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

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2019**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-33043**

**OMNICELL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**94-3166458**

(IRS Employer  
Identification No.)

**590 East Middlefield Road  
Mountain View, CA 94043**

(Address of registrant's principal executive offices, including zip code)

**(650) 251-6100**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.001 par value	OMCL	NASDAQ Global Select Market

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

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

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

Large Accelerated Filer      Accelerated filer      Non-accelerated filer      Smaller reporting company      Emerging growth company

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

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

As of October 25, 2019, there were 41,938,099 shares of the registrant's common stock, \$0.001 par value, outstanding.

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OMNICELL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2019	December 31, 2018
(In thousands, except par value)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 137,277	\$ 67,192
Accounts receivable and unbilled receivables, net of allowances of \$3,688 and \$2,582, respectively	203,391	196,238
Inventories	105,813	100,868
Prepaid expenses	18,728	20,700
Other current assets	11,870	12,136
<b>Total current assets</b>	<b>477,079</b>	<b>397,134</b>
Property and equipment, net	54,877	51,500
Long-term investment in sales-type leases, net	21,494	17,082
Operating lease right-of-use assets	59,041	—
Goodwill	334,516	335,887
Intangible assets, net	129,163	143,686
Long-term deferred tax assets	30,607	15,197
Prepaid commissions	45,234	46,143
Other long-term assets	92,259	74,613
<b>Total assets</b>	<b>\$ 1,244,270</b>	<b>\$ 1,081,242</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 48,449	\$ 38,038
Accrued compensation	33,499	41,660
Accrued liabilities	58,017	43,047
Deferred revenues, net	88,205	81,835
<b>Total current liabilities</b>	<b>228,170</b>	<b>204,580</b>
Long-term deferred revenues	7,979	10,582
Long-term deferred tax liabilities	60,917	41,484
Long-term operating lease liabilities	52,738	—
Other long-term liabilities	9,798	9,562
Long-term debt, net	77,135	135,417
<b>Total liabilities</b>	<b>436,737</b>	<b>401,625</b>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized; no shares issued	—	—
Common stock, \$0.001 par value, 100,000 shares authorized; 51,050 and 49,480 shares issued; 41,905 and 40,335 shares outstanding, respectively	51	50
Treasury stock at cost, 9,145 shares outstanding, respectively	(185,074)	(185,074)
Additional paid-in capital	770,260	678,041
Retained earnings	236,697	197,454
Accumulated other comprehensive loss	(14,401)	(10,854)
<b>Total stockholders' equity</b>	<b>807,533</b>	<b>679,617</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,244,270</b>	<b>\$ 1,081,242</b>

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

## OMNICELL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
(In thousands, except per share data)				
<b>Revenues:</b>				
Product revenues	\$ 168,488	\$ 149,709	\$ 472,477	\$ 415,004
Services and other revenues	60,317	54,558	176,258	160,555
Total revenues	228,805	204,267	648,735	575,559
<b>Cost of revenues:</b>				
Cost of product revenues	86,695	79,149	250,089	229,642
Cost of services and other revenues	29,963	26,209	85,337	75,770
Total cost of revenues	116,658	105,358	335,426	305,412
<b>Gross profit</b>	112,147	98,909	313,309	270,147
<b>Operating expenses:</b>				
Research and development	16,625	15,805	49,551	47,854
Selling, general, and administrative	70,876	65,609	207,588	196,831
Total operating expenses	87,501	81,414	257,139	244,685
Income from operations	24,646	17,495	56,170	25,462
Interest and other income (expense), net	(1,168)	(2,837)	(4,207)	(6,462)
Income before provision for income taxes	23,478	14,658	51,963	19,000
Provision for (benefit from) income taxes	3,495	1,030	12,720	(3,936)
<b>Net income</b>	\$ 19,983	\$ 13,628	\$ 39,243	\$ 22,936
<b>Net income per share:</b>				
Basic	\$ 0.48	\$ 0.35	\$ 0.95	\$ 0.59
Diluted	\$ 0.46	\$ 0.33	\$ 0.92	\$ 0.57
<b>Weighted-average shares outstanding:</b>				
Basic	41,771	39,432	41,283	39,015
Diluted	43,052	40,860	42,796	40,237

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

## OMNICELL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Net income	\$ 19,983	\$ 13,628	\$ 39,243	\$ 22,936
Other comprehensive loss, net of reclassification adjustments and taxes:				
Unrealized losses on interest rate swap contracts	—	(234)	(420)	(122)
Foreign currency translation adjustments	(2,825)	(907)	(3,127)	(2,849)
Other comprehensive loss	(2,825)	(1,141)	(3,547)	(2,971)
<b>Comprehensive income</b>	<u>\$ 17,158</u>	<u>\$ 12,487</u>	<u>\$ 35,696</u>	<u>\$ 19,965</u>

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

OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount	Shares	Amount				
(In thousands)								
<b>Balances as of December 31, 2018</b>	49,480	\$ 50	(9,145)	\$ (185,074)	\$ 678,041	\$ 197,454	\$ (10,854)	\$ 679,617
Net income	—	—	—	—	—	3,284	—	3,284
Other comprehensive income	—	—	—	—	—	—	352	352
At the market equity offering, net of costs	243	—	—	—	20,216	—	—	20,216
Share-based compensation	—	—	—	—	8,410	—	—	8,410
Issuance of common stock under employee stock plans	628	—	—	—	20,526	—	—	20,526
Tax payments related to restricted stock units	—	—	—	—	(1,920)	—	—	(1,920)
<b>Balances as of March 31, 2019</b>	50,351	50	(9,145)	(185,074)	725,273	200,738	(10,502)	730,485
Net income	—	—	—	—	—	15,976	—	15,976
Other comprehensive loss	—	—	—	—	—	—	(1,074)	(1,074)
At the market equity offering, net of costs	217	—	—	—	17,590	—	—	17,590
Share-based compensation	—	—	—	—	8,260	—	—	8,260
Issuance of common stock under employee stock plans	216	1	—	—	4,806	—	—	4,807
Tax payments related to restricted stock units	—	—	—	—	(2,802)	—	—	(2,802)
<b>Balances as of June 30, 2019</b>	50,784	51	(9,145)	(185,074)	753,127	216,714	(11,576)	773,242
Net income	—	—	—	—	—	19,983	—	19,983
Other comprehensive loss	—	—	—	—	—	—	(2,825)	(2,825)
Share-based compensation	—	—	—	—	8,505	—	—	8,505
Issuance of common stock under employee stock plans	266	—	—	—	9,696	—	—	9,696
Tax payments related to restricted stock units	—	—	—	—	(1,068)	—	—	(1,068)
<b>Balances as of September 30, 2019</b>	51,050	\$ 51	(9,145)	\$ (185,074)	\$ 770,260	\$ 236,697	\$ (14,401)	\$ 807,533

