

# QUALITY SYSTEMS, INC

## FORM 10-K (Annual Report)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2016

or

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

(State or other jurisdiction of incorporation or organization)

95-2888568

(IRS Employer Identification No.)

18111 Von Karman Avenue, Suite 800, Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 255-2600

(Registrant's telephone number, including area code)

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

Title of each class	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  No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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  No

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.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2015 : \$630,174,000 (based on the closing sales price of the Registrant's common stock as reported on the NASDAQ Global Select Market on that date of \$12.48 per share).\*

The Registrant has no non-voting common equity.

The number of outstanding shares of the Registrant's common stock as of May 18, 2016 was 60,979,997 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 2016 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended March 31, 2016 are incorporated herein by reference in Part III of this Annual Report on Form 10-K where indicated.

**QUALITY SYSTEMS, INC.**  
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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," "should," "would," "could," "may," and similar expressions also identify forward-looking statements. These forward-looking statements include, without limitation, discussions of our product development plans, business strategies, future operations, financial condition and prospects, developments in and the impacts of government regulation and legislation 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., 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 Hospital Solutions Division. In January 2016, we acquired HealthFusion Holdings, Inc. ("HealthFusion").

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 website is located at [www.Nextgen.com](http://www.Nextgen.com). We operate on a fiscal year ending on March 31.

#### Our Strategy

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 through the following strategic priorities:

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

- **Cloud transition.** Through our acquisition of HealthFusion in January 2016, we acquired a highly scalable, pure cloud-based and mobile-enabled platform that operates under the tradename MediTouch®. We intend to expand the capability of this platform 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.
- **Solutions selling.** We believe there is significant opportunity to extend the solutions we offer existing and new clients through value added services such as RCM, EDI, interoperability solutions and professional services. This will evolve our relationships from being a seller of products and services to delivering a consistent solution suite and experience for our clients.
- **Population health software and services.** We are migrating into applications, analytics and services that we believe will enable our clients to be successful in managing the health of patient populations. We are establishing strong development partners within our core client base, participating in shared-risk contracts, and working together to determine population health solutions.
- **More effective use of capital.** From cessation of the dividend, leveraging our balance sheet for future opportunities, to managing our cost structure, we are transforming our capital strategy. Our recent reorganization was formulated to result in a more efficient, integrated and streamlined organization.

## Business Organization

Our business divisions consist of the NextGen Division, the RCM Services Division, the QSI Dental Division, and the former Hospital Solutions Division that was divested in October 2015. Our divisions share the resources of our “corporate office,” which includes a variety of accounting, finance and other administrative functions.

### NextGen Division

- The NextGen Division provides integrated clinical, financial and connectivity solutions for ambulatory and dental provider organizations. The NextGen Division’s major product categories include the NextGen® Ambulatory product suite, interoperability solutions, and cloud-based health care information technology (“HCIT”) software, including MediTouch®.

### RCM Services Division

- The RCM Services Division delivers revenue cycle management optimization services enabled by technology, and its service offerings include billing and collections, claims submissions and reconciliation, electronic remittance and payment posting, accounts receivable management, patient client service, advance analytics, charge entry and capture, enrollment credentialing, and software setup, hosting, and support. Our technology-based solutions are designed to optimize clients’ revenue cycle costs and process efficiency, and improve clients’ cash flow (typically measured by the number of days that their accounts receivable remain uncollected).

### QSI Dental Division

- The QSI Dental Division focuses on developing, marketing and supporting software suites sold to dental group organizations located throughout the United States. The QSI Dental Division sells licenses to its legacy products as existing clients expand their operations and also sells its practice management and clinical software solutions to new and existing clients primarily as a cloud-based SaaS platform known as QSIDental Web®.

### Hospital Solutions Division

- The Hospital Solutions Division provided integrated and modular clinical, financial, connectivity and related solutions for small rural, community and specialty hospitals. In October 2015, as part of our strategy to focus on our core ambulatory clients, we divested the Hospital Solutions Division.

The following table breaks down our reported segment revenue and segment revenue growth (decline) by division for the fiscal years ended March 31, 2016, 2015 and 2014. 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,		
	2016	2015	2014	2016	2015	2014
NextGen Division	\$ 375,801	\$ 373,765	\$ 341,120	0.5 %	9.6 %	(0.9)%
RCM Services Division	89,831	80,005	68,093	12.3 %	17.5 %	5.6 %
QSI Dental Division	19,376	18,451	19,840	5.0 %	(7.0)%	(0.8)%
Hospital Solutions Division	7,469	18,004	15,614	(58.5)%	15.3 %	(50.3)%
Consolidated	\$ 492,477	\$ 490,225	\$ 444,667	0.5 %	10.2 %	(3.4)%

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.

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 2016, we initiated a three-phase plan 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. We also transformed our management team with the appointment of a new chief executive officer, chief financial officer, chief technology officer, and chief client officer. This first phase was completed in April 2016, when we announced a corporate reorganization to enable a more efficient, integrated and client-centered delivery of the holistic solutions that we believe is required by our ambulatory care clients. The reorganization includes merging our business units into a single, streamlined, functional-based organization structure.

We are now beginning phase two of the plan, which includes building and enhancing the capabilities that will drive future revenue growth. The third phase of the plan will consist of developing the services and solutions to accelerate revenue growth.

Our future reportable segments may change as a result of changes to the organization of our business.

## **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 Services Division 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 version 5.8 offering is ONC 2014 Edition certified as a complete EHR. It 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.

***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 smaller and growing practices. It will also facilitate providing a broad mix of additional NextGen Division solutions to the HealthFusion client base.

**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 available 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.

**QSDental 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 our RCM offering “1st in KLAS” in the KLAS 2014 Ambulatory RCM Services Report, their most current report.

**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.

**NextGen® Consulting Services.** This offering delivers specialized knowledge and consultative services for providers and organizations to help them meet the demands of an increasingly complex healthcare delivery system. It is staffed by expert physicians as well as business and technology professionals with decades of expertise.

## **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, 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. As a result of our large installed user base, our support and maintenance revenues represent a significant portion of our total revenue. 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.

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.

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.

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, Healthcare Management Systems, Inc. (HMS), McKesson Corporation, Medical Information Technology, Inc. (MEDITECH), Practice Fusion, and other competitors.

The practice management, 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 fiscal years 2016, 2015 and 2014, we expended approximately \$80.3 million, \$83.8 million and \$62.3 million, respectively, on research and development activities, including capitalized software costs of \$14.7 million, \$14.6 million and \$20.8 million, respectively. The majority of such expenditures are currently targeted on the NextGen Division 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, 2016, 2015 and 2014.

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.

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 single and small practice physicians, medical and dental practices, networks of such practices including independent practice associations ("IPAs") and physician hospital organizations ("PHOs"), professional schools, community health centers and other ambulatory care settings. 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 fiscal years ended March 31, 2016, 2015 and 2014. Substantially all of our clients are located in the United States.

### **Employees**

As of March 31, 2016, we employed approximately 2,987 individuals, of which 2,967 were full-time employees. Approximately 443 of our employees were located in Bangalore, India with primary focus on software development activities. Aside from our Bangalore facility, 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](http://www.qsii.com) and [www.Nextgen.com](http://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](http://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.

## 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.

***The ongoing uncertainty in global economic conditions may negatively impact our business, operating results or financial condition .*** The continuing unfavorable global economic conditions and uncertainty have caused 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. For example, 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. 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 continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected as well.

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

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

- failure to achieve projected synergies and performance targets;
- potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets with indefinite useful lives, which could adversely affect our results of operations and financial condition;
- using cash as acquisition currency may adversely affect interest or investment income, which may in turn adversely affect our earnings and /or earnings per share;
- unanticipated expenses or difficulty in fully or effectively integrating or retaining the acquired technologies, software products, services, business practices, management teams or personnel, which would prevent us from realizing the intended benefits of the acquisition;
- failure to maintain uniform standard controls, policies and procedures across acquired businesses;
- difficulty in predicting and responding to issues related to product transition such as development, distribution and client support;
- the possible adverse effect of such acquisitions on existing relationships with third party partners and suppliers of technologies and services;
- the possibility that staff or clients of the acquired company might not accept new ownership and may transition to different technologies or attempt to renegotiate contract terms or relationships, including maintenance or support agreements;
- the assumption of known and unknown liabilities;
- the possibility of disputes over post-closing purchase price adjustments such as performance-based earnouts;
- the possibility that the due diligence process in any such acquisition may not completely identify material issues associated with product quality, product architecture, product development, intellectual property issues, regulatory risks, compliance risks, key personnel issues or legal and financial contingencies, including any deficiencies in internal controls and procedures and the costs associated with remedying such deficiencies;
- difficulty in entering geographic and/or business markets in which we have no or limited prior experience;
- difficulty in integrating acquired operations due to geographical distance and language and cultural differences;
- diversion of management's attention from other business concerns; and
- the possibility that acquired assets become impaired, or that acquired assets lead us to determine that existing assets become impaired, requiring us to take a charge to earnings which could be significant.

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

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

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

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

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

***The integration of new key executives into our management team may interfere with our operations.*** We have recently appointed several new key executives, including our Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, and Chief Client 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. We hope NextGen 2.0 will improve our delivery of high quality products and services to our clients through five areas of emphasis: a focus on our ambulatory client base, a transition to the cloud, effective solution delivery through cross-selling, a move into population health software and services, and effective deployment of capital. We intend to implement the multi-year NextGen 2.0 strategic plan in three phases: redesigning our organization, followed by building capabilities to drive future revenue growth, and culminating with developing the services and solutions to accelerate our revenue growth. We recently implemented the organizational redesign phase, which included the consolidation of our divisional sales, marketing, information services, and software development responsibilities into single, company-wide roles. 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 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.

**Continuing worldwide political and economic uncertainties may adversely affect our revenue and profitability .** The last several years have been periodically marked by concerns including but not limited to inflation, decreased consumer confidence, the lingering effects of international conflicts, energy costs and terrorist and military activities. Although certain indices and economic data have shown signs of stabilization in the United States and certain global markets, there can be no assurance that these improvements will be broad-based or sustainable. This instability can make it extremely 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. Bankruptcies or similar insolvency events affecting our clients may cause us to incur bad debt expense at levels higher than historically experienced. Further, an ongoing economic stability in the global markets 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. Accordingly, if worldwide political and economic uncertainties continue or worsen, our business, results of operations and financial condition could be materially and adversely affected.

**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 acquisition of HealthFusion, 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 product 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 located in India that subjects 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. 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 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 have determined that the MediTouch platform offers the most efficient path to providing a high-quality, robust, cloud-based solution for ambulatory care. Accordingly, we have decided to cease further investment in NextGen Now and immediately 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 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. For example, companies in our industry, including many of our competitors, have been subject to litigation based on allegations of patent infringement or other violations of intellectual property rights. In particular, patent holding companies often engage in litigation to seek to monetize patents that they have obtained. As the number of competitors, patents and patent holding companies in our industry increases, the functionality of our products and services expands, and we enter into new geographies and markets, the number of intellectual property rights-related actions against us is likely to continue to increase. 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 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. Such litigation may also have the effect of discouraging potential acquirers from bidding for us or reducing the consideration such acquirers would otherwise be willing to pay in connection with an acquisition.

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 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 us 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 ours. 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. 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. 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. The hearing for the motion is set for July 28, 2016. On November 19, 2013, a complaint was filed against the Company and certain of the Company's officers and directors in the United States District Court for the Central District of California, captioned Deerfield Beach Police Pension Fund, individually and on behalf of all others similarly situated, v. Quality Systems, Inc., Steven T. Plochocki, Paul A. Holt and Sheldon Razin, No. SACV13-01818-CJC-JPRx, by the Deerfield Beach Police Pension Fund, a shareholder of the Company. The complaint is a putative class action filed on behalf of the shareholders of the Company other than the defendants. 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 complaint filed by Mr. Hussein described above, generally alleges that statements made to our shareholders regarding our financial condition and projected future performance were false and misleading in violation of 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. 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.

On January 24, 2014, a complaint was filed against the Company and certain of the Company's 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 the Company. The complaint arises from the same allegations described above related to the complaints filed by Mr. Hussein and the Deerfield Beach Police Pension Fund and generally alleges breach of fiduciary duties, abuse of control and gross mismanagement by the Company's directors, in addition to unjust enrichment and insider selling by individual directors. 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 Quality Systems, Inc. Securities Litigation matter described 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.

***We are outsourcing our internal audit function, which involves a number of risks that may adversely affect our business and results of operations.*** We are currently transitioning our internal audit function to a third-party provider. Although we believe that outsourcing this function will ultimately result in lower costs and increased efficiencies, this may not be the case immediately or ever. The transition process to an outsourced internal audit function is complex and time-consuming, which may result in a diversion of management's time and attention away from business operations. This diversion could have an adverse effect on our business, results of operations and financial condition. In addition, outsourcing our internal audit function means we will be relying upon a third party to meet our needs. Because this third party may not be as responsive to our needs as we would be ourselves, we may increase the risk of disruption to our operations. If our third-party provider terminates its agreement with us and we are unable to replace it with another service provider, our operations may be interrupted. Even a temporary disruption in services could result in significant risk of noncompliance with our duties as a public company, which could have an adverse effect on our business. Moreover, there can be no assurance that a replacement service provider will provide its services at the same or a lower cost than the service provider it replaces. Our business and results of operations may be adversely affected if we experience operating problems and/or cost overruns during the outsourcing transition process or if our outsourced internal audit function does not function as expected or give rise to the expected benefits.

***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.*** In connection with the financing of our HealthFusion acquisition 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 HealthFusion acquisition, and in implementing our post-acquisition business strategy with respect to HealthFusion's product. Our shift in product focus following the acquisition, which led to the abandonment of a product in development and a material impairment of previously capitalized development work, may not yield the desired results.*** We acquired HealthFusion on January 4, 2016. As a result of the acquisition, we have devoted and will continue to need to devote significant management attention and resources to integrating HealthFusion's business and product platform into our business. We may experience problems associated with the acquired company and its personnel, processes, product, technology, liabilities, commitments, and other matters. There is no assurance that we will be able to successfully integrate the HealthFusion business or realize synergies and benefits from the transaction. Furthermore, the acquisition has 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 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 is already a production-ready and sellable solution, represents a more prudent investment in our technical future than continuing with the NextGen Now development plans. Accordingly, we have abandoned further development of the previously capitalized NextGen Now platform,

and instead will redeploy 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 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 pricing model and could impact software maintenance revenue streams prospectively. If the marketplace increasingly demands subscription or bundled pricing, we may be forced to further adjust our sales, marketing and pricing strategies accordingly, by offering a higher percentage of our products and services through these means. Shifting to a significantly greater degree of subscription or bundled pricing could adversely affect our financial condition, cash flows and quarterly and annual revenue and results of operations, as our revenue would initially decrease substantially.

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

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

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

***We face the possibility of damages resulting from internal and external security breaches .*** In the course of our business operations, we store, process, compile and transmit confidential information, including patient health information, in our processing centers and other facilities. A breach of security in any of these facilities could damage our reputation and result in

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

The success of our strategy to offer our electronic data interchange (“EDI”) services and software as a service (“SaaS”) solutions depends on the confidence of our clients in our ability to securely transmit confidential information. Our EDI services and SaaS solutions rely on encryption, authentication and other security technology licensed from third parties to achieve secure transmission of confidential information. We may not be able to stop unauthorized attempts to gain access to or disrupt the transmission of communications by our clients. Anyone who is able to circumvent our security measures could misappropriate confidential user information or interrupt our, or our clients’, operations. In addition, our EDI and SaaS solutions may be vulnerable to viruses, 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 providers -- all of whom are outside of our control. In the event of any difficulties, outages and delays by Internet service providers, we may be impeded from providing services, resulting in a loss of potential or existing clients.

