sublease rentals or by minimum sublease rentals of $1.6 million due in future periods under non-cancelable subleases.

[2] Purchase commitments relates to payments due under certain non-cancelable agreements to purchase goods and services.

The deferred compensation liability as of March 31, 2017 was $6,629, which is not included in the table above as the timing of future benefit payments to employees is not readily determinable.

The uncertain tax position liability as of March 31, 2017 was $4,762, which is not included in the table above as the timing of expected payments is not readily determinable.

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 have historically offered short-term rights of return in certain sales arrangements. If we are able to estimate returns for these types of arrangements and all other criteria for revenue recognition have been met, revenue is recognized and these arrangements are recorded in the consolidated financial statements. If we are unable to estimate returns for these types of arrangements, revenue is not recognized in the consolidated financial statements until the rights of return expire, provided also, that all other criteria of revenue recognition have been met.

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 the plaintiff, alleging that the plaintiff breached fiduciary duties owed to the Company, Mr. Razin and Mr. Plochocki. Mr. Razin and Mr. Plochocki have dismissed their claims against Hussein, leaving QSI as the sole plaintiff in the cross-complaint. On June 26, 2015, we filed a motion for summary judgment, which the Court granted on September 16, 2015, dismissing all claims against us. On September 23, 2015, the plaintiff filed an

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application for reconsideration of the Court's summary judgment order, which the Court denied. On October 28, 2015, the plaintiff filed a motion for summary judgment, seeking to dismiss our cross-complaint, which the Court denied on March 3, 2016. On May 9, 2016, the plaintiff filed a motion for summary adjudication, seeking to again dismiss our cross-complaint, which the Court denied on August 5, 2016. On August 5, 2016, the plaintiff filed a motion for judgment on the pleadings, seeking to again dismiss our cross-complaint, which the Court denied on September 2, 2016. Trial is set for June 1, 2017 on QSI's cross-complaint. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

Federal Securities Class Action

On November 19, 2013, a putative class action complaint was filed on behalf of the shareholders of our Company other than the defendants against us and certain of our officers and directors in the United States District Court for the Central District of California by one of our shareholders. After the Court appointed lead plaintiffs and lead counsel for this action, and recaptioned the action In re Quality Systems, Inc. Securities Litigation, No. 8L13-cv-01818-CJC(JPRx), lead plaintiffs filed an amended complaint on April 7, 2014. The amended complaint, which is substantially similar to the litigation described above under the caption “Hussein Litigation,” generally alleges that statements made to our shareholders regarding our financial condition and projected future performance were false and misleading in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the individual defendants are liable for such statements because they are controlling persons under Section 20(a) of the Exchange Act. The complaint seeks compensatory damages, court costs and attorneys' fees. We filed a motion to dismiss the amended complaint on June 20, 2014, which the Court granted on October 20, 2014, dismissing the complaint with prejudice. Plaintiffs filed a motion for reconsideration of the Court's order, which the Court denied on January 5, 2015. On January 30, 2015, Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit, captioned In re Quality Systems, Inc. Securities Litigation, No. 15-55173. Plaintiffs filed their opening brief and we answered. Oral argument was held on December 5, 2016. The Court's decision remains pending. We believe that the plaintiffs' claims are without merit and continue to defend against them vigorously. 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 January 24, 2014, a complaint was filed against our Company and certain of our officers and current and former directors in the United States District Court for the Central District of California, captioned Timothy J. Foss, derivatively on behalf of himself and all others similarly situated, vs. Craig A. Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenzweig and Quality Systems, Inc., No. SACV14-00110-DOC-JPPx, by Timothy J. Foss, a shareholder of ours. The complaint arises from the same allegations as the Hussein litigation and federal securities class action litigation described above and generally alleges breach of fiduciary duties, abuse of control and gross mismanagement by our directors, in addition to unjust enrichment and insider selling by individual directors. The complaint seeks compensatory damages, restitution and disgorgement of all profits, court costs, attorneys’ fees and implementation of enhanced corporate governance procedures. The parties have agreed to stay this litigation until the United States Court of Appeals for the Ninth Circuit issues a ruling on the pending appeal described above under the caption “Federal Securities Class Action”. We believe that the plaintiff’s claims are without merit and intend to defend against them vigorously. At this time, we are unable to estimate the probability or the amount of liability, if any, related to this claim.