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

OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount	Shares	Amount				
(In thousands)								
<b>Balances as of December 31, 2017</b>	47,577	\$ 48	(9,145)	\$ (185,074)	\$ 585,755	\$ 159,725	\$ (6,113)	\$ 554,341
Net income	—	—	—	—	—	2,720	—	2,720
Other comprehensive income	—	—	—	—	—	—	2,674	2,674
Share-based compensation	—	—	—	—	6,528	—	—	6,528
Issuance of common stock under employee stock plans	428	—	—	—	9,541	—	—	9,541
Tax payments related to restricted stock units	—	—	—	—	(1,300)	—	—	(1,300)
<b>Balances as of March 31, 2018</b>	48,005	48	(9,145)	(185,074)	600,524	162,445	(3,439)	574,504
Net income	—	—	—	—	—	6,588	—	6,588
Other comprehensive loss	—	—	—	—	—	—	(4,504)	(4,504)
Share-based compensation	—	—	—	—	7,238	—	—	7,238
Issuance of common stock under employee stock plans	341	—	—	—	6,576	—	—	6,576
Tax payments related to restricted stock units	—	—	—	—	(1,762)	—	—	(1,762)
<b>Balances as of June 30, 2018</b>	48,346	48	(9,145)	(185,074)	612,576	169,033	(7,943)	588,640
Net income	—	—	—	—	—	13,628	—	13,628
Other comprehensive loss	—	—	—	—	—	—	(1,141)	(1,141)
Share-based compensation	—	—	—	—	7,085	—	—	7,085
Issuance of common stock under employee stock plans	414	1	—	—	11,611	—	—	11,612
Tax payments related to restricted stock units	—	—	—	—	(586)	—	—	(586)
<b>Balances as of September 30, 2018</b>	48,760	\$ 49	(9,145)	\$ (185,074)	\$ 630,686	\$ 182,661	\$ (9,084)	\$ 619,238

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

**OMNICELL, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Nine months ended September 30,	
	2019	2018
(In thousands)		
<b>Operating Activities</b>		
Net income	\$ 39,243	\$ 22,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,525	37,490
Loss on disposal of property and equipment	436	136
Share-based compensation expense	25,175	20,851
Deferred income taxes	4,023	(8,849)
Amortization of operating lease right-of-use assets	7,917	—
Amortization of debt financing fees	1,718	1,718
Changes in operating assets and liabilities:		
Accounts receivable and unbilled receivables	(7,716)	(16,179)
Inventories	(7,015)	(5,288)
Prepaid expenses	(1,341)	774
Other current assets	974	3,120
Investment in sales-type leases	(5,120)	(1,732)
Prepaid commissions	909	991
Other long-term assets	3,944	(6,188)
Accounts payable	10,316	(8,439)
Accrued compensation	(8,161)	5,712
Accrued liabilities	5,262	1,482
Deferred revenues	3,900	9,014
Operating lease liabilities	(7,887)	—
Other long-term liabilities	4,086	(1,035)
Net cash provided by operating activities	<u>110,188</u>	<u>56,514</u>
<b>Investing Activities</b>		
Software development for external use	(34,129)	(22,213)
Purchases of property and equipment	(12,632)	(19,259)
Net cash used in investing activities	<u>(46,761)</u>	<u>(41,472)</u>
<b>Financing Activities</b>		
Repayment of debt and revolving credit facility	(60,000)	(27,000)
At the market offering, net of offering costs	37,806	—
Proceeds from stock issuances under stock-based compensation plans	35,029	27,729
Employees' taxes paid related to restricted stock units	(5,790)	(3,648)
Net cash provided by (used in) financing activities	<u>7,045</u>	<u>(2,919)</u>
Effect of exchange rate changes on cash and cash equivalents	(387)	(373)
Net increase in cash and cash equivalents	70,085	11,750
Cash and cash equivalents at beginning of period	67,192	32,424
Cash and cash equivalents at end of period	<u>\$ 137,277</u>	<u>\$ 44,174</u>
<b>Supplemental disclosure of non-cash activities</b>		
Unpaid purchases of property and equipment	\$ 756	\$ 388
Transfers between inventory and property and equipment, net	\$ 1,549	\$ 2,194
Transfers from prepaid expenses to property and equipment	\$ 3,313	\$ —
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 957	\$ —

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



**OMNICELL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Organization and Summary of Significant Accounting Policies**

**Business**

Omniceil, Inc. was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. The Company's major products are medication and supply dispensing automation solutions, central pharmacy automation solutions, analytics software, and medication adherence solutions which are sold in its principal market, which is the healthcare industry. The Company's market is primarily located in the United States and Europe. "Omnicell" or the "Company" collectively refer to Omnicell, Inc. and its subsidiaries.

**Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of the Company as of September 30, 2019 and December 31, 2018, the results of operations and comprehensive income for the three and nine months ended September 30, 2019 and 2018, and cash flows for the nine months ended September 30, 2019 and 2018. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and accompanying Notes included in the Company's annual report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 27, 2019, except as discussed in the sections entitled "Lessor Leases", "Lessee Leases", and "Recently Adopted Authoritative Guidance" below. The Company's results of operations and comprehensive income for the three and nine months ended September 30, 2019 and cash flows for the nine months ended September 30, 2019 are not necessarily indicative of results that may be expected for the year ending December 31, 2019, or for any future period.

**Principles of Consolidation**

The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

**Segment Reporting**

The Company's Chief Operating Decision Maker ("CODM") is its Chief Executive Officer. The CODM allocates resources and evaluates the performance of the Company using information about its revenues, gross profit, income from operations, and other key financial data. The Company previously operated and reported its business in two segments: Automation and Analytics, and Medication Adherence. In the fourth quarter of 2018, the Company introduced its vision of the Autonomous Pharmacy, a more fully automated and digitized system of medication management, in order to address changes in the healthcare industry as the Company executes on its plan to deliver end-to-end solutions with greater emphasis on automating manual processes for its customers. These industry changes include the continuing consolidation of healthcare systems, rising pharmaceutical costs, and increased scrutiny on controlled substances. In an effort to deliver on its strategic vision, the Company initiated a company-wide organizational realignment in the fourth quarter of 2018 to centrally manage its business operations, including the development and marketing of all of the Company's products, sales and distribution, supply chain and inventory management, as well as regulatory and quality functions. As a result of this organizational realignment, all significant operating decisions are based upon an analysis of the Company as one operating segment. Therefore, effective January 1, 2019, the Company started reporting as only one operating segment, which is the same as the reporting segment. Accordingly, prior period information has been revised to conform with current period presentation.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's Condensed Consolidated Financial Statements and accompanying Notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results may be different from the estimates. The Company's critical accounting policies are those that affect its financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition; accounts receivable and notes receivable from investment in sales-type leases;

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operating lease right-of-use assets and liabilities; inventory valuation; capitalized software development costs; impairment of goodwill; purchased intangibles and long-lived assets; share-based compensation; and accounting for income taxes.