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

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

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

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

Although we have systems and policies in place for safeguarding Protected Health Information from unauthorized disclosure, these systems and policies may not preclude claims against us for alleged violations of applicable requirements. Also, third party sites and/or links that consumers may access through our web sites may not maintain adequate systems to safeguard this

information, or may circumvent systems and policies we have put in place. In addition, future laws or changes in current laws may necessitate costly adaptations to our policies, procedures, or systems.

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

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

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

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

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

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

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

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

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

## **Risks Related to Regulation**

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

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

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

Various legislators have announced that they intend to examine further proposals to reform certain aspects of the U.S. healthcare system. 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. 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. In addition, 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. Additional interoperability legislation is also

being considered by the U.S. Congress. 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.** Our software may potentially be subject to regulation by the U.S. Food and Drug Administration (“FDA”) as a medical device. Such regulation could require the registration of the applicable manufacturing facility and software and hardware products, application of detailed record-keeping and manufacturing standards, application of the medical device excise tax, and FDA approval or clearance prior to marketing. An approval or clearance requirement could create delays in marketing, and the FDA could require supplemental filings or object to certain of these applications, the result of which could adversely affect our business, financial condition and results of operations.

**Health Reform.** The health reform laws discussed above and that may be enacted in the future contain and may contain various provisions which may impact us and our clients. Some of these provisions may have a positive impact, by expanding the use of electronic health records 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.

***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, 2016. However, if we fail to maintain an effective system of disclosure controls or internal controls over financial reporting, we may discover material weaknesses that we would then be required to disclose. Any material weaknesses identified in our internal controls could have an adverse effect on our business. We may not be able to accurately or timely report on our financial results, and we might be subject to investigation by regulatory authorities. This could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which may have an adverse effect on our stock price.

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

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

#### **Risks Related to Ownership of Our Common Stock**

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

- the size and timing of orders from clients;
- the specific mix of software, hardware and services in client orders;
- the length of sales cycles and installation processes;
- the ability of our clients to obtain financing for the purchase of our products;
- changes in pricing policies or price reductions by us or our competitors;
- the timing of new product announcements and product introductions by us or our competitors;
- changes in revenue recognition or other accounting guidelines employed by us and/or established by the Financial Accounting Standards Board ("FASB") or other rule-making bodies;
- changes in government healthcare policies and regulations, such as the shift from fee-for-service reimbursement to value-based reimbursement;
- accounting policies concerning the timing of the recognition of revenue;

- the availability and cost of system components;
- the financial stability of clients;
- market acceptance of new products, applications and product enhancements;
- our ability to develop, introduce and market new products, applications and product enhancements;
- our success in expanding our sales and marketing programs;
- deferrals of client orders in anticipation of new products, applications, product enhancements, or public/private sector initiatives;
- execution of or changes to our strategy;
- personnel changes; and
- general market/economic factors.

Our software products are generally shipped as orders are received and accordingly, we have historically operated with a minimal backlog of license fees. As a result, 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 results generally cannot be predicted and frequently are not known until after the quarter has concluded.

Our sales are dependent upon clients' initial decisions to replace or substantially modify their existing information systems, and subsequently, their decision concerning which products and services to purchase. These are major decisions for healthcare providers and, accordingly, the sales cycle for our systems can vary significantly and typically ranges from six to twenty-four months from initial contact to contract execution/shipment.

Because a significant percentage of our expenses are relatively fixed, a variation in the timing of systems sales, implementations and installations can cause significant variations in operating results from quarter to quarter. As a result, we believe that interim period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, our historical operating results are not necessarily indicative of future performance for any particular period.

We currently recognize revenue in accordance with the applicable accounting guidance as defined by the FASB.

There can be no assurance that application and subsequent interpretations of these pronouncements will not further modify our revenue recognition policies, or that such modifications would not adversely affect our operating results reported in any particular quarter or year.

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

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

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

Furthermore, the stock market in general, and the market for software, healthcare and high technology companies in particular, has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These

broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of actual operating performance.

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

**One of our current directors, 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 16.8% of the outstanding shares of our common stock at March 31, 2016 . In addition, a former director, who owns approximately 9.3% (based on the most recently available publicly filed information) of the outstanding shares of our common stock at March 31, 2016 , 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.



**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, 2016, we leased an aggregate of approximately 521,600 square feet of space with lease agreements expiring at various dates. Significant locations are as follows:

	Square Feet	Notes
Horsham, Pennsylvania	110,000	(2) (6)
Irvine, California	71,800	(1) (4) (6)
St. Louis, Missouri	62,400	(3)
Bangalore, India	53,400	(6)
Austin, Texas	43,700	(5)
Solana Beach, California	40,000	(2) (6)
Atlanta, Georgia	35,500	(2) (6)
Hunt Valley, Maryland	34,000	(3)
Costa Mesa, California	25,100	(2) (6)
North Canton, Ohio	22,100	(3)
Augusta, Georgia	7,300	(4)
South Jordan, Utah	7,300	(3)
Other locations	9,000	
Total leased properties	521,600	

(1) Location of our corporate office

(2) Primary locations of the NextGen Division

(3) Primary locations of the RCM Services Division

(4) Primary location of the QSI Dental Division

(5) Primary location of the former Hospital Solutions Division, which was divested in October 2015

(6) Locations of our research and development functions

**ITEM 3. LEGAL PROCEEDINGS**

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

## 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, 2014	\$18.89	\$14.10
September 30, 2014	\$16.63	\$13.69
December 31, 2014	\$15.99	\$13.01
March 31, 2015	\$18.75	\$15.31
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

At May 18, 2016, there were approximately 133 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			<u>\$ 0.525</u>
May 28, 2014	June 13, 2014	July 3, 2014	\$ 0.175
July 23, 2014	September 12, 2014	October 3, 2014	0.175
October 22, 2014	December 12, 2014	January 2, 2015	0.175
January 21, 2015	March 13, 2015	April 3, 2015	0.175
Fiscal year 2015			<u>\$ 0.700</u>

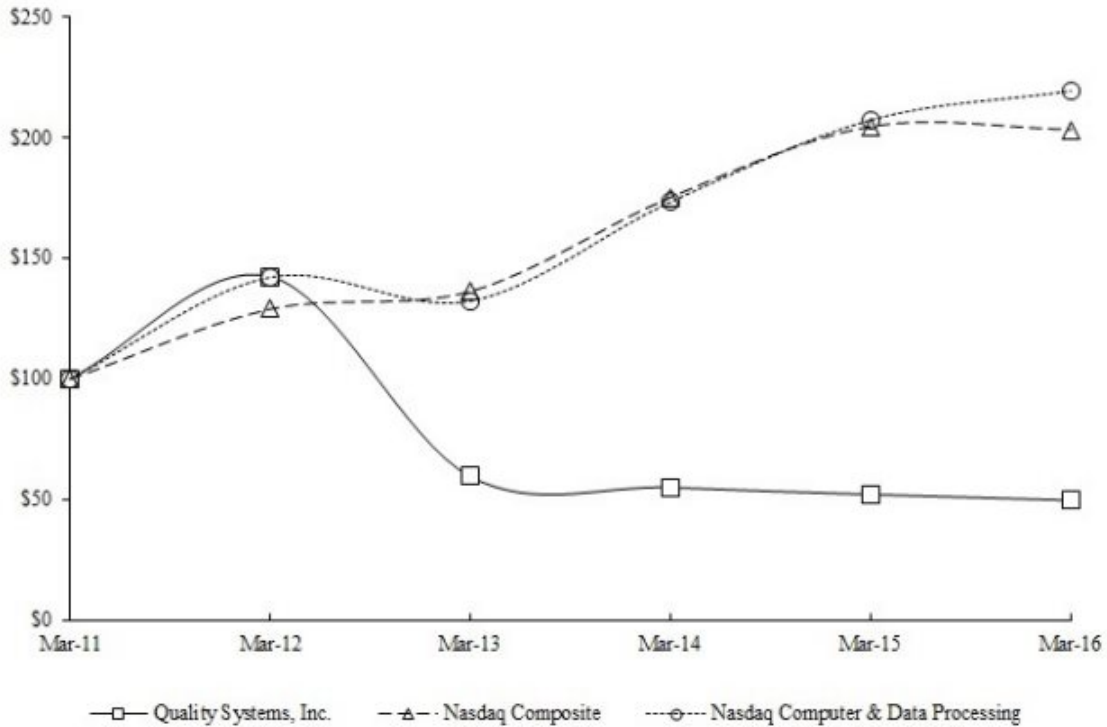
**Securities Authorized for Issuance Under Equity Compensation Plans**

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

### Performance Graph

The following graph compares the cumulative total returns of our common stock, the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Stock Index over the five-year period ended March 31, 2016 assuming \$100 was invested on March 31, 2011 with all dividends, if any, reinvested. 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, 2011 in stock or index, including reinvestment of dividends. Fiscal year ended March 31.

The last trade price of our common stock on each of March 31, 2012, 2013, 2014, 2015 and 2016 was published by NASDAQ and, accordingly for the periods ended March 31, 2012, 2013, 2014, 2015 and 2016, the reported last trade price was utilized to compute the total cumulative return for our common stock for the respective periods then ended. Shareholder returns over the indicated periods should not be considered indicative of future stock prices or shareholder returns.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data, with respect to our consolidated statements of comprehensive income data for each of the five years in the period ended March 31, 2016 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,				
	2016	2015	2014	2013	2012
<b>Statements of comprehensive income data:</b>					
Revenue	\$ 492,477	\$ 490,225	\$ 444,667	\$ 460,229	\$ 429,835
Cost of revenue	225,615	223,164	220,163	189,652	151,223
Gross profit	266,862	267,061	224,504	270,577	278,612
Selling, general and administrative	156,234	158,172	149,214	148,353	128,846
Research and development costs, net	65,661	69,240	41,524	30,865	31,369
Amortization of acquired intangible assets	5,367	3,693	4,805	4,859	2,198
Impairment of assets	32,238	—	5,873	17,400	—
Income from operations	7,362	35,956	23,088	69,100	116,199
Interest income	428	111	269	76	247
Interest expense	(1,304)	(341)	—	(183)	—
Other expense, net	(166)	(62)	(356)	(79)	(139)
Income before provision for income taxes	6,320	35,664	23,001	68,914	116,307
Provision for income taxes	663	8,332	7,321	26,190	40,650
Net income	\$ 5,657	\$ 27,332	\$ 15,680	\$ 42,724	\$ 75,657
Basic net income per share	\$ 0.09	\$ 0.45	\$ 0.26	\$ 0.72	\$ 1.29
Diluted net income per share	\$ 0.09	\$ 0.45	\$ 0.26	\$ 0.72	\$ 1.28
Basic weighted average shares outstanding	60,635	60,259	59,918	59,392	58,729
Diluted weighted average shares outstanding	61,233	60,849	60,134	59,462	59,049
Dividends declared per common share	\$ 0.525	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70
	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
<b>Balance sheet data:</b>					
Cash, cash equivalents, and marketable securities <sup>(2)</sup>	\$ 36,473	\$ 130,585	\$ 113,801	\$ 118,011	\$ 139,431
Working capital <sup>(1) (2)</sup>	\$ 45,931	\$ 100,893	\$ 124,782	\$ 158,156	\$ 173,150
Total assets <sup>(2)</sup>	\$ 530,790	\$ 460,521	\$ 451,351	\$ 452,126	\$ 448,838
Long-term line of credit <sup>(2)</sup>	\$ 105,000	\$ —	\$ —	\$ —	\$ —
Total liabilities <sup>(2)</sup>	\$ 261,413	\$ 176,981	\$ 156,261	\$ 145,077	\$ 153,661
Total shareholders' equity	\$ 269,377	\$ 283,540	\$ 295,090	\$ 307,049	\$ 295,177

(1) Working capital as of March 31, 2015, 2014, 2013, and 2012 includes reclassifications of deferred taxes related to the retrospective adoption of Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). Refer to Note 2, "Summary of Significant Accounting Policies" of our notes to consolidated financial statements included elsewhere in this Report for additional details. The retrospective adoption of ASU 2015-17 resulted in the reclassification, for presentation purposes only, of current deferred tax assets to noncurrent deferred tax assets in our consolidated balance sheets as of March 31, 2015, 2014, 2013, and 2012. As a result of such reclassification, working capital decreased by \$24,080, \$21,531, \$23,413, and \$18,613 as of March 31, 2015, 2014, 2013, and 2012, respectively.

(2) During the year ended March 31, 2015, our cash, cash equivalents, and marketable securities, working capital, total assets, long-term line of credit and total liabilities were impacted by certain transactions, including the acquisition of HealthFusion, revolving credit agreement, and impairment of our previously capitalized software costs. Refer Note 5, "Business Combinations and Disposals," Note 9, "Line of Credit," and Note 8, "Capitalized Software Costs" of our notes to consolidated financial statements included elsewhere in this Report for additional details.

## 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., 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 Hospital Solutions Division.

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 website is located at [www.Nextgen.com](http://www.Nextgen.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.

### 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 our largest 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 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 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 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 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.

For the year ended March 31, 2016, we determined that our previously capitalized software costs related to our NextGen Now development project was not recoverable and recorded a \$32.2 million non-cash impairment charge. 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**

During the last three fiscal years, we completed our acquisitions of HealthFusion, Gennius, and Mirth, each of which were 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 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.

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 shares under our executive compensation plans. 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.

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 comprehensive income.

Share-based compensation expense associated with the restricted performance shares under our executive compensations plans 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.

Share-based compensation expense associated with the options under our equity incentive plans are initially based on the number of options expected to vest after assessing the probability that the performance criteria will be met. Cumulative adjustments are recorded quarterly to reflect subsequent changes in the estimated outcome of performance-related conditions.

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.

## 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.

In addition to the activities described above, mergers and acquisitions have been important to our development. In September 2013 we acquired Mirth Corporation ("Mirth"), a global leader in health information technology that helps clients achieve interoperability. In April 2015, we acquired Gennius, Inc. ("Gennius"), a population health analytics company which we believe enhances and leverages our acquisition of Mirth by broadening our business intelligence capabilities in the growing population health and value based care areas.

On October 22, 2015, we divested our Hospital Solutions Division in order to focus our efforts and resources on our core ambulatory business.

In January 2016, we completed the acquisition of HealthFusion Holdings, Inc. ("HealthFusion"), a cloud-based healthcare information technology ("HCIT") company providing electronic health record ("EHR") and practice management ("PM") software primarily to the one-to-ten physician size market. We entered into a revolving credit agreement to fund the transaction. We believe the acquisition provided us with access to a market we were not in and provides us with technology that will accelerate our transition to the cloud.

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 2016, we initiated a three-phase plan 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. We also transformed our management team with the appointment of a new chief executive officer, chief financial officer, chief technology officer, and chief client officer. This first phase was completed in April 2016, when we announced a corporate reorganization to enable a more efficient, integrated and client-centered delivery of the holistic solutions that we believe is required by our ambulatory care clients. The reorganization includes merging our business units into a single, streamlined, functional-based organization structure.

We are now beginning phase two of the plan, which includes building and enhancing the capabilities that will drive future revenue growth. The third phase of the plan will consist of developing the services and solutions to accelerate revenue growth.

Under our reorganization plan, we expect to reduce our domestic headcount by approximately 150 employees, or approximately six percent of our U.S.-based workforce. We expect to incur approximately \$4.0 million of reorganization-related charges, consisting principally of severance and other one-time termination benefits, during the first and second quarters of fiscal year 2017. We also expect approximately \$14.0 million to \$16.0 million of personnel-related savings in fiscal year 2017, excluding the reorganization-related charge.