15. Operating Segment Information

Effective July 1, 2016, we revised our reportable operating segments. As part of our ongoing reorganization efforts, we refined the measurement of our segment data to better reflect our current internal organizational structure whereby certain functions that formerly existed within each individual operating segment have changed. Our operating segments consist of the Software and Related Solutions segment and the RCM and Related Services segment, which is consistent with the disaggregated financial information used and evaluated by our chief operating decision maker

(consisting of our Chief Executive Officer) to assess performance and make decisions about the allocation of resources. Revenue and gross profit are the key measures of segment profitability used by our chief operating decision maker to measure segment operating performance and to make key business decisions. The revenues and gross profit of each segment are derived from distinct product and services within each segment. The Software and Related Solutions segment aggregates the revenues and gross profit of our software-related products and services, including software license and hardware, software-related subscription services, support and maintenance, EDI and data services, and certain professional services, such as implementation, training, and consulting. The RCM and Related Services segment aggregates the revenues and gross profit of our RCM services and certain related ancillary service offerings.

Certain functional roles that do not engage in revenue generating activities, such as product solutions and strategy, research and development, and certain corporate general and administrative functions, including finance, human resources, marketing, and legal, are considered to be shared-services and are not controlled by segment-level leadership. Although the segments may derive direct benefits as a result of such shared-services functions, our chief operating decision maker evaluates performance based upon stand-alone segment revenues and gross profit. Accordingly, the shared-services functions are not considered separate operating segments, and the related operating expenses are not included within our operating segments disclosure. Additionally, total assets are managed at a consolidated level and thus are also not included within our operating segments disclosure. Accounting policies for each of our operating segments are the same as those applied to our consolidated financial statements.

Operating segment data for the fiscal years ended March 31, 2017, 2016 and 2015 is summarized in the table below. Prior period data has been retroactively reclassified to present all segment information on a comparable basis. The change in

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reportable segments has no impact to consolidated revenues and consolidated cost of revenue, nor does it affect our presentation of revenue and cost of revenue on the consolidated statements of net income and comprehensive income.

	Fiscal Year Ended March 31,		
	2017	2016	2015
Revenue:			
Software and Related Solutions	$423,593	$398,449	$395,259
RCM and Related Services	86,031	86,559	76,962
Hospital Solutions [1]	—	7,469	18,004
Consolidated revenue	$509,624	$492,477	$490,225
Gross profit:			
Software and Related Solutions	$278,121	$252,136	$256,922
RCM and Related Services	28,274	27,694	21,514
Hospital Solutions [1]	—	2,568	4,876
Unallocated cost of revenue [2]	(19,905)	(15,536)	(16,251)
Consolidated gross profit	$286,490	$266,862	$267,061

[1] The former Hospital Solutions division was divested in October 2015 and therefore, does not represent a distinct operating segment. Historical amounts for Hospital Solutions have not been revised.

[2] Consists of amortization of acquired software technology and amortization of capitalized software costs not allocated to the operating segments for the purposes of measuring performance.

16. Restructuring Plan

We continue to evaluate the organizational structure of our company with the objective of achieving greater synergies and further integration of our products and services, in support of our business strategies. In fiscal year 2016, we initiated a three-phase plan intended to better position our organization for future success. In the first phase, we redesigned the organization to more effectively support the execution of our strategy. This phase included implementing a series of actions with the objective of enabling a more efficient, integrated and client-centered delivery of the holistic solutions that we believe is required by our ambulatory care clients. During this phase, we transformed our management team with the appointment of a new Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Operating Officer, and Chief Strategy Officer. Under phase two of our reorganization, we have continued to build our infrastructure and enhance our healthcare information technology capabilities to drive future revenue growth. The third phase of the plan will consist of developing and marketing the services and solutions that we believe will accelerate revenue growth.