### **Lessor Leases**

The Company determines if an arrangement is a lease at inception. The transaction price is allocated to separate performance obligations, generally consisting of hardware and software products, installation, and post-installation technical support, proportionally based on the standalone selling price of each performance obligation. Standalone selling price is best evidenced by the price the Company charges for the good or service when selling it separately in similar circumstances to similar customers. Other than for the renewal of annual support services contracts, the Company's products and services are not generally sold separately. The Company uses an amount discounted from the list price as a best estimated selling price.

#### *Sales-Type Leases*

The Company enters into non-cancelable sales-type lease arrangements, most of which do not have an option to extend the lease term. At the end of the lease term, the customer must either return the equipment or negotiate a new agreement, resulting in a new purchase or lease transaction. Failure of the customer to either return the equipment or negotiate a new agreement results in the contract becoming a month-to-month rental. Certain sales-type leases automatically renew for successive one year periods at the end of each lease term with written notice from the customer. The Company's sales-type lease agreements do not contain any material residual value guarantees.

For sales-type leases, the Company recognizes revenues for its hardware and software products, net of lease execution costs, post-installation product maintenance, and technical support, at the net present value of the lease payment stream upon customer acceptance. The Company recognizes service revenues associated with the sales-type leases ratably over the term of the agreement in service revenues on the Condensed Consolidated Statements of Operations. The Company recognizes interest income from sales-type leases using the effective interest method. Both hardware and software revenues, and interest income from sales-type leases are recorded in product revenues on the Condensed Consolidated Statements of Operations.

The Company optimizes cash flows by selling a majority of its non-U.S. government sales-type leases to third-party leasing finance companies on a non-recourse basis. The Company has no obligation to the leasing company once the lease has been sold. Some of the Company's sales-type leases, mostly those relating to U.S. government hospitals which comprise approximately 54% of the lease receivable balance, are retained in-house.

#### *Operating Leases*

The Company entered into certain leasing agreements that were classified as operating leases prior to the adoption of the new lease accounting standard. Those agreements in place prior to January 1, 2019 will continue to be treated as operating leases, however any new leasing agreements entered into on or after January 1, 2019 under these programs are classified and accounted for as sales-type leases in accordance with the new lease accounting standard. The operating lease arrangements entered into prior to January 1, 2019 are non-cancelable, and most automatically renew for successive one year periods at the end of each lease term absent written notice from the customer. The Company's operating lease agreements do not contain any material residual value guarantees.

For operating leases, rental income is generally recognized on a straight-line basis over the term of the associated lease, and recorded in services and other revenues in the Condensed Consolidated Statements of Operations. Leased assets under operating leases are carried at amortized cost net of accumulated depreciation in property and equipment, net on the Condensed Consolidated Balance Sheets. The depreciation expense of the leased assets is recognized on a straight-line basis over the contractual term of the associated lease, and recorded in cost of revenues in the Condensed Consolidated Statements of Operations.

### **Lessee Leases**

The Company determines if an arrangement is a lease at inception. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our lease contracts do not provide an implicit rate, the Company uses its incremental borrowing rate based on information available at the commencement date in determining the present value of the lease payments.

Many of the Company's operating leases include an option to extend the lease. The specific terms and conditions of the extension options vary from lease to lease, but are consistent with standard industry practices in each area that the Company operates. The Company reviews each of its lease options at a time required by the terms of the lease contract, and notifies the lessor if it chooses to exercise the lease renewal option. Until the Company is reasonably certain that it will extend the lease contract, the renewal option periods will not be recognized as right-of-use assets or lease liabilities.

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Certain leases include provisions for early termination, which allows the contract parties to terminate their obligations under the lease contract. The terms and conditions of the termination options vary by contract. When the Company has made a decision to exercise an early termination option, the right-of-use assets and associated lease liabilities are remeasured in accordance with the present value of the remaining cash flows under the lease contract.

Certain building lease agreements include rental payments subject to change annually based on fluctuations in various indexes (i.e. Consumer Price Index (“CPI”), Retail Price Index, and other international indexes). Certain data center lease agreements include rental payments subject to change based on usage and CPI fluctuations. The changes based on usage and indexes are treated as variable lease costs and recognized in the period in which the obligation for those payments was incurred.

The Company’s operating lease agreements do not contain any material residual value guarantees, restrictions, or restriction covenants.

### Recently Adopted Authoritative Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The FASB amended lease accounting requirements to begin recording assets and liabilities arising from most leases on the balance sheet. The new guidance also requires significant additional disclosures about the amount and timing of cash flows from leases. The Company adopted this new guidance on January 1, 2019. In July 2018, the FASB issued amendments in ASU 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the year of adoption and to recognize the effects of applying the new standard as a cumulative-effect adjustment to the opening balance of retained earnings. The Company has elected this transition approach as well as elected the package of practical expedients permitted under the transition guidance within the new standard, which will allow the Company to carry forward the historical lease classification of contracts entered into prior to January 1, 2019. As a result of electing the package of practical expedients described above, existing leases and related initial direct costs have not been reassessed prior to the effective date, and therefore, adoption of the lease standard did not have an impact on the Company’s previously reported consolidated financial statements.

The Company also elected the following practical expedients: (i) combining lease and non-lease components, (ii) leases with an initial term of 12 months or less are not recorded in the Condensed Consolidated Balance Sheets, and the associated lease payments are recognized in the Condensed Consolidated Statements of Operations on a straight-line basis over the lease term, and (iii) applying discount rates to operating leases using a portfolio approach.

From a lessor perspective, certain agreements that were previously classified as operating leases are classified as sales-type leases under the new lease accounting standard. The agreements in place prior to the adoption of the new lease accounting standard on January 1, 2019 will continue to be treated as operating leases.

The Company’s adoption of the new standard impacted the Condensed Consolidated Balance Sheets at the beginning of the period of adoption as follows:

	January 1, 2019		
	Pre-ASC 842 Balances	ASC 842 Adoption Impact	Post-ASC 842 Balances
	(In thousands)		
Operating lease right-of-use assets	\$ —	\$ 66,008	\$ 66,008
Accrued liabilities <sup>(1)</sup>	43,047	10,067	53,114
Long-term operating lease liabilities	—	59,791	59,791
Other long-term liabilities <sup>(2)</sup>	9,562	(3,850)	5,712

<sup>(1)</sup> Adjustment represents the current portion of the operating lease liabilities of \$10.3 million, and reclassification of exit cost obligations and deferred rent of \$0.1 million and \$0.1 million, respectively, to reduce the operating lease right-of-use assets.