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 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 size, integrating services, software and analytics into a consolidated solution. The opportunity to increase value and quality of our client experience is addressed in our five key strategic priorities, including (i) cloud transition, (ii) focus on the ambulatory client segment, (iii) solutions selling, (iv) more effective use of capital, and (v) population health software and services. Refer to "Item 1. Business" included elsewhere in this Report for additional information on each of our key 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.

### **Executive Overview of Our Results**

The following are our key financial results for the fiscal year ended March 31, 2016. Refer to the discussion and analysis of our results in the sections below for additional details.

- Revenues were \$492.5 million
- Recurring services revenue, consisting of consisting of software related subscription services, support and maintenance, RCM and related services, and EDI and data services, comprised approximately 78% of consolidated revenue
- Consolidated gross profit was \$266.9 million , or 54.2% as a percentage of revenue
- Cost of revenue was \$225.6 million
- Selling, general and administrative expenses were \$156.2 million
- Net research and development costs were \$65.7 million
- Amortization of acquired intangible assets were \$5.4 million
- Non-cash impairment charge of \$32.2 million was recorded related to the write-off of capitalized software development costs
- Income from operations income was \$7.4 million
- Effective tax rate was 10.5% , impacted by permanent items such as the federal research and development tax credit, in relation to our pre-tax net income
- Net income was \$5.7 million , or \$0.09 per share on both a basic and fully diluted basis
- Operating cash flow was \$40.8 million

**Results of Operations**

The following table sets forth the percentage of revenue represented by each item in our consolidated statements of comprehensive income for the years ended March 31, 2016, 2015, and 2014 (certain percentages below may not sum due to rounding):

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Revenues:</b>			
Software license and hardware	14.3%	16.7%	17.8%
Software related subscription services	11.2	9.1	6.1
Total software, hardware and related	25.6	25.8	24.0
Support and maintenance	33.5	34.5	36.0
Revenue cycle management and related services	16.9	15.1	14.2
Electronic data interchange and data services	16.7	15.6	15.1
Professional services	7.3	9.0	10.7
Total revenues	100.0	100.0	100.0
<b>Cost of revenue:</b>			
Software license and hardware	5.6	5.9	11.1
Software related subscription services	5.4	4.2	2.8
Total software, hardware and related	11.0	10.1	13.9
Support and maintenance	6.4	5.9	5.1
Revenue cycle management and related services	11.7	11.1	10.4
Electronic data interchange and data services	10.2	9.8	9.6
Professional services	6.6	8.6	10.6
Total cost of revenue	45.8	45.5	49.5
Gross profit	54.2	54.5	50.5
<b>Operating expenses:</b>			
Selling, general and administrative	31.7	32.3	33.6
Research and development costs, net	13.3	14.1	9.3
Amortization of acquired intangible assets	1.1	0.8	1.1
Impairment of assets	6.5	0.0	1.3
Total operating expenses	52.7	47.1	45.3
Income from operations	1.5	7.3	5.2
Interest income	0.0	0.0	0.0
Interest expense	(0.3)	(0.1)	0.0
Other expense, net	0.0	0.0	(0.1)
Income before provision for income taxes	1.3	7.3	5.2
Provision for income taxes	0.1	1.7	1.6
Net income	1.1%	5.6%	3.5%

**Revenues**

The following table presents our consolidated revenues for the years ended March 31, 2016 , 2015 , and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Revenues:</b>			
Software license and hardware	\$ 70,523	\$ 81,649	\$ 79,366
Software related subscription services	55,403	44,592	27,335
Total software, hardware and related	125,926	126,241	106,701
Support and maintenance	165,200	169,219	160,060
Revenue cycle management and related services	83,006	74,237	62,976
Electronic data interchange and data services	82,343	76,358	67,295
Professional services	36,002	44,170	47,635
Total revenues	\$ 492,477	\$ 490,225	\$ 444,667

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, 2016 increased \$2.3 million compared to the prior year due to higher software related subscription services, RCM, and EDI revenue, offset by lower software license and hardware, professional services, and support and maintenance revenue. The acquisition of HealthFusion in January 2016 contributed revenues of \$8.8 million for the year ended March 31, 2016 . Revenue for the Hospital Solutions Division decreased \$10.5 million compared to the prior year primarily due to its disposition in October 2015.

The \$11.1 million decline in software license and hardware revenue compared to the prior year reflects the increasingly saturated end-market for electronic health records software and the disposition of the 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 prior year 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 as we continue to expand our client base, offset by a \$1.9 million decrease primarily related to the disposition of Hospital Solutions Division. Support and maintenance revenue decreased \$4.0 million , which consists of a \$4.9 million decrease related to the 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 prior year 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 prior year 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 Hospital Solutions Division also contributed to \$1.7 million of the decrease in professional services revenue.

Consolidated revenue for the year ended March 31, 2015 increased \$45.6 million compared to the year ended March 31, 2014 due to a \$17.3 million increase in software related subscription services revenue, a \$9.2 million increase in support and maintenance, an \$11.3 million increase in RCM, a \$9.1 million increase in EDI, and a \$2.3 million increase software license and hardware revenue, offset by a \$3.5 million decline in professional services revenue. The increase in software related subscription services and support and maintenance is partially due to a full year contribution of revenues for the year ended March 31, 2015 from Mirth, which was acquired in September 2013. Software related subscription services revenue also increased due to growth in our interoperability and patient portal subscriptions while support and maintenance, RCM and EDI revenues benefited from both organic growth and the addition of new clients. The growth in software license and hardware revenue compared to the year ended March 31, 2014 was primarily due to lower sales returns and related reserves at the Hospital Solutions Division. Professional services decreased due to lower demand for related system sales.

Recurring service revenue, consisting of software related subscription services, support and maintenance, RCM, and EDI, represents 78% , 74% , and 71% of total revenue for the years ended March 31, 2016 , 2015 and 2014 , 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. Our acquisitions of Gennius and Mirth provided us with new products and services around population health, collaborative care management, interoperability and enterprise analytics to address these market dynamics. 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, 2016 , 2015 and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Total cost of revenue	\$ 225,615	\$ 223,164	\$ 220,163
Gross profit	266,862	267,061	224,504
Gross margin %	54.2%	54.5%	50.5%

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

Share-based compensation expense included in cost of revenue was approximately \$0.4 million , \$0.4 million , and \$0.3 million for the years ended March 31, 2016 , 2015 , and 2014 , respectively, and is included in the amounts above.

Gross profit decreased \$0.2 million for the year ended March 31, 2016 compared to the prior year 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 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.

Gross profit increased \$42.6 million for the year ended March 31, 2015 compared to the year ended March 31, 2014 primarily reflecting a \$20.1 million impairment charge on certain long-term assets of the Hospital Solutions Division recorded to cost of revenue in the year ended March 31, 2014 and growth in revenues noted above.

For the year ended March 31, 2016 , gross margin remained relatively consistent at 54.2% compared to 54.5% for the year ended March 31, 2015 . Gross margin was 50.5% for the year ended March 31, 2014 , which decrease primarily as a result of the Hospital Solutions Division impairment charge that was recorded to cost of revenue, as noted above.

**Selling, General and Administrative Expense**

The following table presents our consolidated selling, general and administrative expense for the years ended March 31, 2016 , 2015 , and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Selling, general and administrative	\$ 156,234	\$ 158,172	\$ 149,214
Selling, general and administrative, as a percentage of revenue	31.7%	32.3%	33.6%

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.

Share-based compensation expense included in selling, general and administrative expenses was approximately \$2.6 million , \$2.7 million , and \$1.8 million for the years ended March 31, 2016 , 2015 , and 2014 , respectively, and is included in the amounts above.

Selling, general and administrative expenses for the year ended March 31, 2016 decreased \$1.9 million compared to the prior year 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 the 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 Hospital Solutions Division (including related incremental direct costs).

Selling, general and administrative expenses for the year ended March 31, 2015 increased \$9.0 million compared to the year ended March 31, 2014 . The increase is due primarily to a \$4.6 million increase in salaries and benefits due to increased overall headcount and higher bonus expense, a \$2.2 million increase in legal expenses due mostly to higher costs for shareholder litigation defense, a \$1.5 million increase in advertising costs as a result of our increased focus on heightened brand awareness plus added utilization of online advertising and media placement, and a \$1.5 million increase in acquisition costs due mostly to

post-acquisition fair value adjustments to contingent consideration related to Mirth, offset by a \$0.6 million decrease in bad debt expense and \$0.2 million net decrease in other selling and administrative expenses.

### 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, 2016, 2015, and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Gross expenditures	\$ 80,336	\$ 83,841	\$ 62,308
Capitalized software costs	(14,675)	(14,601)	(20,784)
Research and development costs, net	\$ 65,661	\$ 69,240	\$ 41,524

Research and development costs, net, as a percentage of revenue	13.3%	14.1%	9.3%
Capitalized software costs as a percentage of gross expenditures	18.3%	17.4%	33.4%

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 comprehensive income.

Share-based compensation expense included in net research and development costs was approximately \$0.3 million, \$0.4 million, and \$0.3 million for the years ended March 31, 2016, 2015, and 2014, respectively, and is included in the amounts above.

Net research and development costs for the year ended March 31, 2016 decreased \$3.6 million compared to the prior year primarily due to lower gross expenditures related to our NextGen Now development project.

Net research and development costs for the year ended March 31, 2015 increased \$27.7 million compared to the year ended March 31, 2014 due to an increase in our gross expenditures as well as a decline in the software capitalization rate. Gross expenditures increased due to the inclusion of a full year impact of Mirth related costs and increased investment in the development of new products, enhancements to our specialty templates, and other enhancements to our existing products and preparation for ICD-10 requirements that were forthcoming at that time. The reduction in the software capitalization rate to 17.4% compared to 33.4% in the year ended March 31, 2014 reflects a trend towards a more agile development approach that inherently shortened the time frame during which development costs may be capitalized.

### Amortization of Acquired Intangible Assets

The following table presents our amortization of acquired intangible assets for the years ended March 31, 2016, 2015, and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Amortization of acquired intangible assets	\$ 5,367	\$ 3,693	\$ 4,805

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, 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. Amortization of acquired intangible assets for the year ended March 31, 2015 decreased \$1.1 million compared to the year ended March 31, 2014 primarily due to the full impairment of acquired intangible assets related to the Hospital Solutions Division recorded in year ended March 31, 2014 and resulting cessation in associated amortization. Refer to Note 5, "Business

Combinations and Disposals" of our notes to consolidated financial statements included elsewhere in this Report for additional information.

### Impairment of Assets

The following table presents our impairment of assets for the years ended March 31, 2016 , 2015 , and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Impairment of assets	\$ 32,238	\$ —	\$ 5,873

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 comprehensive income. The impairment relates to our 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, nor is it expected to result in, any cash expenditures. 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 have determined that the MediTouch platform offers the most efficient path to providing a high-quality, robust, cloud-based solution for ambulatory care. Accordingly, we have decided to cease further investment in NextGen Now and immediately discontinue all efforts to use or repurpose the NextGen Now platform.

During the year ended March 31, 2014, we recorded a \$26.0 million impairment charge on certain long-term assets, including goodwill, intangible assets, and capitalized software costs, of the Hospital Solutions Division, of which \$20.1 million was recorded to cost of revenue, as noted above, and the remaining \$5.9 million is reflected as impairment of assets in our consolidated statements of comprehensive income.

### Interest and Other Income and Expense

The following table presents our interest expense for the years ended March 31, 2016 , 2015 , and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Interest income	\$ 428	\$ 111	\$ 269
Interest expense	(1,304)	(341)	—
Other expense, net	(166)	(62)	(356)

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, 2016 increased \$1.0 million compared to the prior year. The increase is primarily related to the interest expense associated with our revolving credit agreement and the amortization of deferred debt issuance costs. As of March 31, 2016 , we had \$105.0 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, 2016 , 2015 , and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Provision for income taxes	\$ 663	\$ 8,332	\$ 7,321
Effective tax rate	10.5%	23.4%	31.8%

The effective tax rate for the year ended March 31, 2016 decreased compared to the prior year 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.



The effective tax rate for the year ended March 31, 2015 decreased compared to the year ended March 31, 2014 primarily due to an increase in benefit from the federal research and development tax credit and an increase in the qualified production activities deduction. In addition, the year ended March 31, 2014 included a non-deductible expense related to the Hospital Solutions Division impairment charge, resulting in an incremental decrease in the effective tax rate for the year ended March 31, 2015.

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 and net income per share and for the years ended March 31, 2016, 2015, and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Net income	\$ 5,657	\$ 27,332	\$ 15,680
Net income per share:			
Basic	\$ 0.09	\$ 0.45	\$ 0.26
Diluted	\$ 0.09	\$ 0.45	\$ 0.26

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 prior year. The significant decrease is primarily due to the \$32.2 million impairment of previously capitalized software costs, offset by a decrease in provision for income taxes as a result of lower pre-tax net income.

Net income for the year ended March 31, 2015 increased \$11.7 million compared to the year ended March 31, 2014 primarily due to the \$26.0 million impairment charge on certain long-term assets of the Hospital Solutions Division during the year ended March 31, 2014 and higher revenues during the year ended March 31, 2015, offset by an increase in selling, general, and administrative expense and net research and development costs.

### Operating Segment Information

Our business divisions consist of the NextGen Division, the RCM Services Division, the QSI Dental Division, and the former Hospital Solutions Division that was divested in October 2015. Our divisions share the resources of our "corporate office," which includes a variety of accounting, finance and other administrative functions.

The following table presents an overview of our operating results by segment for the years ended March 31, 2016, 2015, and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Revenue:			
NextGen Division	\$ 375,801	\$ 373,765	\$ 341,120
RCM Services Division	89,831	80,005	68,093
QSI Dental Division	19,376	18,451	19,840
Hospital Solutions Division	7,469	18,004	15,614
Consolidated revenue	\$ 492,477	\$ 490,225	\$ 444,667
Operating income:			
NextGen Division	\$ 182,508	\$ 182,320	\$ 162,948
RCM Services Division	17,639	13,919	11,719
QSI Dental Division	6,101	5,161	6,183
Hospital Solutions Division	(927)	(1,339)	(7,237)
Corporate and unallocated	(197,959)	(164,105)	(150,525)
Consolidated operating income	\$ 7,362	\$ 35,956	\$ 23,088

### **NextGen Division**

NextGen Division revenue for the year ended March 31, 2016 increased \$2.0 million and divisional operating income increased \$0.2 million compared to the prior year. The increase in revenue was driven largely by growth in our recurring services revenue, including a \$12.2 million increase in software related subscription services, a \$4.9 million increase in EDI revenue, and \$1.2 million increase in support and maintenance, offset by a \$9.2 million decrease in software license and hardware revenue and a \$7.1 million decrease in professional services. The growth in software related subscription services was driven by additional revenues from the acquisition of HealthFusion in January 2016, combined with growth in subscriptions related to our interoperability and patient portal product offerings as we continue to expand our client base. The increase in EDI revenue comes from the addition of new clients and further penetration of our existing client base, and the increase in support and maintenance is related to our interoperability solutions and other ambulatory software products. The decline in software license and hardware revenue and professional services revenue compared to the prior year reflects the increasingly saturated end-market for electronic health records software, resulting in lower client demand for our core software products and related implementation, training, and consulting services. The increase in divisional operating income is primarily due to lower operating expenses, which was partially offset by lower divisional gross profit caused by the decline in high-margin software license sales.