The overall plan also includes a multi-year initiative, called NextGen 2.0, to merge our business units into a more streamlined, functional-based organization structure and to realign our organizational structure by consolidating the sales, marketing, information services, and software development responsibilities into single, company-wide roles to achieve greater efficiency. As a result, our reportable segments have changed.

The first phase was completed in April 2016, when we announced a corporate restructuring plan, which was approved by our Board of Directors. For the fiscal year ended March 31, 2017, we recorded $7,078 of restructuring costs within operating expenses in our consolidated statements of net income and comprehensive income. The restructuring costs consist 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, which were accrued when it was probable that the benefits will be paid and the amount were reasonably estimable. Also included in restructuring costs was $1,661 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 have vacated each of the locations or portions thereof and are actively marketing the locations for sublease. 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. Significant judgment was required to estimate the remaining lease obligations at fair value and actual results could vary from the estimates, resulting in potential future adjustments to amounts previously recorded.

As of March 31, 2017, the remaining restructuring liability associated with payroll-related costs was $606, which we expect to settle in the first quarter of fiscal 2018, and the remaining lease obligation, net of estimated projected sublease rentals, was

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$2,285. Refer to Note 14 for estimated timing of payments related to remaining lease obligations. The restructuring plan was substantially complete by the end of fiscal 2017.

17. Subsequent Events

On April 14, 2017, we completed our acquisition of Entrada pursuant to the terms of the Agreement and Plan of Merger, dated April 11, 2017 (the "Agreement"). 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. Our acquisition of Entrada and its cloud-based, mobile application demonstrates our commitment to deliver systematic solutions that meet our clients' transforming work requirements to become increasingly nimble and mobile. Total cash consideration paid was $34,000, subject to certain adjustments in accordance with the terms of the Agreement. This acquisition was primarily funded by a draw down of the Credit Agreement. We are in the process of determining the purchase price allocation for this acquisition.

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18. Selected Quarterly Operating Results (unaudited)

The following table presents quarterly unaudited consolidated financial information for the eight quarters preceding March 31, 2017. 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							
(Unaudited)	3/31/2017	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015
Revenues:								
Software license and hardware	$16,581	$16,995	$17,182	$14,789	$18,497	$16,150	$19,687	$16,189
Software related subscription services	23,139	22,546	21,490	19,875	19,015	11,705	12,437	12,246
Total software, hardware and related	39,720	39,541	38,672	34,664	37,512	27,855	32,124	28,435
Support and maintenance	41,898	39,924	38,974	38,007	39,792	39,519	42,176	43,713
Revenue cycle management and related services	20,515	20,048	20,936	21,053	20,376	21,594	20,793	20,243
Electronic data interchange and data services	23,424	21,790	21,613	22,124	20,930	20,643	20,581	20,189
Professional services	6,828	6,565	6,971	6,357	9,302	7,421	9,695	9,584
Total revenues	132,385	127,868	127,166	122,205	127,912	117,032	125,369	122,164
Cost of revenue:								
Software license and hardware	5,427	5,680	6,427	7,120	7,357	6,530	6,578	7,041
Software related subscription services	9,637	9,345	8,675	9,087	9,168	5,533	5,963	5,958
Total software, hardware and related	15,064	15,025	15,102	16,207	16,525	12,063	12,541	12,999
Support and maintenance	7,414	7,299	7,036	6,568	7,455	7,537	8,394	7,943
Revenue cycle management and related services	14,318	13,462	14,359	14,231	14,018	14,381	14,680	14,512
Electronic data interchange and data services	12,870	12,662	12,807	12,763	12,851	12,437	12,539	12,326
Professional services	6,304	5,904	6,693	7,046	8,406	7,367	8,444	8,197
Total cost of revenue	55,970	54,352	55,997	56,815	59,255	53,785	56,598	55,977
Gross profit	76,415	73,516	71,169	65,390	68,657	63,247	68,771	66,187
Operating expenses:								
Selling, general and administrative [1]	42,710	37,542	42,790	40,581	40,272	39,395	37,396	39,171
Research and development costs, net	22,111	19,714	18,292	18,224	16,077	14,518	17,981	17,085
Amortization of acquired intangible assets	2,546	2,568	2,617	2,704	2,675	897	898	897
Impairment of assets [2]	—	—	—	—	32,238	—	—	—
Restructuring costs	2,393	231	701	3,753	—	—	—	—
Total operating expenses	69,760	60,055	64,400	65,262	91,262	54,810	56,275	57,153
Income (loss) from operations	6,655	13,461	6,769	128	(22,605)	8,437	12,496	9,034