<sup>(2)</sup> Adjustment represents the reclassification of deferred rent to reduce the operating lease right-of-use assets.

Adoption of the standard did not have an impact on the Company’s stockholders’ equity, Condensed Consolidated Statements of Operations, and Condensed Consolidated Statements of Cash Flows as of January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits the reclassification of the income tax effects of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) on items within accumulated other comprehensive income to retained earnings. These amounts are commonly

referred to as “stranded tax effects.” ASU 2018-02 is effective for the Company beginning January 1, 2019. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements and therefore no adjustment to retained earnings was made.

### Recently Issued Authoritative Guidance

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 will be effective for the Company beginning January 1, 2020. The Company anticipates adopting ASU 2018-15 prospectively and does not expect the standard to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, that modifies or replaces existing models for trade and other receivables, debt securities, loans, and certain other financial instruments. For instruments measured at amortized cost, including trade and lease receivables, loans and held-to-maturity debt securities, the standard will replace the current “incurred loss” approach with an “expected loss” model. Entities will be required to estimate expected credit losses over the life of the instrument, considering available relevant information about the collectibility of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. ASU 2016-13 will be effective for the Company beginning January 1, 2020. The Company is in the process of evaluating the appropriate changes to necessary processes and controls to support the adoption of the new standard. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

There was no other recently issued and effective authoritative guidance that is expected to have a material impact on the Company’s Condensed Consolidated Financial Statements through the reporting date.

### Note 2. Revenues

#### Revenue Recognition

The Company earns revenues from sales of its medication and supply dispensing automation systems, along with consumables and related services, which are sold in the healthcare industry, its principal market. The Company’s customer arrangements typically include one or more of the following performance obligations:

*Products.* Software-enabled equipment that manages and regulates the storage and dispensing of pharmaceuticals, consumable blister cards and packaging equipment and other medical supplies.

*Software.* Additional software applications that enable incremental functionality of the Company’s equipment or services.

*Installation.* Installation of equipment as integrated systems at customer sites.

*Post-installation technical support.* Phone support, on-site service, parts, and access to unspecified software updates and enhancements, if and when available.

*Professional services.* Other customer services, such as training and consulting.

A portion of the Company’s sales are made to customers who are members of Group Purchasing Organizations (“GPOs”). GPOs are often owned fully or in part by the Company’s customers, and the Company pays fees to the GPO on completed contracts. The Company considers these fees consideration paid to customers and records them as reductions to revenue. Fees to GPOs were \$2.8 million and \$2.2 million for the three months ended September 30, 2019 and 2018, respectively, and \$7.6 million and \$6.2 million for the nine months ended September 30, 2019 and 2018, respectively.

## Disaggregation of Revenues

The following table summarizes the Company's product revenues disaggregated by revenue type for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Hardware and software	\$ 144,305	\$ 125,733	\$ 399,548	\$ 345,215
Consumables	19,875	19,848	60,378	58,956
Other	4,308	4,128	12,551	10,833
Total product revenues	<u>\$ 168,488</u>	<u>\$ 149,709</u>	<u>\$ 472,477</u>	<u>\$ 415,004</u>

The following table summarizes the Company's revenues disaggregated by geographic region, which is determined based on customer location, for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
United States	\$ 206,709	\$ 180,635	\$ 582,540	\$ 502,481
Rest of world <sup>(1)</sup>	22,096	23,632	66,195	73,078
Total revenues	<u>\$ 228,805</u>	<u>\$ 204,267</u>	<u>\$ 648,735</u>	<u>\$ 575,559</u>

<sup>(1)</sup> No individual country represented more than 10% of the respective totals.

## Contract Assets and Contract Liabilities

The following table reflects the Company's contract assets and contract liabilities:

	September 30, 2019	December 31, 2018
	(In thousands)	
Short-term unbilled receivables - included in accounts receivable and unbilled receivables	\$ 15,524	\$ 9,191
Long-term unbilled receivables - included in other long-term assets	12,794	16,481
Total contract assets	<u>\$ 28,318</u>	<u>\$ 25,672</u>
Short-term deferred revenues, net	\$ 88,205	\$ 81,835
Long-term deferred revenues	7,979	10,582
Total contract liabilities	<u>\$ 96,184</u>	<u>\$ 92,417</u>

The portion of the transaction price allocated to the Company's unsatisfied performance obligations for which invoicing has occurred is recorded as deferred revenues.

Short-term deferred revenues of \$88.2 million and \$81.8 million include deferred revenues from product sales and service contracts, net of deferred cost of sales, of \$14.3 million and \$11.1 million as of September 30, 2019 and December 31, 2018, respectively. The short-term deferred revenues from product sales relate to delivered and invoiced products, pending installation and acceptance, expected to occur within the next twelve months. During the three and nine months ended September 30, 2019, the Company recognized revenues of \$4.8 million and \$69.8 million that were included in the corresponding gross short-term deferred revenues balance of \$92.9 million as of December 31, 2018.

Long-term deferred revenues include deferred revenues from service contracts of \$8.0 million and \$10.6 million as of September 30, 2019 and December 31, 2018, respectively. Remaining performance obligations primarily relate to maintenance contracts and are recognized ratably over the remaining term of the contract, generally not more than five years.



### Significant Customers

There were no customers that accounted for more than 10% of the Company's total revenues for the three and nine months ended September 30, 2019 and 2018. Also, there were no customers that accounted for more than 10% of the Company's accounts receivable as of September 30, 2019 and December 31, 2018.

### Note 3. Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted-average number of shares outstanding during the period. In periods of net loss, all potential common shares are anti-dilutive, so diluted net loss per share equals the basic net loss per share. In periods of net income, diluted net income per share is computed by dividing net income for the period by the basic weighted-average number of shares plus any dilutive potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards, and restricted stock units computed using the treasury stock method. Any anti-dilutive weighted-average dilutive shares related to stock award plans are excluded from the computation of the diluted net income per share.

The basic and diluted net income per share calculations for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands, except per share data)			
Net income	\$ 19,983	\$ 13,628	\$ 39,243	\$ 22,936
Weighted-average shares outstanding — basic	41,771	39,432	41,283	39,015
Effect of dilutive securities from stock award plans	1,281	1,428	1,513	1,222
Weighted-average shares outstanding — diluted	43,052	40,860	42,796	40,237
Net income per share - basic	\$ 0.48	\$ 0.35	\$ 0.95	\$ 0.59
Net income per share - diluted	\$ 0.46	\$ 0.33	\$ 0.92	\$ 0.57
Anti-dilutive weighted-average shares related to stock award plans	1,060	673	832	1,176

### Note 4. Cash and Cash Equivalents and Fair Value of Financial Instruments

Cash and cash equivalents of \$137.3 million and \$67.2 million as of September 30, 2019 and December 31, 2018, respectively, consisted of bank accounts with major financial institutions.