NextGen Division revenue for the year ended March 31, 2015 increased \$32.6 million and divisional operating income increased \$19.4 million compared to the year ended March 31, 2014 . The increase in revenue was driven largely by growth in our recurring services revenue, including a \$16.1 million increase in software related subscription services, \$9.4 million increase in support and maintenance, and an \$8.9 million increase in EDI revenue, offset by a \$2.2 million decrease in software license and hardware revenue. The increase in software related subscription services was driven by growth in subscriptions related to our interoperability and patient portal product offerings. The increase in support and maintenance is related to our interoperability solutions and other ambulatory software products, and the increase in EDI revenue comes from the addition of new clients and further penetration of our existing client base. The decline in software license and hardware revenue reflects the increasingly saturated end-market for electronic health records software. The increase in divisional operating income is primarily the result of higher gross profit from the aforementioned increases in revenue, combined with a net decline in overall operating expenses, including decreases in sales commissions related to a the change in revenue mix towards recurring service revenue, which has a lower commissions rate than system sales, and a decrease in bad debt expense as a result of improved collections from greater emphasis on working capital management.

Our goals for the NextGen Division 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 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 the RCM Services Division. Our acquisition of 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 the NextGen Division 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 the NextGen Division's 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 Services Division**

RCM Services Division revenue for the year ended March 31, 2016 increased \$9.8 million and divisional operating income increased \$3.7 million compared to the prior year. The increase in RCM revenue was driven by the addition of new clients during the year, organic growth achieved through cross selling RCM services to NextGen Division clients, and the ramping up of services provided to our existing RCM services clients. The increase in divisional operating income primarily reflects the increase in revenues and improved profit margin due to a reduction in our third party outsource costs, offset by higher sales commissions and other general and administrative compensation expense.

RCM Services Division revenue for the year ended March 31, 2015 increased \$11.9 million and divisional operating income increased \$2.2 million compared to the year ended March 31, 2014 . The increase in RCM revenue for the year ended March 31, 2015 was also due to the addition of new clients during the year, organic growth achieved through cross selling RCM services to NextGen Division clients, and the ramping up of services provided to our existing RCM services clients. The increase in

divisional operating income primarily reflects the increase in revenues. Divisional gross profit margin remained consistent in the year ended March 31, 2015 compared to the year ended March 31, 2014 .

We believe that a significant opportunity exists to continue cross selling RCM services to existing clients. The portion of existing NextGen clients who are using the RCM Services Division's services is approximately 10%. We are actively pursuing efforts to achieve faster growth from expanded efforts to leverage the existing NextGen Division's 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 our RCM Services Division.

#### **QSI Dental Division**

QSI Dental Division revenue for the year ended March 31, 2016 increased \$0.9 million and divisional operating income increased \$0.9 million compared to the prior year. The increase in revenue was driven by growth in our recurring QSIDental Web subscriptions and EDI revenue and a decrease in sales returns and related reserves compared to the prior year. The increase in divisional operating income is attributed mostly to the increase in revenues.

QSI Dental Division revenue for the year ended March 31, 2015 decreased \$1.4 million and divisional operating income decreased \$1.0 million compared to the year ended March 31, 2014 . The decrease in revenue was primarily the result of lower software license sales and lower support and maintenance due to transition of sales to QSIDental Web subscriptions. Software related subscription services increased \$0.1 million for the year ended March 31, 2015 compared to the year end March 31, 2014 . The decrease in divisional operating income is attributed mostly to the decline in revenues, offset by lower sales commissions and other operating expenses.

We believe that the QSI Dental Division is well-positioned to sell to the FQHCs market and intends to continue leveraging the NextGen Division's sales force to sell its dental electronic medical records software to practices that provide both medical and dental services, such as FQHCs, which are receiving grants as part of the ARRA. Our goal for the QSI Dental Division is to continue to invest in the new cloud-based QSIDental Web platform while aggressively marketing QSIDental Web to both new and existing clients.

#### **Hospital Solutions Division**

Hospital Solutions Division revenue for the year ended March 31, 2016 decreased \$10.5 million and divisional operating loss decreased \$0.4 million compared to the prior year. The decrease in revenue was primarily due to the disposition of the division in October 2015 and lower demand for our hospital-related products. The reduction in divisional operating loss and improvement in operating results is due mostly to a decrease in selling, general and administrative expenses associated with a decline in divisional headcount.

Hospital Solutions Division revenue for the year ended March 31, 2015 increased \$2.4 million and divisional operating income increased \$5.9 million compared to the year ended March 31, 2014 . Revenue was positively impacted by an increase in software license and hardware revenue related to lower sales returns and related reserves related to our significant efforts to successfully resolve certain product-related issues with our clients. The increase in divisional operating income is primarily related to an improvement in gross margins to 27.1% in the year ended March 31, 2015 compared to (10.1%) negative gross margins in the year ended March 31, 2014 , which is attributed mostly reductions in professional services headcount and associated compensation expense.

#### **Corporate and unallocated**

The major components of the corporate and unallocated amounts are summarized in the table below (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Research and development costs, net	\$ 65,661	\$ 69,240	\$ 41,524
Amortization of capitalized software costs	9,891	12,817	12,338
Marketing expense	13,490	11,913	10,123
Loss on disposition of Hospital Solutions Division	1,366	—	—
Impairment of assets	32,238	—	25,971
Other corporate and overhead costs	75,313	70,135	60,569
<b>Total corporate and unallocated</b>	<b>\$ 197,959</b>	<b>\$ 164,105</b>	<b>\$ 150,525</b>

The amounts classified as corporate and unallocated consist primarily of corporate general and administrative costs, non-recurring acquisition and transaction-related costs, recurring post-acquisition amortization of certain acquired intangible assets and amortization of capitalized software costs, as well as costs of other centrally managed overhead and shared-services functions, including accounting and finance, human resources, marketing, legal, and research and development, that are not controlled by segment level leadership. Although the segments may derive direct benefits as a result of such costs, our chief

decision making group evaluates performance based upon stand-alone segment operating income, which excludes these corporate and unallocated amounts.

Effective April 1, 2015, as part of our ongoing efforts to refine the measurement of our segment data to better reflect an organizational structure whereby certain expenses managed by functional area leadership are no longer classified within the operating segments but rather as a component of corporate and unallocated, we no longer classify certain costs within the information services and credit granting and collections functional areas, such as bad debt expense and other information services related general and administrative costs, within the operating segments. Such classification is consistent with the disaggregated financial information used by our chief decision making group. We have retroactively reclassified the prior years' operating income in the table above to present all segment information on a comparable basis.

Corporate and unallocated expense for the year ended March 31, 2016 increased \$33.9 million compared to the prior year. The net increase in corporate and unallocated expense is due to a \$1.6 million increase in marketing expense, a \$1.4 million loss on the disposition of the Hospital Solutions Division, a \$32.2 million impairment charge related to previously capitalized software development costs for the NextGen Now development project, and a \$5.2 million increase in other corporate and overhead costs, offset by a \$3.6 million decrease in net research and development costs and a \$2.9 million decrease in amortization of capitalized software costs. The increase in marketing is due to higher cost associated with conferences and conventions and increased utilization of online advertising and media placement services. The increase in other corporate and overhead costs is primarily due an increase in amortization of acquired intangible assets and transaction costs associated with the acquisition of HealthFusion, an increase selling, general, and administrative salaries and benefits, and higher bad debt expense and corporate consulting costs, offset by a decrease in legal expenses associated mostly with shareholder litigation defense costs (net of insurance recoveries).

Corporate and unallocated expense for the year ended March 31, 2015 increased \$13.6 million compared to the year ended March 31, 2014 . The net increase in corporate and unallocated expense is due to a \$27.7 million increase in net research and development costs, a \$0.5 million increase in amortization of capitalized software costs, a \$1.8 million increase in marketing expense, and a \$9.6 million decrease in other corporate and overhead costs, offset by the \$26.0 million Hospital Solutions Division impairment charge recorded in the year ended March 31, 2014 . The increase in marketing is due to higher headcount and associated compensation expense and increased utilization of online advertising and media placement services. The increase in other corporate and overhead costs is primarily due higher in salaries and benefits, legal expense related to shareholder litigation defense, and acquisition related costs. As noted above, we experienced a significant increase in bad debt expense for the year ended March 31, 2016 because our aggressive working capital management and improved collections in the prior year resulted in a significant decrease to accounts receivable, a decline in DSO, and lower bad debt expense in the prior year relative to previous periods.

Refer to the "Research and Development, net" section above for further discussion and analysis on research and development costs and amortization of capitalized software costs.

## Liquidity and Capital Resources

The following table presents selected financial statistics and information for the years ended March 31, 2016 , 2015 and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Cash and cash equivalents and marketable securities	\$ 36,473	\$ 130,585	\$ 113,801
Unused portion of revolving credit agreement <sup>(1)</sup>	\$ 145,000	\$ —	\$ —
<b>Total liquidity</b>	<b>\$ 181,473</b>	<b>\$ 130,585</b>	<b>\$ 113,801</b>
Net income	\$ 5,657	\$ 27,332	\$ 15,680
Net cash provided by operating activities	\$ 40,796	\$ 82,758	\$ 104,051

(1) As of March 31, 2016 , we had our outstanding loans of \$105.0 million under our \$250.0 million revolving credit agreement.

**Cash Flows from Operating Activities**

The following table summarizes our consolidated statements of cash flows for the years ended March 31, 2016 , 2015 and 2014 (in thousands):

	Fiscal Year Ended March 31,		
	2016	2015	2014
Net income	\$ 5,657	\$ 27,332	\$ 15,680
Non-cash expenses	81,013	23,546	54,791
Cash from net income (as adjusted)	86,670	50,878	70,471
Change in assets and liabilities	(45,874)	31,880	33,580
Net cash provided by operating activities	\$ 40,796	\$ 82,758	\$ 104,051

Refer to the "Net Income" section above for additional details regarding the fluctuations in net income. Also, as noted above we recorded non-cash impairment charges of \$32.2 million and \$26.0 million in the years ended March 31, 2016 and March 31, 2014, respectively, which were the primary drivers of the changes in non-cash expenses shown in the table above.

For the year ended March 31, 2016 , cash provided by operating activities declined \$42.0 million compared to prior year, 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.

Although net cash provided by operating activities for the year ended March 31, 2016 declined compared to the prior year, cash provided by operating activities has historically been, and is expected to continue to be, our primary source of cash, driven by our net income and working capital management.

Net cash provided by operating activities for the year ended March 31, 2015 decreased by \$21.3 million as compared to the year ended March 31, 2014. The decrease was primarily due to a \$32.8 million decline in cash attributable to changes in accounts receivable resulting from a substantial decline in accounts receivable in the prior year due to improved collections and aggressive working capital management and a \$19.6 million decline in cash attributable to net income excluding non-cash expenses resulting mostly from the Hospital Solutions Division impairment charge recorded in the prior year period, offset by changes in income taxes receivable and payable.

**Cash Flows from Investing Activities**

Net cash used in investing activities for the years ended March 31, 2016 , 2015 and 2014 was \$190.4 million , \$24.5 million and \$63.7 million , respectively. The \$165.9 million increase in net cash used in investing activities for the year ended March 31, 2016 compared to the prior year is primarily due to the \$163.8 million of cash paid (net of cash acquired) for the acquisition of HealthFusion in January 2016, a \$7.5 million increase in additions to equipment and improvements, \$0.1 million increase in additions to capitalized software, offset by a \$3.2 million net increase in cash due to purchases, sales, and maturities of marketable securities and \$2.3 million in cash paid for the acquisition of Gennius in the prior year.

The \$39.1 million decrease in net cash used in investing activities for the year ended March 31, 2015 as compared to the prior year period is primarily due to the \$35.0 million of cash paid for the acquisition of Mirth in the prior year, a \$6.2 million decrease in additions to capitalized software, a \$3.3 million decrease in purchases of marketable securities, partially offset by a \$4.4 million decrease in proceeds from the sales and maturities of marketable securities.

**Cash Flows from Financing Activities**

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 and 2014 was \$42.4 million and \$43.2 million , respectively. The increase in cash flows from financing activities during the year ended March 31, 2016 compared to the prior year 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.

In addition, during the year ended March 31, 2016 , we received proceeds of \$1.0 million from issuance of shares under employee plans and paid \$42.9 million in dividends to shareholders. In comparison, we received proceeds of \$0.4 million from issuance of shares under employee plans and paid \$42.8 million in dividends to shareholders during the year ended March 31, 2015 compared to proceeds of \$2.2 million from issuance of shares under employee plans, payment of \$42.2 million in dividends to shareholders, and payment of \$3.4 million in contingent consideration during the year ended March 31, 2014.

**Cash and Cash Equivalents and Marketable Securities**

As of March 31, 2016, our combined cash, cash equivalents and marketable securities balance of \$36.5 million reflects a \$94.1 million decrease compared to the \$130.6 million comparable balance as of the prior year. This decrease primarily reflects: a) principal repayments on our revolving credit agreement; b) significant cash payments made in the current fiscal year related to fiscal 2015 accruals for incentive compensation plans and income taxes owing from such year; c) significant increases in cash used for investing activities, including cash paid for the acquisition of HealthFusion and additions to capitalized software costs and equipment and improvements; and d) our dividend payments during the year.

On January 4, 2016, we entered into a \$250.0 million revolving credit agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, and certain other lenders. The initial draw down on the Credit Agreement was approximately \$173.5 million and primarily used for the purposes of funding our acquisition of HealthFusion that was completed on the same date. Our outstanding loans under the Credit Agreement was \$105.0 million as of March 31, 2016, reflecting subsequent principal repayments from our cash on hand.

We may continue to use a portion of our funds as well as available financing from the 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. Our principal sources of liquidity are our cash, cash equivalents, and marketable securities, the Credit Agreement, as well as our cash generated from operations. 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. We currently maintain our cash 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.

Our future practice concerning the payment of dividends is uncertain. The 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. 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.

We believe that our cash, cash equivalents and marketable securities on hand at March 31, 2016, together with our cash flows from operations and liquidity provided by the Credit Agreement, will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months.

**Contractual Obligations**

The following table summarizes our significant contractual obligations at March 31, 2016 and the effect that such obligations are expected to have on our liquidity and cash in future periods:

Contractual Obligations	For the year ended March 31,						2022 and beyond
	Total	2017	2018	2019	2020	2021	
Operating lease obligations	\$ 70,414	\$ 8,773	\$ 9,863	\$ 8,903	\$ 7,936	\$ 7,909	\$ 27,030
Line of credit obligations <sup>(1)</sup>	105,000	—	—	—	—	105,000	—
Contingent consideration and other acquisition related liabilities (excluding share-based payments) <sup>(2)</sup>	15,700	15,700	—	—	—	—	—
<b>Total</b>	<b>\$ 191,114</b>	<b>\$ 23,973</b>	<b>\$ 10,363</b>	<b>\$ 8,903</b>	<b>\$ 7,936</b>	<b>\$ 112,909</b>	<b>\$ 27,030</b>

(1) As noted above, we entered into a \$250.0 million revolving credit agreement in January 2016, which had \$105 million in outstanding loans as of March 31, 2016. The revolving 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. Refer Note 9, "Line of Credit" of our notes to consolidated financial statements included elsewhere in this Report for additional details.

(2) In connection with the acquisition of HealthFusion, additional contingent consideration up to \$25.0 million in the form of a cash earnout may be paid in our fourth quarter of fiscal 2017, subject to HealthFusion achieving certain revenue targets through December 31, 2016. The fair value of the contingent consideration liability as of March 31, 2016 was \$15.0 million, and is included in the table above.

The deferred compensation liability as of March 31, 2016 was \$6.4 million, 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, 2016 was \$4.0 million, which is not included in the table above as the timing of expected payments is not readily 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.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

As of March 31, 2016 and March 31, 2015, we were subject to minimal market risk on our cash and investments as we maintained our balances 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.