Interest income	5	—	1	8	27	55	44	302
Interest expense	(711)	(629)	(803)	(1,013)	(1,295)	(6)	(3)	—
Other expense, net	(116)	(4)	(55)	(87)	(19)	(43)	(54)	(50)
Income (loss) before provision for (benefit of) income taxes	5,833	12,828	5,912	(964)	(23,892)	8,443	12,483	9,286
Provision for (benefit of) income taxes	1,418	2,342	1,925	(317)	(7,570)	1,141	4,168	2,924
Net income (loss)	$4,415	$10,486	$3,987	$(647)	$(16,322)	$7,302	$8,315	$6,362
Net income (loss) per share:								
Basic [3]	0.07	0.17	0.06	(0.01)	(0.27)	0.12	0.14	0.11
Diluted [3]	0.07	0.17	0.06	(0.01)	(0.27)	0.12	0.14	0.10
Weighted-average shares outstanding:								
Basic	62,345	62,093	61,658	61,179	60,899	60,867	60,461	60,312
Diluted	62,348	62,093	62,052	61,676	60,899	61,279	61,194	61,064
Dividends declared per common share	$—	$—	$—	$—	$—	$0.175	$0.175	$0.175

[1] Selling, general and administrative for the quarter ended 12/31/2015 includes the loss on the disposition of the former Hospital Solutions division (including direct incremental costs, severance, and other employee-related costs incurred in connection with the disposition). Refer to Note 5 for additional details.

[2] Impairment of assets for the quarter ended 3/31/2016 relates to the impairment of our previously capitalized software costs of the NextGen Now development project. Refer to Note 8 for additional details.

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

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(in thousands) For the year ended	Sales Return Reserve Balance at Beginning of Year	Additions Charged Against Revenue	Deductions	Balance at End of Year
March 31, 2017	$7,541	$11,330	$(11,658)	$7,213
March 31, 2016	$8,835	$6,737	$(8,031)	$7,541
March 31, 2015	$10,530	$8,038	$(9,733)	$8,835

(in thousands) For the year ended	Allowance for Doubtful Accounts Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
March 31, 2017	$2,902	$ 5,082	$ (5,227)	$2,757
March 31, 2016	$3,303	$ 3,573	$ (3,974)	$2,902
March 31, 2015	$6,295	$ 855	$ (3,847)	$3,303

(in thousands) For the year ended	Valuation Allowance on Deferred Tax Assets Balance at Beginning of Year	Additions Charged to Costs and Expenses	Acquisition-related Additions	Deductions	Balance at End of Year
March 31, 2017	$2,551	$ —	$ (267)	$ (211)	$2,073
March 31, 2016	$1,840	$ 112	$ 599	$ —	$2,551
March 31, 2015	$2,288	$ —	$ —	$ (448)	$1,840

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INDEX TO EXHIBITS ATTACHED TO THIS REPORT

Exhibit Number	Description
21	List of subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP.
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.
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.
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.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Label
101.PRE*	XBRL Taxonomy Extension Presentation

* 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 section.