#### Fair Value Hierarchy

The Company measures its financial instruments at fair value. The Company's cash equivalents are classified within Level 1 of the fair value hierarchy as they are valued primarily using quoted market prices utilizing market observable inputs. The Company's interest rate swap contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The following table represents the fair value hierarchy of the Company's financial assets and financial liabilities measured at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Interest rate swap contracts	\$ —	\$ 562	\$ —	\$ 562
Total financial assets	\$ —	\$ 562	\$ —	\$ 562

The Company's interest rate swap agreement matured during the second quarter of 2019.

#### Interest Rate Swap Contracts

The Company uses interest rate swap agreements to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The

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Company's interest rate swaps, which are designated as cash flow hedges, involve the receipt of variable amounts from counterparties in exchange for the Company making fixed-rate payments over the life of the agreements. The Company does not hold or issue any derivative financial instruments for speculative trading purposes.

During 2016, the Company entered into an interest rate swap agreement with a combined notional amount of \$100.0 million with one counterparty that became effective on June 30, 2016 and matured on April 30, 2019. The swap agreement required the Company to pay a fixed rate of 0.8% and provided that the Company receive a variable rate based on the one month LIBOR rate subject to a LIBOR floor of 0.0%. Amounts payable by or due to the Company were net settled with the respective counterparty on the last business day of each month, commencing July 31, 2016.

The fair value of the interest rate swap agreement at December 31, 2018 was \$0.6 million. There were no amounts reclassified into current earnings due to ineffectiveness during the periods presented.

**Note 5. Balance Sheet Components**

Balance sheet details as of September 30, 2019 and December 31, 2018 are presented in the tables below:

	September 30, 2019	December 31, 2018
	(In thousands)	
<b>Inventories:</b>		
Raw materials	\$ 31,780	\$ 32,511
Work in process	8,720	8,726
Finished goods	65,313	59,631
Total inventories	<u>\$ 105,813</u>	<u>\$ 100,868</u>
<b>Other long-term assets:</b>		
Capitalized software, net	\$ 78,409	\$ 56,819
Unbilled receivables	12,794	16,481
Other assets	1,056	1,313
Total other long-term assets, net	<u>\$ 92,259</u>	<u>\$ 74,613</u>
<b>Accrued liabilities:</b>		
Operating lease liabilities, current portion	\$ 10,281	\$ —
Advance payments from customers	4,865	8,993
Rebates and lease buyouts	17,551	11,076
Group purchasing organization fees	5,423	4,455
Taxes payable	3,556	5,885
Other accrued liabilities	16,341	12,638
Total accrued liabilities	<u>\$ 58,017</u>	<u>\$ 43,047</u>



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The following tables summarize the changes in accumulated balances of other comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,					
	2019			2018		
	Foreign currency translation adjustments	Unrealized gain (loss) on interest rate swap hedges	Total	Foreign currency translation adjustments	Unrealized gain (loss) on interest rate swap hedges	Total
	(In thousands)					
Beginning balance	\$ (11,576)	\$ —	\$ (11,576)	\$ (8,896)	\$ 953	\$ (7,943)
Other comprehensive income (loss) before reclassifications	(2,825)	—	(2,825)	(907)	90	(817)
Amounts reclassified from other comprehensive income (loss), net of tax	—	—	—	—	(324)	(324)
Net current-period other comprehensive income (loss), net of tax	(2,825)	—	(2,825)	(907)	(234)	(1,141)
Ending balance	\$ (14,401)	\$ —	\$ (14,401)	\$ (9,803)	\$ 719	\$ (9,084)

	Nine months ended September 30,					
	2019			2018		
	Foreign currency translation adjustments	Unrealized gain (loss) on interest rate swap hedges	Total	Foreign currency translation adjustments	Unrealized gain (loss) on interest rate swap hedges	Total
	(In thousands)					
Beginning balance	\$ (11,274)	\$ 420	\$ (10,854)	\$ (6,954)	\$ 841	\$ (6,113)
Other comprehensive income (loss) before reclassifications	(3,127)	148	(2,979)	(2,849)	686	(2,163)
Amounts reclassified from other comprehensive income (loss), net of tax	—	(568)	(568)	—	(808)	(808)
Net current-period other comprehensive income (loss), net of tax	(3,127)	(420)	(3,547)	(2,849)	(122)	(2,971)
Ending balance	\$ (14,401)	\$ —	\$ (14,401)	\$ (9,803)	\$ 719	\$ (9,084)

**Note 6. Property and Equipment**

The following table represents the property and equipment balances as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
	(In thousands)	
Equipment	\$ 83,233	\$ 75,417
Furniture and fixtures	8,521	7,844
Leasehold improvements	18,205	16,274
Software	47,756	42,048
Construction in progress	8,406	10,706
Property and equipment, gross	166,121	152,289
Accumulated depreciation and amortization	(111,244)	(100,789)
Total property and equipment, net	\$ 54,877	\$ 51,500

Depreciation and amortization expense of property and equipment was \$4.5 million and \$3.7 million for the three months ended September 30, 2019 and 2018, respectively. Depreciation and amortization expense of property and equipment was \$12.9 million and \$11.0 million for the nine months ended September 30, 2019 and 2018, respectively.



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The geographic location of the Company's property and equipment, net, is based on the physical location in which it is located. The following table summarizes the geographic information for property and equipment, net, as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
(In thousands)		
United States	\$ 49,235	\$ 44,684
Rest of world <sup>(1)</sup>	5,642	6,816
<b>Total property and equipment, net</b>	<b>\$ 54,877</b>	<b>\$ 51,500</b>

<sup>(1)</sup> No individual country represented more than 10% of the respective totals.