As of March 31, 2016, we had \$105.0 million 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, 2016 would result in a corresponding change in our annual interest expense of approximately \$1.1 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, 2016 and March 31, 2015, we had foreign operations in India 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, 2016, 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 SEC. 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**

On January 4, 2016, we completed our acquisition of HealthFusion Holdings, Inc. ("HealthFusion"), now a wholly-owned subsidiary. In conducting our evaluation of the effectiveness of our internal controls over financial reporting as of March 31, 2016, we have elected to exclude HealthFusion from our evaluation for fiscal year 2016 as permitted under current SEC rules and regulations. HealthFusion assets and revenues not included in our evaluation represents 1.5% of consolidated assets and 1.8% of consolidated revenues as of and for the year ended March 31, 2016. We are currently in the process of integrating HealthFusion's historical internal controls over financial reporting with the rest of our company. The integration may lead to changes in future periods, but we do not expect these changes to materially affect our internal controls over financial reporting. We expect to complete this integration in fiscal year 2017.

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, 2016 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, 2016 .

The effectiveness of the Company's internal control over financial reporting as of March 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report contained in Item 15 of Part IV of this Report, "Exhibits and Financial Statement Schedules."

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

During the quarter ended March 31, 2016 , there were no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 is incorporated herein by reference from our definitive proxy statement for our 2016 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 2016 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 2016 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 2016 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 2016 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission.

**PART IV**

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

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

	<u>Page</u>
(1) Index to Financial Statements:	
Report of Independent Registered Public Accounting Firm	<a href="#">54</a>
Consolidated Balance Sheets as of March 31, 2016 and 2015	<a href="#">55</a>
Consolidated Statements of Comprehensive Income — Years Ended March 31, 2016, 2015 and 2014	<a href="#">56</a>
Consolidated Statements of Shareholders' Equity — Years Ended March 31, 2016, 2015 and 2014	<a href="#">57</a>
Consolidated Statements of Cash Flows — Years Ended March 31, 2016, 2015 and 2014	<a href="#">58</a>
Notes to Consolidated Financial Statements	<a href="#">59</a>
(2) The following supplementary financial statement schedule of Quality Systems, Inc., required to be included in Item 15(a)(2) on Form 10-K is filed as part of this Report.	
Schedule II — Valuation and Qualifying Accounts	<a href="#">85</a>
Schedules other than that listed above have been omitted since they are either not required, not applicable, or because the information required is included in the Consolidated Financial Statements or the notes thereto.	
(3) The exhibits listed in the Index to Exhibits hereof are attached hereto or incorporated herein by reference and filed as a part of this Report.	
Index to Exhibits	<a href="#">86</a>

## 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
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			

\* 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.

**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)

By: /s/ John K. Stumpf  
 John K. Stumpf  
 Principal Accounting Officer

Date: May 25, 2016

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Jeffrey H. Margolis</u> Jeffrey H. Margolis	Chairman of the Board and Director	May 25, 2016
<u>/s/ Craig A. Barbarosh</u> Craig A. Barbarosh	Vice Chairman of the Board and Director	May 25, 2016
<u>/s/ John R. Frantz</u> John R. Frantz	Chief Executive Officer (Principal Executive Officer) and Director	May 25, 2016
<u>/s/ James R. Arnold</u> James R. Arnold	Chief Financial Officer (Principal Financial Officer)	May 25, 2016
<u>/s/ John K. Stumpf</u> John K. Stumpf	Principal Accounting Officer	May 25, 2016
<u>/s/ George H. Bristol</u> George H. Bristol	Director	May 25, 2016
<u>/s/ James C. Malone</u> James C. Malone	Director	May 25, 2016
<u>/s/ Morris Panner</u> Morris Panner	Director	May 25, 2016
<u>/s/ D. Russell Pflueger</u> D. Russell Pflueger	Director	May 25, 2016
<u>/s/ Sheldon Razin</u> Sheldon Razin	Chairman Emeritus and Director	May 25, 2016

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Lance E. Rosenzweig

## Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows present fairly, in all material respects, the financial position of Quality Systems, Inc. and its subsidiaries at March 31, 2016 and March 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016 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 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, 2016, 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.

As discussed in Recent Accounting Standards in Note 2 to the consolidated financial statements, the Company changed the manner in which it classifies deferred taxes in the consolidated balance sheets due to the adoption of Accounting Standards Update 2015-17, *Balance Sheet Classification of Deferred Taxes*.

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.

As described in Item 9A - Management's Report on Internal Control over Financial Reporting, management has excluded HealthFusion Holdings, Inc. ("HealthFusion"), from its assessment of internal control over financial reporting as of March 31, 2016 because it was acquired by the Company in a purchase business combination during 2016. We have also excluded HealthFusion from our audit of internal control over financial reporting. HealthFusion is a wholly-owned subsidiary whose total assets and total revenues represent 1.5% and 1.8%, respectively, of the related consolidated financial statement amounts as of and for the year ended March 31, 2016.

/s/ PricewaterhouseCoopers LLP  
Orange County, California  
May 25, 2016



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

	March 31, 2016	March 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 27,176	\$ 118,993
Restricted cash and cash equivalents (Note 2)	5,320	2,419
Marketable securities	9,297	11,592
Accounts receivable, net (Note 10)	94,024	107,669
Inventory	555	622
Income taxes receivable	32,709	3,147
Prepaid expenses and other current assets	14,910	11,535
Total current assets	183,991	255,977
Equipment and improvements, net	25,790	20,807
Capitalized software costs, net	13,250	40,397
Deferred income taxes, net	8,198	30,197
Intangibles, net	91,675	27,689
Goodwill	188,837	73,571
Other assets	19,049	11,883
Total assets	\$ 530,790	\$ 460,521
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,126	\$ 10,018
Deferred revenue	57,935	66,343
Accrued compensation and related benefits	18,670	24,051
Income taxes payable	91	10,048
Dividends payable	—	10,700
Other current liabilities	50,238	33,924
Total current liabilities	138,060	155,084
Deferred revenue, net of current	1,335	1,349
Deferred compensation	6,357	5,750
Line of credit	105,000	—
Other noncurrent liabilities	10,661	14,798
Total liabilities	261,413	176,981
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock		
\$0.01 par value; authorized 100,000 shares; issued and outstanding 60,978 and 60,303 shares at March 31, 2016 and 2015, respectively	610	603
Additional paid-in capital	211,262	198,650
Accumulated other comprehensive loss	(481)	(192)
Retained earnings	57,986	84,479
Total shareholders' equity	269,377	283,540
Total liabilities and shareholders' equity	\$ 530,790	\$ 460,521

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

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

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Revenues:</b>			
Software license and hardware	\$ 70,523	\$ 81,649	\$ 79,366
Software related subscription services	55,403	44,592	27,335
Total software, hardware and related	125,926	126,241	106,701
Support and maintenance	165,200	169,219	160,060
Revenue cycle management and related services	83,006	74,237	62,976
Electronic data interchange and data services	82,343	76,358	67,295
Professional services	36,002	44,170	47,635
Total revenues	492,477	490,225	444,667
<b>Cost of revenue:</b>			
Software license and hardware	27,506	28,803	49,272
Software related subscription services	26,622	20,672	12,374
Total software, hardware and related	54,128	49,475	61,646
Support and maintenance	31,329	28,866	22,590
Revenue cycle management and related services	57,591	54,406	46,203
Electronic data interchange and data services	50,153	48,244	42,567
Professional services	32,414	42,173	47,157
Total cost of revenue	225,615	223,164	220,163
Gross profit	266,862	267,061	224,504
<b>Operating expenses:</b>			
Selling, general and administrative	156,234	158,172	149,214
Research and development costs, net	65,661	69,240	41,524
Amortization of acquired intangible assets	5,367	3,693	4,805
Impairment of assets	32,238	—	5,873
Total operating expenses	259,500	231,105	201,416
Income from operations	7,362	35,956	23,088
Interest income	428	111	269
Interest expense	(1,304)	(341)	—
Other expense, net	(166)	(62)	(356)
Income before provision for income taxes	6,320	35,664	23,001
Provision for income taxes	663	8,332	7,321
Net income	\$ 5,657	\$ 27,332	\$ 15,680
<b>Other comprehensive income:</b>			
Foreign currency translation, net of tax	(382)	(117)	(107)
Unrealized gain (loss) on marketable securities, net of tax	93	107	(64)
Comprehensive income	\$ 5,368	\$ 27,322	\$ 15,509
<b>Net income per share:</b>			
Basic	\$ 0.09	\$ 0.45	\$ 0.26
Diluted	\$ 0.09	\$ 0.45	\$ 0.26
<b>Weighted-average shares outstanding:</b>			
Basic	60,635	60,259	59,918
Diluted	61,233	60,849	60,134
Dividends declared per common share	\$ 0.525	\$ 0.70	\$ 0.70

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

**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, 2013	59,543	\$ 595	\$ 179,743	\$ 126,722	\$ (11)	\$ 307,049
Common stock issued under stock plans, net of shares withheld for employee taxes	167	2	2,199	—	—	2,201
Common stock issued for earnout settlement	62	1	1,375	—	—	1,376
Common stock issued for acquisitions	434	4	9,269	—	—	9,273
Tax deficiency resulting from exercise of stock options	—	—	(337)	—	—	(337)
Stock-based compensation	—	—	2,490	—	—	2,490
Dividends declared	—	—	—	(42,471)	—	(42,471)
Components of other comprehensive loss:						
Unrealized loss on marketable securities	—	—	—	—	(64)	(64)
Translation adjustments	—	—	—	—	(107)	(107)
Net income	—	—	—	15,680	—	15,680
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 employee taxes	79	1	383	—	—	384
Common stock issued for earnout settlement	18	—	284	—	—	284
Tax deficiency resulting from exercise of stock options	—	—	(228)	—	—	(228)
Stock-based compensation	—	—	3,472	—	—	3,472
Dividends declared	—	—	—	(42,784)	—	(42,784)
Components of other comprehensive 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 employee taxes	241	3	989	—	—	992
Common stock issued for settlement of contingent consideration	434	4	9,269	—	—	9,273
Tax deficiency resulting from exercise of stock options	—	—	(941)	—	—	(941)
Stock-based compensation	—	—	3,295	—	—	3,295
Dividends declared	—	—	—	(32,150)	—	(32,150)
Components of other comprehensive 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

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

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

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Cash flows from operating activities:</b>			
Net income	\$ 5,657	\$ 27,332	\$ 15,680
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation	8,834	9,323	8,069
Amortization of capitalized software costs	9,891	12,817	12,338
Amortization of other intangibles	11,014	7,127	8,330
Amortization of debt issuance costs	258	—	—
Loss on disposal of equipment and improvements	205	51	192
Provision for bad debts	3,573	855	1,467
Provision for inventory obsolescence	48	25	—
Share-based compensation	3,295	3,472	2,490
Deferred income taxes	10,030	(12,061)	(3,984)
Excess tax benefit from share-based compensation	—	—	(183)
Change in fair value of contingent consideration	261	1,937	101
Loss on disposition of Hospital Solutions Division	1,366	—	—
Impairment of assets	32,238	—	25,971
<b>Changes in assets and liabilities, net of amounts acquired:</b>			
Accounts receivable	9,929	4,744	37,461
Inventory	17	187	(81)
Accounts payable	(271)	1,281	(4,170)
Deferred revenue	(8,390)	(5,610)	1,036
Accrued compensation and related benefits	(5,914)	8,098	4,038
Income taxes	(40,471)	18,178	(9,227)
Deferred compensation	607	941	1,000
Other assets and liabilities	(1,381)	4,061	3,523
<b>Net cash provided by operating activities</b>	<b>40,796</b>	<b>82,758</b>	<b>104,051</b>
<b>Cash flows from investing activities:</b>			
Additions to capitalized software costs	(14,675)	(14,601)	(20,784)
Additions to equipment and improvements	(14,013)	(6,531)	(7,934)
Proceeds from sales and maturities of marketable securities	8,795	11,077	15,475
Purchases of marketable securities	(6,637)	(12,123)	(15,386)
Purchase of Mirth	—	—	(35,033)
Purchase of Gennius	—	(2,345)	—
Purchase of HealthFusion, net of cash acquired	(163,843)	—	—
<b>Net cash used in investing activities</b>	<b>(190,373)</b>	<b>(24,523)</b>	<b>(63,662)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from line of credit	173,509	—	—
Principal repayments on line of credit	(68,509)	—	—
Excess tax benefit from share-based compensation	—	—	183
Proceeds from issuance of shares under employee plans	992	383	2,200
Dividends paid	(42,850)	(42,770)	(42,203)
Payment of debt issuance costs	(5,382)	—	—
Payment of contingent consideration related to acquisitions	—	—	(3,423)
<b>Net cash provided by (used in) financing activities</b>	<b>57,760</b>	<b>(42,387)</b>	<b>(43,243)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(91,817)</b>	<b>15,848</b>	<b>(2,854)</b>
Cash and cash equivalents at beginning of period	118,993	103,145	105,999
<b>Cash and cash equivalents at end of period</b>	<b>\$ 27,176</b>	<b>\$ 118,993</b>	<b>\$ 103,145</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**  
(In thousands)

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the period for income taxes, net of refunds	\$ 30,902	\$ 2,523	\$ 20,443
Cash paid for interest	781	—	—
Common stock issued for settlement of share-based contingent consideration	\$ 9,273	\$ —	\$ —
<b>Non-cash investing and financing activities:</b>			
Tenant improvement allowance from landlord	\$ 2,933	\$ —	\$ —
Dividends declared but not paid	\$ —	\$ 10,700	\$ 10,686
Unpaid additions to equipment and improvements	295	849	419
<b>On January 4, 2016, we acquired HealthFusion in a transaction summarized as follows:</b>			
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	\$ —	\$ —
<b>On March 11, 2015, we acquired Gennius in a transaction summarized as follows:</b>			
Fair value of net assets acquired	\$ —	\$ 2,571	\$ —
Cash paid	—	(2,345)	—
Liabilities assumed	\$ —	\$ 226	\$ —
<b>On September 9, 2013, we acquired Mirth in a transaction summarized as follows:</b>			
Fair value of net assets acquired	\$ —	\$ —	\$ 62,787
Cash paid	—	—	(35,033)
Common stock issued at fair value	—	—	(7,882)
Fair value of contingent consideration	—	—	(13,307)
Liabilities assumed	\$ —	\$ —	\$ 6,565

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

**QUALITY SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2016 and 2015**

(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 United States based ambulatory care market. 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 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 and 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 Hospital Solutions Division.

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 website is located at [www.Nextgen.com](http://www.Nextgen.com). We operate on a fiscal year ending on March 31.

## 2. Summary of Significant Accounting Policies

**Principles of Consolidation.** The consolidated financial statements include the accounts of Quality Systems, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All intercompany balances and transactions have been eliminated. HealthFusion is included in the accompanying consolidated financial statements from the date of acquisition. Hospital Solutions Division is included in the accompanying consolidated financial statements through the date of disposition. See Note 5 for additional details.

**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. See Note 15.

**Basis of Presentation.** Beginning in the first quarter of fiscal 2016, we presented certain components of revenue within the consolidated statements of comprehensive income in a format intended to group like-kind products and services and disaggregate the other services category of revenue, which has continued to comprise a larger percentage of total revenue. More specifically, the primary changes to the presentation of revenue included:

- Revenue from software-as-a-service (SaaS), hosting services, and other software related subscriptions are now aggregated into a new software related subscription services category of revenue. Previously, revenue from software related subscriptions services was reported within the other services category of revenue.
- Revenue from annual software licenses that was also previously reported within the other services category of revenue is now reported within the software license and hardware category of revenue.
- Revenue from all other services, including implementation, training, and consulting, are now aggregated into a single professional services category of revenue that excludes software related subscription services and annual software licenses, as noted above.

Each of the corresponding components of cost of revenue has also been revised in a manner that is consistent with the new presentation of revenue described above.

For informational and comparability purposes, we have recast our previously reported consolidated statements of comprehensive income to provide historical information on a basis consistent with the new reporting format of revenue and cost of revenue. The reclassification of revenue and cost of revenue within the consolidated statements of comprehensive income has no impact on previously reported net income or earnings per share and no impact on the previously reported consolidated balance sheets, statements of stockholders' equity, and statements of cash flow.

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.

**Out-of-Period Adjustment.** In the quarter ended March 31, 2016, we recorded an out-of-period adjustment of \$1,396 to increase software license and hardware revenue. Approximately \$467 of the adjustment originated in periods prior to the beginning of fiscal 2016 and \$929 of the adjustment originated in the quarterly interim periods comprising the nine months ended December 31, 2015. We believe that these adjustments were not material to any current, prior interim, or annual periods that were affected.

**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, 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 our largest 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 with 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 comprehensive income.

**Cash and Cash Equivalents.** Cash and cash equivalents generally consist of cash, money market funds and short-term U.S. Treasury securities with maturities of 90 days or less at the time of purchase. We had cash deposits held at U.S. banks and financial institutions at March 31, 2016 of which \$26,017 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.

Any money market funds in which we hold a portion of our excess cash invest in only 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 (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 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 3-5 years
- Furniture and fixtures 3-7 years
- Leasehold improvements lesser of lease term or estimated useful life of asset

**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 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.

For the year ended March 31, 2016, we determined that our previously capitalized software costs related to our NextGen Now development project was not recoverable and recorded a \$32,238 non-cash impairment charge. 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 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.

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, 2015. 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, 2016 and March 31, 2015, 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, 2016 and March 31, 2015.

**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 \$7,890, \$7,079 and \$5,600 for the years ended March 31, 2016, 2015 and 2014, respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income.

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

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Earnings per share — Basic:</b>			
Net income	\$ 5,657	\$ 27,332	\$ 15,680
Weighted-average shares outstanding — Basic	60,635	60,259	59,918
Net income per common share — Basic	\$ 0.09	\$ 0.45	\$ 0.26
<b>Earnings per share — Diluted:</b>			
Net income	\$ 5,657	\$ 27,332	\$ 15,680
Weighted-average shares outstanding	60,635	60,259	59,918
Effect of potentially dilutive securities	598	590	216
Weighted-average shares outstanding — Diluted	61,233	60,849	60,134
Net income per common share — Diluted	\$ 0.09	\$ 0.45	\$ 0.26

The computation of diluted net income per share does not include 1,926, 1,656 and 1,355 options for the years ended March 31, 2016, 2015 and 2014, respectively, because their inclusion would have an anti-dilutive effect on net income per share.

**Share-Based Compensation.** 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 comprehensive income.

Share-based compensation is adjusted on a monthly basis for changes to estimated forfeitures based on a review of historical forfeiture activity. To the extent that actual forfeitures differ, or are expected to differ, from the estimate, share-based compensation expense is adjusted accordingly. The effect of the forfeiture adjustments for years ended March 31, 2016, 2015 and 2014 was not significant.

Share-based compensation expense associated with restricted performance shares with market conditions under our executive compensations plans 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.

See Note 13 for additional details regarding our share-based awards.

The following table shows total share-based compensation expense included in the consolidated statements of comprehensive income for years ended March 31, 2016, 2015 and 2014 :

	Fiscal Year Ended March 31,		
	2016	2015	2014
Costs and expenses:			
Cost of revenue	\$ 404	\$ 373	\$ 348
Research and development costs	318	396	323
Selling, general and administrative	2,573	2,703	1,819
Total share-based compensation	3,295	3,472	2,490
Income tax benefit	(1,018)	(1,054)	(794)
Decrease in net income	\$ 2,277	\$ 2,418	\$ 1,696

**Recent Accounting Standards.** Recent accounting pronouncements implemented during the current year or requiring implementation in future periods are discussed below or in the notes, where applicable.

In March 2016, the FASB issued Accounting Standards Update No. 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 are currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, " *Leases (Topic 842)* " ("ASU 2016-02"), which is intended to improve financial reporting about leasing transactions. The new guidance will require entities that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those 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 2019. We are currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We elected to early adopt this standard in the fourth quarter of fiscal 2016 on a retrospective basis. Prior periods have been retrospectively adjusted. The retrospective adoption of ASU 2015-17 resulted in the reclassification of our consolidated balance sheet as of March 31, 2015, for presentation purposes only, in which \$24,080 of current deferred tax assets were reclassified to noncurrent deferred tax assets.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"), which eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 is effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. This guidance is effective for us for the quarter ending March 31, 2016. The adoption of this new standard did not have material impact on our consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which replaces the concept of subsequently measuring inventory at 'lower of cost or market' with that of 'lower of cost and net realizable value'. The guidance only applies to inventories for which cost is determined by methods other than last-in first-out (LIFO) and the retail inventory method (RIM). ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. This guidance is effective for us for fiscal year ending March 31, 2018. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 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. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which requires debt issuance costs to be presented as a deduction from the corresponding debt liability, which is consistent with the presentation of debt discounts or premiums. Given that ASU 2015-03 did not provide direct, authoritative guidance related to accounting for debt issuance costs associated with line-of-credit arrangements, the FASB issued Accounting Standards Update No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU 2015-15") in August 2015. ASU 2015-15 states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance should be applied retrospectively and is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted. We elected to early adopt this standard in the fourth quarter of fiscal 2016 and have recorded debt issuance costs related to our revolving credit agreement within other assets on the consolidated balance sheet as of March 31, 2016.

In August 2014, the FASB issued Accounting Standards Update No. 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 annual reporting periods ending after December 15, 2016, and all annual and interim periods thereafter. Early adoption is permitted. ASU 2014-15 is effective for us for fiscal year ending March 31, 2017. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB, along with the International Accounting Standards Board, issued Accounting Standards Update No. 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 standard also requires additional disclosure about revenue and provides improved guidance for multiple element arrangements. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, based on the July 2015 decision and issuance of Accounting Standards Update No. 2015-14, *Deferral of Effective Date* ("ASU 2015-14") by the FASB to delay the effective date by one year. Companies are permitted to adopt this new guidance following either a full retrospective or modified retrospective approach. ASU 2014-09 is effective for us in the first quarter of fiscal 2019. We are currently in the process of evaluating the potential impact of implementation of this updated authoritative guidance on our consolidated financial statements.

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

### 3. Cash and Cash Equivalents

At March 31, 2016 and March 31, 2015, we had cash and cash equivalents of \$27,176 and \$118,993, respectively. Cash and cash equivalents consist of cash, money market funds and short-term U.S. Treasury securities with original maturities of less than 90 days.

#### 4. Fair Value Measurements

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2016 and March 31, 2015 :

	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)
<b>ASSETS</b>				
Cash and cash equivalents <sup>(1)</sup>	\$ 27,176	\$ 27,176	\$ —	\$ —
Restricted cash and cash equivalents	5,320	5,320	—	—
Marketable securities <sup>(2)</sup>	9,297	9,297	—	—
	<u>\$ 41,793</u>	<u>\$ 41,793</u>	<u>\$ —</u>	<u>\$ —</u>
<b>LIABILITIES</b>				
Contingent consideration related to acquisitions	\$ 23,843	—	\$ —	\$ 23,843
	<u>\$ 23,843</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23,843</u>
	Balance at March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>ASSETS</b>				
Cash and cash equivalents <sup>(1)</sup>	\$ 118,993	\$ 118,993	\$ —	\$ —
Restricted cash and cash equivalents	2,419	2,419	—	—
Marketable securities <sup>(2)</sup>	11,592	11,592	—	—
	<u>\$ 133,004</u>	<u>\$ 133,004</u>	<u>\$ —</u>	<u>\$ —</u>
<b>LIABILITIES</b>				
Contingent consideration related to acquisitions	\$ 16,155	—	\$ —	\$ 16,155
	<u>\$ 16,155</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,155</u>

(1) Cash equivalents consist of money market funds.

(2) Marketable securities consist of money market instruments and fixed-income securities, including certificates of deposit, corporate bonds and notes, and municipal securities.

Our contingent consideration liabilities relates primarily to the acquisitions of Mirth and HealthFusion. We assess the fair value of contingent consideration liabilities on a recurring basis and any adjustments to fair value subsequent to the measurement period are reflected in the consolidated statements of comprehensive income. Key assumptions include discount rates and probability-adjusted achievement estimates of certain revenue and strategic targets that are not observable in the market. The categorization of the framework used to measure fair value of the contingent consideration liability is considered Level 3 due to the subjective nature of the unobservable inputs used.

The following table presents activity in the Company's financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3), as of March 31, 2016 :

	Total Liabilities
Balance at March 31, 2014	\$ 14,913
Earnout payments	(695)
Fair value adjustments, net	1,937
Balance at March 31, 2015	<u>\$ 16,155</u>
Acquisitions (Note 5)	16,700
Settlement of share-based contingent consideration	(9,273)
Fair value adjustments, net	261
Balance at March 31, 2016	<u>\$ 23,843</u>

During the year ended March 31, 2016, we issued shares of common stock to settle \$9,273 in contingent consideration liabilities related to Mirth. We also recorded net fair value adjustments to contingent consideration liabilities of \$261, consisting of \$1,961 in fair value adjustments related to Mirth, offset by a \$1,700 decrease in fair value related to HealthFusion.

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

The Company has 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 Level 3 due to the subjective nature of the unobservable inputs used. During the year ended March 31, 2016, we recorded a \$58 adjustment to Gennius goodwill based on additional information that became available during the measurement period about certain liabilities that had existed as of the acquisition date, and recorded additional goodwill and intangible assets in connection with the acquisition of HealthFusion (see Note 5).

## **5. Business Combinations and Disposals**

### **Acquisition of HealthFusion**

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 preliminary purchase price totaled \$183,049, which includes preliminary 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 estimated using a Monte Carlo-based valuation model that considered, among other assumptions and inputs, our estimate of projected HealthFusion revenues.

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 preliminary purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their preliminary estimated fair values as of the acquisition date. The preliminary fair values of acquired assets and liabilities assumed represent management's estimate of fair value and are subject to change if additional information, such as changes to deferred taxes and/or working capital, becomes available. We expect to finalize the purchase price allocation as soon as practicable within the measurement period, but not later than one year following the acquisition date.

The preliminary 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 preliminary amount of goodwill represents the excess of the preliminary purchase price over the preliminary net identifiable assets acquired and liabilities assumed. Goodwill primarily represents, among other factors, the value of synergies expected to be realized and the assemblage of all assets that enable us to create new client relationships, neither of which qualify as separate amortizable intangible assets. Goodwill arising from the acquisition of HealthFusion was determined as the excess of the preliminary 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 the NextGen Division.

We incurred \$3,217 in acquisition-related transaction costs, which are included in selling, general, and administrative expense on our consolidated statements of comprehensive income for the year ended March 31, 2016.

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

Initial purchase price	\$	165,000
Contingent consideration		16,700
Preliminary working capital and other adjustments		1,349
Total preliminary purchase price	\$	<u>183,049</u>

	January 4, 2016
Preliminary 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	(12,027)
Other liabilities	(2,721)
<b>Total preliminary net tangible assets acquired and liabilities assumed</b>	<b>(7,275)</b>
Preliminary fair value of identifiable intangible assets acquired:	
Software technology	42,500
Customer relationships	28,500
Trade name	4,000
Goodwill	115,324
<b>Total preliminary identifiable intangible assets acquired</b>	<b>190,324</b>
<b>Total preliminary purchase price</b>	<b>\$ 183,049</b>

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 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 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 preliminary loss on the Hospital disposition of \$1,366 in the year ended March 31, 2016 , which was recorded in our consolidated statements of 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 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 comprehensive income as a component of selling, general and administrative expense.

Pursuant to the Purchase Agreement, the initial purchase price is subject to certain purchase price adjustments for changes in Net Tangible Assets (as defined in the Purchase Agreement) and future collections of the assigned accounts receivable through July 2016. Accordingly, the preliminary loss on the Hospital disposition may change.

#### **Acquisition of Gennius**

On March 11, 2015, the Company acquired Gennius, a leading provider of healthcare data analytics. The Gennius purchase price totaled \$2,345. We accounted for the Gennius acquisition as a purchase business combination. 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. Goodwill arising from the acquisition of Gennius 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. The Gennius goodwill represents the expected future synergies resulting from the integration of the Gennius healthcare data analytics technology, which will enhance our current enterprise analytics competencies and broaden our business intelligence capabilities for addressing new value-based care requirements. Gennius operates under the NextGen Division.

During the year ended March 31, 2016, we recorded a \$58 adjustment to goodwill based on additional information that became available during the measurement period about certain liabilities that had existed as of the acquisition date.

The following table summarizes the purchase price allocation for the Gennius acquisition:

	March 11, 2015
Fair value of the net tangible assets acquired and liabilities assumed:	
Other assets	\$ 4
Deferred revenues	(37)
Other liabilities	(131)
Total net tangible assets acquired and liabilities assumed	(164)
Fair value of identifiable intangible assets acquired:	
Software technology	1,800
Goodwill	709
Total identifiable intangible assets acquired	2,509
Total purchase price	\$ 2,345

The actual results to date and pro forma effects of the Gennius acquisition would not have been material to our results of operations and are therefore not presented.



## 6. Goodwill

We do not amortize goodwill as it has been determined to have an indefinite useful life. Goodwill by reporting unit consists of the following:

	March 31, 2015	March 31, 2016
NextGen Division	\$ 33,992	\$ 149,258
RCM Services Division	32,290	32,290
QSI Dental Division <sup>(1)</sup>	7,289	7,289
Total goodwill	<u>\$ 73,571</u>	<u>\$ 188,837</u>

(1) QSI Dental Division goodwill is presented on a basis consistent with that of our management reporting structures. However, for the purposes of assessing goodwill for impairment annually and as otherwise may be required, the QSI Dental Division goodwill is allocated to the reporting units that derive cash flows from the products associated with the acquired goodwill. For all periods presented in this report, the allocation resulted in substantially all of the QSI Dental Division goodwill being ascribed to the NextGen Division.

## 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.

In connection with the Gennius acquisition, we recorded \$1,800 of intangible assets related to software technology (see Note 5 for additional information). We are amortizing the Gennius software technology over 10 years. The weighted average amortization period for the total amount of intangible assets acquired is 10 years .

Our acquired intangible assets are summarized as follows:

	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	<u>\$ 30,932</u>	<u>\$ 4,473</u>	<u>\$ 56,270</u>	<u>\$ 91,675</u>

	March 31, 2015			
	Customer Relationships	Trade Name and Contracts	Software Technology	Total
Gross carrying amount	\$ 22,050	\$ 3,368	\$ 25,310	\$ 50,728
Accumulated amortization	(14,986)	(2,159)	(5,894)	(23,039)
Net intangible assets	<u>\$ 7,064</u>	<u>\$ 1,209</u>	<u>\$ 19,416</u>	<u>\$ 27,689</u>

Amortization expense related to customer relationships and trade name and contracts recorded as operating expenses in the consolidated statements of comprehensive income was \$5,368 , \$3,709 and \$4,671 for the years ended March 31, 2016 , 2015 and 2014 , respectively. Amortization expense related to software technology recorded as cost of revenue was \$5,646 , \$3,418 and \$3,659 for the years ended March 31, 2016 , 2015 and 2014 , respectively.