**Note 7. Goodwill and Intangible Assets**

**Goodwill**

The following table represents changes in the carrying amount of goodwill:

	December 31, 2018	Additions	Foreign currency exchange rate fluctuations	September 30, 2019
(In thousands)				
Goodwill	\$ 335,887	\$ —	\$ (1,371)	\$ 334,516

**Intangible Assets, Net**

The carrying amounts and useful lives of intangible assets as of September 30, 2019 and December 31, 2018 were as follows:

	September 30, 2019				
	Gross carrying amount <sup>(1)</sup>	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
(In thousands, except for years)					
Customer relationships	\$ 135,234	\$ (52,357)	\$ (1,480)	\$ 81,397	1 - 30
Acquired technology	77,142	(34,213)	(28)	42,901	3 - 20
Backlog	1,150	(719)	—	431	4
Trade names	7,650	(4,868)	6	2,788	1 - 12
Patents	3,217	(1,571)	—	1,646	2 - 20
<b>Total intangibles assets, net</b>	<b>\$ 224,393</b>	<b>\$ (93,728)</b>	<b>\$ (1,502)</b>	<b>\$ 129,163</b>	

	December 31, 2018				
	Gross carrying amount <sup>(1)</sup>	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
	(In thousands, except for years)				
Customer relationships	\$ 135,234	\$ (45,029)	\$ (1,185)	\$ 89,020	1 - 30
Acquired technology	78,122	(29,206)	42	48,958	3 - 20
Backlog	21,350	(20,703)	—	647	1 - 4
Trade names	7,650	(4,361)	17	3,306	1 - 12
Patents	3,239	(1,488)	4	1,755	2 - 20
Non-compete agreements	1,900	(1,900)	—	—	3
Total intangibles assets, net	<u>\$ 247,495</u>	<u>\$ (102,687)</u>	<u>\$ (1,122)</u>	<u>\$ 143,686</u>	

<sup>(1)</sup> The differences in gross carrying amounts between periods are primarily due to the write-off of fully amortized intangible assets.

Amortization expense of intangible assets was \$4.6 million and \$5.8 million for the three months ended September 30, 2019 and 2018, respectively. Amortization expense of intangible assets was \$14.1 million and \$17.8 million for the nine months ended September 30, 2019 and 2018, respectively.

The estimated future amortization expenses for amortizable intangible assets were as follows:

	September 30, 2019
	(In thousands)
Remaining three months of 2019	\$ 4,539
2020	17,457
2021	16,125
2022	14,780
2023	13,634
Thereafter	62,628
Total	<u>\$ 129,163</u>

## Note 8. Debt and Credit Agreements

On January 5, 2016, the Company entered into a \$400.0 million senior secured credit facility pursuant to a credit agreement with certain lenders, Wells Fargo Securities, LLC as sole lead arranger, and Wells Fargo Bank, National Association as administrative agent (the "Credit Agreement"). The Credit Agreement provides for (a) a five-year revolving credit facility of \$200.0 million, which was subsequently increased pursuant to the amendment discussed below (the "Revolving Credit Facility") and (b) a five-year \$200.0 million term loan facility (the "Term Loan Facility" and together with the Revolving Credit Facility, the "Facilities"). In addition, the Credit Agreement includes a letter of credit sub-limit of up to \$10.0 million and a swing line loan sub-limit of up to \$10.0 million. The Credit Agreement expires on January 5, 2021, upon which date all remaining outstanding borrowings are due and payable.

Loans under the Facilities bear interest, at the Company's option, at a rate equal to either (a) the LIBOR Rate, plus an applicable margin ranging from 1.50% to 2.25% per annum based on the Company's consolidated total net leverage ratio (as defined in the Credit Agreement), or (b) an alternate base rate equal to the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, and (iii) LIBOR for an interest period of one month, plus an applicable margin ranging from 0.50% to 1.25% per annum based on the Company's consolidated total net leverage ratio (as defined in the Credit Agreement). Undrawn commitments under the Revolving Credit Facility will be subject to a commitment fee ranging from 0.20% to 0.35% per annum based on the Company's consolidated total net leverage ratio on the average daily unused portion of the Revolving Credit Facility. A letter of credit participation fee ranging from 1.50% to 2.25% per annum based on the Company's consolidated total net leverage ratio will accrue on the average daily amount of letter of credit exposure.

The Company is permitted to make voluntary prepayments at any time without payment of a premium or penalty, except for any amounts relating to the LIBOR breakage indemnity described in the Credit Agreement. The Company is

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required to make mandatory prepayments under the Term Loan Facility with (a) net cash proceeds from any issuances of debt (other than certain permitted debt) and (b) net cash proceeds from certain asset dispositions (other than certain permitted asset dispositions) and insurance and condemnation events (subject to reinvestment rights and certain other exceptions). Loans under the Term Loan Facility will amortize in quarterly installments, equal to 5% per annum of the original principal amount thereof during the first two years, which shall increase to 10% per annum during the third and fourth years, and 15% per annum during the fifth year, with the remaining balance payable on January 5, 2021. The Company is required to make mandatory prepayments under the Revolving Credit Facility if at any time the aggregate outstanding principal amount of loans together with the total amount of outstanding letters of credit exceeds the aggregate commitments, with such mandatory prepayment to be equal to the amount of such excess.

The Credit Agreement contains customary representations and warranties, and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, dividends, and other distributions. The Credit Agreement contains financial covenants that require the Company and its subsidiaries to not exceed a maximum consolidated total leverage ratio and maintain a minimum fixed charge coverage ratio. The Company's obligations under the Credit Agreement, and any swap obligations and banking services obligations owing to a lender (or an affiliate of a lender), are guaranteed by certain of its domestic subsidiaries and secured by substantially all of its and the subsidiary guarantors' assets. In connection with entering into the Credit Agreement, and as a condition precedent to borrowing loans thereunder, the Company and certain of the Company's other direct and indirect subsidiaries have entered into certain ancillary agreements, including, but not limited to, a collateral agreement and subsidiary guaranty agreement.

On April 11, 2017, the parties entered into the First Amendment to Credit Agreement and Collateral Agreement (the "Amended Credit Agreement"). Under this amendment, (i) the maximum capital expenditures limit in any fiscal year for property, plant, and equipment and software development increased from \$35.0 million to \$45.0 million, and (ii) the maximum limit for non-permitted investments increased from \$10.0 million to \$20.0 million.

On December 26, 2017, the parties entered into an amendment (the "Amendment") to the Amended Credit Agreement. Pursuant to the Amendment, the Revolving Credit Facility provided for under the Amended Credit Agreement, was increased from \$200.0 million to \$315.0 million, and certain other modifications to the Amended Credit Agreement were made, including amendments to certain negative covenants.

In connection with these Facilities, the Company incurred \$10.1 million of debt issuance costs. The debt issuance costs were capitalized and presented as a direct deduction from the carrying amount of that debt liability. The debt issuance costs are being amortized to interest expense using the straight line method from issuance date through 2021. Interest expense (exclusive of fees and issuance cost amortization) was approximately \$0.8 million and \$1.9 million for the three months ended September 30, 2019 and 2018, respectively, and approximately \$3.0 million and \$5.7 million for the nine months ended September 30, 2019 and 2018, respectively. Amortization expense related to fees and issuance cost was approximately \$0.6 million for both the three months ended September 30, 2019 and 2018, and approximately \$1.7 million for both the nine months ended September 30, 2019 and 2018. The Company was in compliance with all covenants as of September 30, 2019 and December 31, 2018.

During the nine months ended September 30, 2019, the Company repaid \$60.0 million under these Facilities.