The following table represents the remaining estimated amortization of acquired intangible assets as of March 31, 2016 :

For the year ended March 31,	
2017	\$ 22,462
2018	19,115
2019	16,703
2020	15,706
2021	10,974
2022 and beyond	\$ 6,715
Total	<u>\$ 91,675</u>

### 8. Capitalized Software Costs

Our capitalized software development costs are summarized as follows:

	March 31, 2016	March 31, 2015
Gross carrying amount	\$ 96,699	\$ 113,955
Accumulated amortization	(83,449)	(73,558)
Net capitalized software costs	<u>\$ 13,250</u>	<u>\$ 40,397</u>

Amortization expense related to capitalized software costs recorded as cost of revenue in the consolidated statements of comprehensive income was \$9,891 , \$12,817 and \$12,338 for the years ended March 31, 2016 , 2015 and 2014 , respectively.

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 comprehensive income. The impairment relates to our 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, nor is it expected to result in, any cash expenditures. 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 have determined that the MediTouch platform offers the most efficient path to providing a high-quality, robust, cloud-based solution for ambulatory care. Accordingly, we have decided to cease further investment in NextGen Now and immediately discontinue all efforts to use or repurpose the NextGen Now platform.

The following table represents the remaining estimated amortization of capitalized software costs as of March 31, 2016 . 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,	
2017	\$ 7,200
2018	2,900
2019	2,200
2020	950
Total	<u>\$ 13,250</u>

### 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 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. The revolving loans under the Credit Agreement will be available for letters of credit, working capital and general corporate purposes.

As of March 31, 2016, we had \$105,000 in outstanding loans and \$145,000 of unused credit under the Credit Agreement. Total interest expense incurred during the year ended March 31, 2016 was \$969. The interest rate as of March 31, 2016 was approximately 2.4% and the weighted average interest rate for the year ended March 31, 2016 was approximately 3.2%.

**Debt Issuance Costs**

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. Total amortization of deferred debt issuance costs for the year ended March 31, 2016 was \$258.

**10. Composition of Certain Financial Statement Captions**

Accounts receivable include amounts invoiced but not yet rendered 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, 2016	March 31, 2015
Accounts receivable, gross	\$ 104,467	\$ 119,807
Sales return reserve	(7,541)	(8,835)
Allowance for doubtful accounts	(2,902)	(3,303)
Accounts receivable, net	<u>\$ 94,024</u>	<u>\$ 107,669</u>

Inventory is summarized as follows:

	March 31, 2016	March 31, 2015
Computer systems and components	\$ 555	\$ 622

Prepaid expenses and other current assets are summarized as follows:

	March 31, 2016	March 31, 2015
Prepaid expenses	\$ 11,804	\$ 9,941
Other current assets	3,106	1,594
Prepaid expenses and other current assets	<u>\$ 14,910</u>	<u>\$ 11,535</u>

Equipment and improvements are summarized as follows:

	March 31, 2016	March 31, 2015
Computer equipment	\$ 32,213	\$ 35,672
Internal-use software	10,201	6,996
Furniture and fixtures	9,799	10,408
Leasehold improvements	13,408	9,767
	<u>65,621</u>	<u>62,843</u>
Accumulated depreciation and amortization	(39,831)	(42,036)
Equipment and improvements, net	<u>\$ 25,790</u>	<u>\$ 20,807</u>

Other assets are summarized as follows:

	March 31, 2016	March 31, 2015
Cash surrender value of life insurance policies	\$ 7,155	\$ 6,004
Deferred debt issuance costs, net	5,124	—
Deposits	4,951	3,365
Other deferred costs	1,819	2,514
Other assets	<u>\$ 19,049</u>	<u>\$ 11,883</u>

The current portion of deferred revenues are summarized as follows:

	March 31, 2016	March 31, 2015
Professional services	\$ 23,128	\$ 30,340
Software license, hardware and other	14,913	17,638
Support and maintenance	11,902	15,077
Software related subscription services	7,992	3,288
Deferred revenue, current	<u>\$ 57,935</u>	<u>\$ 66,343</u>

Accrued compensation and related benefits are summarized as follows:

	March 31, 2016	March 31, 2015
Payroll, bonus and commission	\$ 9,683	\$ 13,505
Vacation	8,987	10,546
Accrued compensation and related benefits	<u>\$ 18,670</u>	<u>\$ 24,051</u>

Other current and non-current liabilities are summarized as follows:

	March 31, 2016	March 31, 2015
Contingent consideration and other liabilities related to acquisitions	\$ 24,153	\$ 9,124
Care services liabilities	5,339	2,381
Customer credit balances and deposits	4,123	4,760
Accrued consulting	3,650	2,603
Accrued EDI expense	2,382	2,322
Accrued royalties	2,341	2,063
Self insurance reserve	1,862	2,290
Accrued legal expense	864	3,527
Other accrued expenses	5,524	4,854
Other current liabilities	<u>\$ 50,238</u>	<u>\$ 33,924</u>
Contingent consideration and other liabilities related to acquisitions	\$ —	\$ 7,581
Deferred rent	6,577	3,122
Uncertain tax position and related liabilities	4,084	4,095
Other noncurrent liabilities	<u>\$ 10,661</u>	<u>\$ 14,798</u>

## 11. Income Tax

The provision for income taxes consists of the following components:

	Fiscal Year Ended March 31,		
	2016	2015	2014
Current:			
Federal taxes	\$ (9,338)	\$ 18,055	\$ 8,673
State taxes	(403)	1,887	2,380
Foreign taxes	374	262	252
Total current taxes	<u>(9,367)</u>	<u>20,204</u>	<u>11,305</u>
Deferred:			
Federal taxes	\$ 10,474	\$ (9,804)	\$ (2,894)
State taxes	(100)	(1,771)	(897)
Foreign taxes	(344)	(297)	(193)
Total deferred taxes	<u>10,030</u>	<u>(11,872)</u>	<u>(3,984)</u>
Provision for income taxes	<u>\$ 663</u>	<u>\$ 8,332</u>	<u>\$ 7,321</u>

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

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Current:</b>			
Federal income tax statutory rate	35.0 %	35.0 %	35.0 %
<b>Increase (decrease) resulting from:</b>			
State income taxes, net of Federal benefit	(5.2)	2.0	4.2
Research and development tax credits	(23.4)	(4.4)	(5.3)
Qualified production activities income deduction	—	(5.4)	(4.9)
Impairment of goodwill	—	—	5.7
Stock option deduction	3.7	0.6	0.7
Other non-recurring adjustments for State taxes	—	(1.8)	—
Meals and entertainment	3.7	0.8	1.2
Acquisition expenses	(3.6)	—	(0.3)
Foreign rate differential	(10.2)	(1.6)	(1.5)
Net operating loss carryback	9.1	—	—
Other	1.4	(1.8)	(3.0)
<b>Effective income tax rate</b>	<b>10.5 %</b>	<b>23.4 %</b>	<b>31.8 %</b>

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

	March 31, 2016	March 31, 2015
<b>Deferred tax assets:</b>		
Net operating losses	\$ 17,920	\$ 512
Deferred revenue	10,682	11,970
Accrued compensation and benefits	5,868	7,744
Allowance for doubtful accounts	4,176	4,944
Research and development credit	3,611	1,988
Compensatory stock option expense	2,664	2,852
Deferred compensation	2,586	2,342
State income taxes	445	(730)
Inventory valuation	68	56
Other	—	3,561
<b>Total deferred tax assets</b>	<b>48,020</b>	<b>35,239</b>
<b>Deferred tax liabilities:</b>		
Accelerated depreciation	\$ (2,434)	\$ (756)
Capitalized software	(9,644)	(8,728)
Intangible assets	(22,972)	7,603
Prepaid expense	(1,249)	(1,321)
Other	(972)	—
<b>Total deferred tax liabilities</b>	<b>(37,271)</b>	<b>(3,202)</b>
Valuation allowance	(2,551)	(1,840)
<b>Deferred tax assets, net</b>	<b>\$ 8,198</b>	<b>\$ 30,197</b>

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

As of March 31, 2016 and March 31, 2015, we had federal net operating loss (“NOL”) carryforwards of \$45,202 and \$1,464, respectively. The federal NOL carryforwards were inherited in connection with our acquisition of HealthFusion in January 2016 and Gennius in March 2015. The NOL related to the HealthFusion acquisition was estimated based on available information as of March 31, 2016 and may change based upon the filing of the final tax returns for HealthFusion. The NOL carryforwards expire

in various amounts starting in 2029 for both federal and state tax purposes. As of March 31, 2016, we had state NOL carryforwards of approximately \$30,430, of which \$18,695 was related to our expected current year taxable NOL and the remainder was related to the HealthFusion acquisition state NOL tax attribute. We had no state NOL carryforwards as of March 31, 2015. 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, 2016 and March 31, 2015, the research and development tax credit carryforward available to offset future federal and state taxes was \$3,611 and \$1,988 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.

### **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 at March 31, 2014	\$	875
Additions for current/prior year tax positions		3,106
Reductions for prior year tax positions		(218)
Balance at March 31, 2015	\$	3,763
Additions for prior year tax positions		235
Reductions for prior year tax positions		(43)
Balance at March 31, 2016	\$	3,955

During the year ended March 31, 2016, we recorded additional liabilities of \$235 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 \$3,955.

Our practice is to recognize interest related to income tax matters as interest expense in the consolidated statements of comprehensive income. We had approximately \$129 and \$332 of accrued interest related to income tax matters as of March 31, 2016 and 2015, respectively. We recognized \$57 and \$309 of interest related to income tax matters in the consolidated statements of comprehensive income in the years ended March 31, 2016 and 2015, respectively, and an insignificant amount in the year ended March 31, 2014. 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 2012. With a few exceptions, we are no longer subject to state or local income tax examinations for tax years before 2011. 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 \$1,063, \$949 and \$820 were made by the Company to the 401(k) plan for the years ended March 31, 2016, 2015 and 2014, 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 \$6,357 and \$5,750 at March 31, 2016 and 2015, respectively. To offset this liability, we have purchased life insurance policies on some of the participants. The Company is the owner and beneficiary of the policies and the cash values are intended to produce cash needed to help make the benefit payments to employees when they retire or otherwise leave the Company. We intend to hold the life insurance policy until the death of the plan participant. The cash surrender value of the life insurance policies for deferred compensation was \$7,155 and \$6,004 at March 31, 2016 and 2015, 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 \$120, \$86 and \$62 to the Deferral Plan for the years ended March 31, 2016, 2015 and 2014, respectively.

### 13. Share-Based Awards

#### Employee Stock Option 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 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 expires 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, 2016, there were 1,447,286 outstanding options and 25,613 outstanding shares of restricted stock, restricted stock units and performance based restricted stock 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, 2016, there were 1,000,000 outstanding options, 165,634 outstanding shares of restricted stock awards and 10,624,005 shares available for future grant under the 2015 Plan.

A summary of stock option transactions during the years ended March 31, 2016, 2015 and 2014 is as follows:

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding, March 31, 2013	1,159,183	\$ 30.54		
Granted	469,000	18.78		
Exercised	(111,272)	19.78		\$ 264
Forfeited/Canceled	(146,810)	30.28		
Outstanding, March 31, 2014	1,370,101	\$ 15.97		
Granted	469,650	—		
Forfeited/Canceled	(203,575)			
Outstanding, March 31, 2015	1,636,176	\$ 24.82	5.5	
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
Vested and expected to vest, March 31, 2016	2,223,978	\$ 19.83	6.2	\$ 505
Exercisable, March 31, 2016	587,536	\$ 28.21	3.9	\$ —



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The Company utilizes the Black-Scholes valuation model for estimating the fair value of stock options and related share-based compensation with the following assumptions:

	Year Ended March 31, 2016	Year Ended March 31, 2015	Year Ended March 31, 2014
Expected term	3.8 - 3.9 years	4.8 years	4.9 years
Expected volatility	38.3% - 41.1%	36.1% - 36.6%	43.4% - 43.7%
Expected dividends	0.0% - 5.3%	4.3% - 4.4%	3.1% - 3.9%
Risk-free rate	1.1% - 1.6%	1.6% - 1.7%	1.0% - 1.5%

The weighted-average grant date fair value of stock options granted during the years ended March 31, 2016, 2015 and 2014 was \$4.44, \$3.50 and \$5.20 per share, respectively.

During the years ended March 31, 2016, 2015 and 2014, a total of 1,414,000, 469,650 and 469,000 options, respectively, were granted under the 2005 and 2015 Plans at an exercise price equal to the market price of the Company's common stock on the date of grant. A summary of stock options granted during the years ended March 31, 2016, 2015 and 2014 is as follows:

Option Grant Date	Number of Shares	Exercise Price	Vesting Terms (1)	Expires
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 option grants	<u>1,414,000</u>			
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 option grants	<u>469,650</u>			
August 15, 2013	85,000	\$ 20.85	Five years	August 15, 2021
July 30, 2013	28,000	\$ 22.59	Five years	July 30, 2021
May 29, 2013	356,000	\$ 17.95	Five years	May 29, 2021
Fiscal year 2014 option grants	<u>469,000</u>			

(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.

**Employee Share Purchase Plan**

On August 11, 2014, the Company's 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, 2016, the Company has issued 114,620 shares under the Purchase Plan and 3,885,380 shares are available for future issuance.

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

**Performance-Based Awards**

On May 14, 2015, the Compensation Committee approved our fiscal year 2016 Executive Compensation Program (the "Program") for our named executive officers for fiscal year 2016; on May 20, 2015, the Compensation Committee approved the Program for our former Interim Chief Financial Officer; on June 3, 2015, the Compensation Committee approved the Program for our new Chief Executive Officer (effective July 1, 2015); on January 27, 2016, the Compensation Committee approved the

Program for our new Chief Technology Officer (effective February 1, 2016); and on February 12, 2016, the Compensation Committee approved the Program for our new Chief Financial Officer (effective March 1, 2016).

Under the incentive portion of the Program, the executive officers are eligible to receive cash bonuses based on meeting certain target increases in revenue and non-GAAP earnings per share for fiscal year 2016 and certain equity incentive awards, including a potential award of up to an aggregate of 320,000 restricted performance shares of our common stock vesting over a three year period based on the achievement of target average daily share prices for the thirty calendar day period ending April 30th of each of the subsequent three fiscal years. In addition, under the Program, a target pool of up to 400,000 options is available for new hires, promotions, and for certain high-performing, non-executive employees based on achievement in performance targets.

Share-based compensation expense associated with the restricted performance shares with market conditions under the Program 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.

Share-based compensation expense associated with the target pool of options under our equity incentive programs are initially based on the number of options expected to vest after assessing the probability that the performance criteria will be met. Cumulative adjustments are recorded quarterly to reflect subsequent changes in the estimated outcome of performance-related conditions. We utilize the Black-Scholes option valuation model with the assumptions in the table below to calculate the share-based compensation expense related to the options.

	Year Ended March 31, 2016	Year Ended March 31, 2015	Year Ended March 31, 2014
Expected life	3.8 - 4.0 years	4.8 years	4.9 years
Expected volatility	37.7% - 40.8%	35.9% - 36.5%	36.9% - 43.5%
Expected dividends	0.0% - 5.5%	4.3% - 5.0%	3.2% - 4.1%
Risk-free rate	1.0% - 1.6%	1.4% - 1.8%	1.4% - 1.8%

Share-based compensation expense recorded for these performance-based awards was \$383 , \$463 and \$0 for the years ended March 31, 2016 , 2015 and 2014 , respectively.