The components of the Company's debt obligations as of September 30, 2019 and December 31, 2018 were as follows:

	December 31, 2018	Borrowings	Repayment / Amortization	September 30, 2019
(In thousands)				
Term loan facility	\$ 140,000	\$ —	\$ (60,000)	\$ 80,000
Revolving credit facility	—	—	—	—
Total debt under the facilities	140,000	—	(60,000)	80,000
Less: Deferred issuance cost	(4,583)	—	1,718	(2,865)
Total long-term debt, net of deferred issuance cost	<u>\$ 135,417</u>	<u>\$ —</u>	<u>\$ (58,282)</u>	<u>\$ 77,135</u>

As of September 30, 2019, the carrying amount of debt of \$80.0 million approximates the comparable fair value of \$79.9 million. The Company's debt facilities are classified as a Level 3 in the fair value hierarchy. The calculation of the fair value is based on a discounted cash flow model using observable market inputs and taking into consideration variables such as

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interest rate changes, comparable instruments and long-term credit ratings. There have been no significant changes in the assumptions used as of September 30, 2019 as compared to December 31, 2018.

**Note 9. Lessor Leases**

**Sales-Type Leases**

On a recurring basis, the Company enters into multi-year, sales-type lease agreements, with the majority varying in length from one to five years. The following table presents the Company's income recognized from sales-type leases for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Sales-type lease revenues	\$ 9,017	\$ 11,438	\$ 33,833	\$ 28,828
Interest income on sales-type lease receivables	\$ 527	\$ 315	\$ 1,335	\$ 896

The receivables as a result of these types of transactions are collateralized by the underlying equipment leased and consist of the following components at September 30, 2019 and December 31, 2018:

	September 30,	December 31,
	2019	2018
	(In thousands)	
Net minimum lease payments to be received	\$ 34,057	\$ 28,295
Less: Unearned interest income portion	(3,116)	(2,477)
Net investment in sales-type leases	30,941	25,818
Less: Current portion <sup>(1)</sup>	(9,447)	(8,736)
Long-term net investment in sales-type leases	\$ 21,494	\$ 17,082

<sup>(1)</sup> The current portion of the net investment in sales-type leases is included in other current assets in the Condensed Consolidated Balance Sheets.

The carrying amount of the Company's sales-type lease receivables is a reasonable estimate of fair value.

The Company evaluates its sales-type leases individually and collectively for impairment. The allowance for credit losses was \$0.2 million as of both September 30, 2019 and December 31, 2018.

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The maturity schedule of future minimum lease payments under sales-type leases retained in-house and the reconciliation to the net investment in sales-type leases reported on the Condensed Consolidated Balance Sheets was as follows:

	September 30, 2019
	(In thousands)
Remaining three months of 2019	\$ 4,111
2020	9,677
2021	7,304
2022	6,599
2023	4,585
Thereafter	1,781
Total future minimum sales-type lease payments	34,057
Present value adjustment	(3,116)
Total net investment in sales-type leases	\$ 30,941

**Operating Leases**

The Company entered into certain leasing agreements that were classified as operating leases prior to the adoption of the new lease accounting standard. These agreements in place prior to January 1, 2019 will continue to be treated as operating leases, however any new leasing agreements entered into on or after January 1, 2019 under these programs are classified and accounted for as sales-type leases in accordance with the new lease accounting standard. The operating lease arrangements generally have initial terms of one to seven years. The following table represents the Company's income recognized from operating leases for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Rental income	\$ 2,896	\$ 2,999	\$ 9,548	\$ 8,800

The net carrying value of the leased equipment under operating leases was \$2.3 million and \$2.6 million, which includes accumulated depreciation of \$1.5 million and \$1.2 million, as of September 30, 2019 and December 31, 2018, respectively. Depreciation expense of the leased equipment for both the three months ended September 30, 2019 and 2018 was \$0.2 million, and depreciation expense of the leased equipment for the nine months ended September 30, 2019 and 2018 was \$0.5 million and \$0.3 million, respectively.

The maturity schedule of future minimum lease payments under operating leases was as follows:

	September 30, 2019
	(In thousands)
Remaining three months of 2019	\$ 3,072
2020	9,986
2021	6,908
2022	4,941
2023	2,914
Thereafter	1,229
Total future minimum operating lease payments	\$ 29,050

**Note 10. Lessee Leases**

The Company has operating leases for office buildings, data centers, office equipment, and vehicles. The Company's leases have initial terms of one to 12 years. As of September 30, 2019, the Company did not have any additional material operating leases that were entered into, but not yet commenced.

The maturity schedule of future minimum lease payments under operating leases and the reconciliation to the operating lease liabilities reported on the Condensed Consolidated Balance Sheets was as follows:

	<b>September 30, 2019</b>
	<b>(In thousands)</b>
Remaining three months of 2019	\$ 3,655
2020	13,576
2021	12,966
2022	11,832
2023	8,409
Thereafter	27,585
Total operating lease payments	78,023
Present value adjustment	(15,004)
Total operating lease liabilities <sup>(1)</sup>	\$ 63,019

<sup>(1)</sup> Amount consists of a current and long-term portion of operating lease liabilities of \$10.3 million and \$52.7 million, respectively. The short-term portion of the operating lease liabilities is included in accrued liabilities in the Condensed Consolidated Balance Sheets.

Prior to the adoption of the new lease accounting standard, the maturity schedule of future minimum lease payments under operating leases was as follows:

	<b>December 31, 2018</b>
	<b>(In thousands)</b>
2019	\$ 14,153
2020	13,104
2021	12,729
2022	11,809
2023	8,334
Thereafter	27,289
Total minimum future lease payments	\$ 87,418

Operating lease costs were \$3.7 million and \$11.0 million for the three and nine months ended September 30, 2019, respectively. Short-term lease costs and variable lease costs were immaterial for the three and nine months ended September 30, 2019.



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The following table summarizes supplemental cash flow information related to the Company's operating leases for the nine months ended September 30, 2019:

	<b>Nine months ended September 30, 2019</b>	
	<b>(In thousands)</b>	
Cash paid for amounts included in the measurement of lease liabilities	\$	11,023
Right-of-use assets obtained in exchange for new lease liabilities	\$	957

The following table summarizes the weighted-average remaining lease term and weighted-average discount rate related to the Company's operating leases as of September 30, 2019:

	<b>September 30, 2019</b>
Weighted-average remaining lease term, years	6.6
Weighted-average discount rate, %	6.4%

### **Note 11. Commitments and Contingencies**

#### **Purchase Obligations**

In the ordinary course of business, the Company issues purchase orders based on its current manufacturing needs. As of September 30, 2019, the Company had non-cancelable purchase commitments of \$75.3 million, of which \$57.1 million are expected to be paid within the year ending December 31, 2019.