Non-vested stock option award activity, including employee stock options and performance-based awards, during the years ended March 31, 2016 , 2015 and 2014 is summarized as follows:

	Non-Vested Number of Shares	Weighted- Average Grant-Date Fair Value per Share
Outstanding, March 31, 2013	804,340	\$ 9.89
Granted	469,000	5.20
Vested	(134,970)	9.30
Forfeited/Canceled	(146,810)	9.33
Outstanding, March 31, 2014	991,560	\$ 7.73
Granted	469,650	3.50
Vested	(269,785)	8.24
Forfeited/Canceled	(123,135)	6.57
Outstanding, 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
Outstanding, March 31, 2016	1,859,750	\$ 4.67

As of March 31, 2016 , \$6,959 of total unrecognized compensation costs related to stock options is expected to be recognized over a weighted-average period of 4.0 years. This amount does not include the cost of new options that may be granted in future periods or any changes in the Company's forfeiture percentage. The total fair value of options vested during the years ended March 31, 2016 , 2015 and 2014 was \$1,697 , \$2,224 and \$1,255 , respectively.

**Director Awards**

On May 20, 2015, the Board of Directors approved our 2016 Director Compensation Program, pursuant to which each non-employee director is to be granted shares of restricted stock upon election or re-election to the Board of Directors. The shares of restricted stock were granted on August 17, 2015 following the shareholder approval and registration of our 2015 Equity Incentive Plan. The shares of restricted stock were issued according to the standard form of restricted stock award agreement and pursuant to our 2015 Equity Incentive Plan and carry a restriction requiring that the restricted stock vest in two equal installments over two consecutive years with the vesting dates being the next two meeting dates of our annual shareholders' meeting following election or re-election to the Board of Directors.

The Company recorded compensation expense related to restricted stock of approximately \$940 , \$877 and \$629 for the years ended March 31, 2016 , 2015 and 2014 , respectively. Restricted stock activity for the years ended March 31, 2016 , 2015 and 2014 is summarized as follows:

	Number of Shares	Weighted- Average Grant-Date Fair Value per Share
Outstanding, March 31, 2013	30,385	\$ 27.09
Granted	57,324	20.75
Vested	(16,302)	30.64
Canceled	(6,836)	22.59
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	<u>191,247</u>	\$ 14.44

The weighted-average grant date fair value for the restricted stock was estimated using the market price of the common stock on the date of grant. The fair value of the restricted stock is amortized on a straight-line basis over the vesting period.

As of March 31, 2016 , \$2,122 of total unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted-average period of 1.9 years. This amount does not include the cost of new restricted stock that may be granted in future periods.

**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, 2016 , 2015 and 2014 was \$7,309 , \$7,416 and \$7,604 , respectively.

The following table summarizes our significant contractual obligations at March 31, 2016 and the effect that such obligations are expected to have on our liquidity and cash in future periods:

Contractual Obligations	For the year ended March 31,						2022 and beyond
	Total	2017	2018	2019	2020	2021	
Operating lease obligations	\$ 70,414	\$ 8,773	\$ 9,863	\$ 8,903	\$ 7,936	\$ 7,909	\$ 27,030
Line of credit obligations <sup>(1)</sup>	105,000	—	—	—	—	105,000	—
Contingent consideration and other acquisition related liabilities (excluding share-based payments) <sup>(2)</sup>	15,700	15,700	—	—	—	—	—
Total	<u>\$ 191,114</u>	<u>\$ 23,973</u>	<u>\$ 10,363</u>	<u>\$ 8,903</u>	<u>\$ 7,936</u>	<u>\$ 112,909</u>	<u>\$ 27,030</u>

(1) As noted above, we entered into a \$250.0 million revolving credit agreement in January 2016, which had \$105 million in outstanding loans as of March 31, 2016 . The revolving 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. Refer Note 9 for additional details.

(2) In connection with the acquisition of HealthFusion, additional contingent consideration up to \$25.0 million in the form of a cash earnout may be paid in our fourth quarter of fiscal 2017, subject to HealthFusion achieving certain revenue targets through December 31, 2016. The fair value of the contingent consideration liability as of March 31, 2016 was \$15.0 million , and is included in the table above.

The deferred compensation liability as of March 31, 2016 was \$6,357 , 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, 2016 was \$3,955 , 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 its performance guarantee or other related warranties and does 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 does not expect to incur significant warranty costs in the future. Therefore, no accrual has been made for potential costs associated with these warranties.

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.

Certain standard sales agreements contain a money back guarantee providing for a performance guarantee that is already part of the software license agreement as well as training and support. The money back guarantee also warrants that the software will remain robust and flexible to allow participation in the federal health incentive programs. The specific elements of the performance guarantee pertain to aspects of the software, which we have already tested and confirmed to consistently meet using our existing software without any modifications or enhancements. To date, we have not incurred any costs associated with this guarantee and do not expect to incur significant costs in the future. Therefore, no accrual has been made for potential costs associated with this guarantee.

Our standard sales agreements contain an indemnification provision pursuant to which it shall indemnify, hold harmless, and reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any U.S. patent, any copyright or other intellectual property infringement claim by any third party with respect to its 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 our Company, Mr. Razin and Mr. Plochocki. 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. The hearing for the motion is set for July 28, 2016. We believe that plaintiff's claims are without merit and continues to defend against them vigorously. At this time, we are unable to estimate 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 our Company and certain our officers and directors in the United States District Court for the Central District of California by a shareholder of our Company. 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 is not yet scheduled. We believe that plaintiff's claims are without merit and continues to defend against them vigorously. At this time, we are unable to estimate 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. Plochoki, Sheldon Razin, Lance E. Rosenzweig and Quality Systems, Inc., No. SACV14-00110-DOC-JPPx, by Timothy J. Foss, a shareholder of our Company. 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 described above under the caption "Federal Securities Class Action." We believe that plaintiff's claims are without merit and intends to defend against them vigorously. At this time, we are unable to estimate the amount of liability, if any, related to this claim.

**15. Operating Segment Information**

As of March 31, 2016, we have three reportable segments that are evaluated regularly by our chief decision making group (consisting of our Chief Executive Officer) in deciding how to allocate resources and in assessing performance. Hospital Solutions Division operating segment data for the year end March 31, 2016 are reflected through the October 22, 2015 date of its disposition.

Operating segment data is as follows:

	Fiscal Year Ended March 31,		
	2016	2015	2014
<b>Revenue:</b>			
NextGen Division	\$ 375,801	\$ 373,765	\$ 341,120
RCM Services Division	89,831	80,005	68,093
QSI Dental Division	19,376	18,451	19,840
Hospital Solutions Division	7,469	18,004	15,614
Consolidated revenue	<u>\$ 492,477</u>	<u>\$ 490,225</u>	<u>\$ 444,667</u>
<b>Operating income:</b>			
NextGen Division	\$ 182,508	\$ 182,320	\$ 162,948
RCM Services Division	17,639	13,919	11,719
QSI Dental Division	6,101	5,161	6,183
Hospital Solutions Division	(927)	(1,339)	(7,237)
Corporate and unallocated	(197,959)	(164,105)	(150,525)
Consolidated operating income	<u>\$ 7,362</u>	<u>\$ 35,956</u>	<u>\$ 23,088</u>

Assets by segment are not tracked or used by our chief decision making group to allocate resources or to assess performance, and thus not included in the table above.

The major components of the corporate and unallocated amounts are summarized in the table below:

	Fiscal Year Ended March 31,		
	2016	2015	2014
Research and development costs, net	\$ 65,661	\$ 69,240	\$ 41,524
Amortization of capitalized software costs	9,891	12,817	12,338
Marketing expense	13,490	11,913	10,123
Loss on disposition of Hospital Solutions Division	1,366	—	—
Impairment of assets	32,238	—	25,971
Other corporate and overhead costs	75,313	70,135	60,569
<b>Total corporate and unallocated</b>	<b>\$ 197,959</b>	<b>\$ 164,105</b>	<b>\$ 150,525</b>

The amounts classified as corporate and unallocated consist primarily of corporate general and administrative costs, non-recurring acquisition and transaction-related costs, recurring post-acquisition amortization of certain acquired intangible assets and amortization of capitalized software costs, as well as costs of other centrally managed overhead and shared-services functions, including accounting and finance, human resources, marketing, legal, and research and development, that are not controlled by segment level leadership. Although the segments may derive direct benefits as a result of such costs, our chief decision making group evaluates performance based upon stand-alone segment operating income, which excludes these corporate and unallocated amounts.

Effective April 1, 2015, as part of our ongoing efforts to refine the measurement of our segment data to better reflect an organizational structure whereby certain expenses managed by functional area leadership are no longer classified within the operating segments but rather as a component of corporate and unallocated, we no longer classify certain costs within the information services and credit granting and collections functional areas, such as bad debt expense and other information services related general and administrative costs, within the operating segments. Such classification is consistent with the disaggregated financial information used by our chief decision making group. We have retroactively reclassified the prior years' operating income in the table above to present all segment information on a comparable basis.

## 16. Subsequent Events

On April 22, 2016, our Board of Directors approved management's recommendations for a corporate reorganization plan. Under the reorganization plan, we expect to reduce our domestic headcount by approximately 150 employees, or approximately six percent of our U.S.-based workforce.

## 17. Selected Quarterly Operating Results

The following table presents quarterly unaudited consolidated financial information for the eight quarters preceding March 31, 2016. 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.

(Unaudited)	Quarter Ended							
	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016
<b>Revenues:</b>								
Software license and hardware	\$ 19,761	\$ 19,316	\$ 21,428	\$ 21,144	\$ 16,189	\$ 19,687	\$ 16,150	\$ 18,497
Software related subscription services	9,715	9,687	11,864	13,326	12,246	12,437	11,705	19,015
Total software, hardware and related	29,476	29,003	33,292	34,470	28,435	32,124	27,855	37,512
Support and maintenance	40,805	42,135	43,045	43,234	43,713	42,176	39,519	39,792
Revenue cycle management and related services	16,693	17,432	20,392	19,720	20,243	20,793	21,594	20,376
Electronic data interchange and data services	18,319	18,906	19,051	20,082	20,189	20,581	20,643	20,930
Professional services	12,601	13,043	7,644	10,882	9,584	9,695	7,421	9,302
Total revenues	117,894	120,519	123,424	128,388	122,164	125,369	117,032	127,912
<b>Cost of revenue:</b>								
Software license and hardware	7,556	7,475	7,295	6,477	7,041	6,578	6,530	7,357
Software related subscription services	4,451	5,384	5,194	5,643	5,958	5,963	5,533	9,168
Total software, hardware and related	12,007	12,859	12,489	12,120	12,999	12,541	12,063	16,525
Support and maintenance	6,914	6,785	7,365	7,802	7,943	8,394	7,537	7,455
Revenue cycle management and related services	12,706	13,202	14,246	14,252	14,512	14,680	14,381	14,018
Electronic data interchange and data services	11,999	12,015	11,956	12,274	12,326	12,539	12,437	12,851
Professional services	12,564	11,912	8,304	9,393	8,197	8,444	7,367	8,406
Total cost of revenue	56,190	56,773	54,360	55,841	55,977	56,598	53,785	59,255
Gross profit	61,704	63,746	69,064	72,547	66,187	68,771	63,247	68,657
<b>Operating expenses:</b>								
Selling, general and administrative <sup>(1)</sup>	36,730	38,681	41,482	41,279	39,171	37,396	39,395	40,272
Research and development costs, net	16,236	16,898	18,468	17,638	17,085	17,981	14,518	16,077
Amortization of acquired intangible assets	983	908	904	898	897	898	897	2,675
Impairment of assets <sup>(2)</sup>	—	—	—	—	—	—	—	32,238
Total operating expenses	53,949	56,487	60,854	59,815	57,153	56,275	54,810	91,262
Income (loss) from operations	7,755	7,259	8,210	12,732	9,034	12,496	8,437	(22,605)
Interest income	54	70	(52)	40	302	44	55	27
Interest expense	—	(1)	(30)	(311)	—	(3)	(6)	(1,295)
Other income (expense), net	9	(26)	—	(45)	(50)	(54)	(43)	(19)
Income (loss) before provision for (benefit of) income taxes	7,818	7,302	8,128	12,416	9,286	12,483	8,443	(23,892)
Provision for (benefit of) income taxes	2,655	2,552	1,452	1,673	2,924	4,168	1,141	(7,570)
Net income (loss)	\$ 5,163	\$ 4,750	\$ 6,676	\$ 10,743	\$ 6,362	\$ 8,315	\$ 7,302	\$ (16,322)
<b>Net income (loss) per share:</b>								
Basic <sup>(3)</sup>	\$ 0.09	\$ 0.08	\$ 0.11	\$ 0.18	\$ 0.11	\$ 0.14	\$ 0.12	\$ (0.27)
Diluted <sup>(3)</sup>	\$ 0.08	\$ 0.08	\$ 0.11	\$ 0.18	\$ 0.10	\$ 0.14	\$ 0.12	\$ (0.27)
<b>Weighted-average shares outstanding:</b>								
Basic	60,230	60,247	60,272	60,288	60,312	60,461	60,867	60,899
Diluted	60,770	60,788	60,855	60,956	61,064	61,194	61,279	60,899
Dividends declared per common share	\$ 0.175	\$ 0.175	\$ 0.175	\$ 0.175	\$ 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 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

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

(in thousands) For the year ended	<b>Sales Return Reserve</b>			
	Balance at Beginning of Year	Additions Charged Against Revenue	Deductions	Balance at End of Year
March 31, 2016	\$ 8,835	\$ 6,737	\$ (8,031)	\$ 7,541
March 31, 2015	\$ 10,530	\$ 8,038	\$ (9,733)	\$ 8,835
March 31, 2014	\$ 6,506	\$ 17,966	\$ (13,942)	\$ 10,530

(in thousands) For the year ended	<b>Allowance for Doubtful Accounts</b>			
	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
March 31, 2016	\$ 3,303	\$ 3,573	\$ (3,974)	\$ 2,902
March 31, 2015	\$ 6,295	\$ 855	\$ (3,847)	\$ 3,303
March 31, 2014	\$ 11,823	\$ 1,467	\$ (6,995)	\$ 6,295

(in thousands) For the year ended	<b>Valuation Allowance on Deferred Tax Assets</b>				
	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Acquisition-related Additions	Deductions	Balance at End of Year
March 31, 2016	\$ 1,840	\$ 112	\$ 599	\$ —	\$ 2,551
March 31, 2015	\$ 2,288	\$ —	\$ —	\$ (448)	\$ 1,840
March 31, 2014	\$ 2,003	\$ 285	\$ —	\$ —	\$ 2,288



## INDEX TO EXHIBITS ATTACHED TO THIS REPORT

<b>Exhibit Number</b>	<b>Description</b>
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.

**QUALITY SYSTEMS, INC.  
LIST OF SUBSIDIARIES**

1. HealthFusion Holdings, Inc.
2. HealthFusion Inc.
3. Matrix Management Solutions, LLC
4. Mirth, LLC
5. Mirth Limited
6. NextGen Healthcare Information Systems, LLC
7. NextGen RCM Services, LLC
8. QSI Management, LLC
9. Quality Systems India Healthcare Pvt. Ltd.
10. ViaTrack Systems, LLC

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-63131, No. 333-67115, No. 333-129752, No. 333-198181, and No. 333-206419) of Quality Systems, Inc. of our report dated May 25, 2016 relating to the financial statements, financial statement schedules, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Orange County, California  
May 25, 2016

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Frantz, certify that:

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

Date: May 25, 2016

By: /s/ John R. Frantz

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John R. Frantz

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
RULE 13A-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James R. Arnold, certify that:

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

Date: May 25, 2016

By: /s/ James R. Arnold

James R. Arnold

Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Annual Report on Form 10-K of Quality Systems, Inc. (the "Company") for the year ended March 31, 2016 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 25, 2016

By: /s/ John R. Frantz

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John R. Frantz

Chief Executive Officer

(Principal Executive Officer)

Date: May 25, 2016

By: /s/ James R. Arnold

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James R. Arnold

Chief Financial Officer

(Principal Financial Officer)