#### **Legal Proceedings**

The Company is currently involved in various legal proceedings. As required under ASC 450, Contingencies, the Company accrues for contingencies when it believes that a loss is probable and that it can reasonably estimate the amount of any such loss. The Company has not recorded any accrual for contingent liabilities associated with the legal proceedings described below based on its belief that any potential loss, while reasonably possible, is not probable. Further, any possible range of loss in these matters cannot be reasonably estimated at this time. The Company believes that it has valid defenses with respect to legal proceedings pending against it. However, litigation is inherently unpredictable, and it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of this contingency or because of the diversion of management's attention and the creation of significant expenses.

On January 10, 2018, a lawsuit was filed against a number of individuals, governmental agencies, and corporate entities, including the Company and one of its subsidiaries, Aesynt Incorporated ("Aesynt"), in the Circuit Court for the City of Richmond, Virginia, captioned *Ruth Ann Warner, as Guardian of Jonathan James Brewster Warner v. Centra Health, Inc., et al., Case No. CL18-152-1*. The complaint seeks monetary recovery of compensatory and punitive damages in addition to certain declaratory relief based upon, as against the individuals, governmental agencies, and corporate entities other than the Company and Aesynt, allegations of the use of excessive force, unlawful detention, false imprisonment, battery, simple and gross negligence and negligent hiring, detention, and training; and, as against the Company and Aesynt, claims of product liability, negligence, and breach of implied warranties. The Company and Aesynt were never served with the complaint. Upon motion of the plaintiff, the Court issued an order on February 21, 2019 nonsuiting (dismissing) the case without prejudice. On August 21, 2019, a new lawsuit was filed against the Company and Aesynt, in the Circuit Court for the County of Albemarle, Virginia, captioned *Ruth Ann Warner, as Guardian of Jonathan James Brewster Warner v. Aesynt Incorporated, et al., Case No CL19-1301*. The complaint seeks monetary recovery of damages based upon claims of product liability, negligence, and breach of implied warranties. The Company and Aesynt have not been served with the complaint. The Company intends to defend the lawsuit vigorously.

On June 6, 2018, a class action lawsuit was filed against a customer of the Company, the customer's parent company and two vendors of medication dispensing systems, one of which is the Company, in the Circuit Court of Cook County, Illinois, Chancery Division, captioned *Yana Mazya, individually and on behalf of all others similarly situated v. Northwestern Lake Forest Hospital, Northwestern Memorial Healthcare, Omnicell, Inc. and Becton Dickinson, Case No. 2018-CH-07161*. The complaint sought class certification, monetary damages in the form of statutory damages for willful and/or reckless or, in the alternative, negligent violation of the Illinois Biometric Information Privacy Act ("BIPA"), and certain declaratory, injunctive, and other relief based on causes of action directed to allegations of violation of BIPA and of negligence by the defendants. The complaint was served on the Company on June 15, 2018. The Company's obligation to respond to the complaint was held in

abeyance pending a decision of the Illinois Supreme Court in a separate case involving BIPA issues. The Illinois Supreme Court issued its decision in that case on January 25, 2019. On April 10, 2019, subsequent to the court's issuance of an order granting the plaintiff leave to file an amended complaint, the plaintiff filed an amended complaint adding a second named plaintiff and an affiliate of the Company's customer as an additional defendant and, in addition to making other modifications to the complaint, removing the separate cause of action directed to negligence. The court established a deadline of May 13, 2019 for the defendants to answer or otherwise respond to the amended complaint. On May 10, 2019, defendants Northwestern Lake Forest Hospital, Northwestern Memorial Healthcare, and Northwestern Memorial Hospital removed the case to the United States District Court for the Northern District of Illinois, Eastern Division. Subsequently, on May 17, 2019, the Company and the other defendants in the case each filed a motion to dismiss the complaint for failure to state a cause of action upon which relief could be granted. On June 14, 2019, plaintiffs filed a motion to remand the case to state court. The Court then entered an order, on June 19, 2019, denying plaintiffs' motion to remand, granting defendants' motions to dismiss with respect to the additionally-named plaintiff, and continuing the motions to dismiss with respect to the originally-named plaintiff. On July 2, 2019, the Court entered an order remanding the case to state court and denying the defendants' motions to dismiss without prejudice to renewal of the motions in state court. On September 5, 2019, plaintiff filed a motion to voluntarily dismiss the Company from the case without prejudice. The motion was granted by order of the Court dated October 10, 2019 and, as a result, the Company has been finally dismissed from the case without prejudice to plaintiff refile the action.

A declaratory judgment action was filed against the Company, on August 30, 2018, in the United States District Court for the Northern District of California, captioned *Zurich American Insurance Company; American Guarantee & Liability Company v. Omnicell, Inc. and Does 1-10, inclusive, Case No. 3:18-CV-05345*. The complaint seeks a declaration that the plaintiffs have no duty to defend or indemnify the Company in connection with the underlying litigation, the *Yana Mazya, et al. v. Northwestern Lake Forest Hospital, et al., Case No. 2018-CH-07161* pending in the Circuit Court of Cook County, Illinois, Chancery Division ("Mazya Action"), disclosed above, together with claims for reimbursement and unjust enrichment relating to the defense of the Mazya Action in the form of attorneys' fees and other related costs. The Company has not responded to the complaint. On February 12, 2019, the court stayed the action pending the outcome of the Mazya Action and administratively closed the case. On October 15, 2019, the plaintiffs filed a notice advising the Court of the dismissal of the Company from the Mazya Action and requesting that the Court lift the stay in the case and set dates for filing a responsive pleading by the Company and initial discovery and scheduling matters. The Company intends to defend the lawsuit vigorously.

A class action lawsuit was filed against the Company, on June 5, 2019, in the Circuit Court of Cook County, Illinois, Chancery Division, captioned *Corey Heard, individually and on behalf of all others similarly situated, v. Omnicell, Inc., Case No. 2019-CH-06817*. The complaint seeks class certification, monetary damages in the form of statutory damages for willful and/or reckless or, in the alternative, negligent violation of BIPA, and certain declaratory, injunctive, and other relief based on causes of action directed to allegations of violation of BIPA by the Company. The complaint was served on the Company on June 13, 2019. On July 31, 2019, the Company filed a motion to stay or consolidate the case with the Mazya Action. The Court subsequently, on October 10, 2019, denied the motion, without prejudice, as being moot in view of the Company's dismissal from the Mazya Action. The Company filed a motion to dismiss the complaint on October 31, 2019. The Court has scheduled a case status conference for November 7, 2019 at which time the Company intends to present its motion to dismiss to the Court. The Company intends to defend the lawsuit vigorously.

On July 18, 2019, a putative class action lawsuit was filed against the Company and certain of its officers in the U.S. District Court for the Northern District of California. The complaint, captioned *Bursick v. Omnicell, Inc. et al., Case No. 3:19-cv-04150*, alleges that the defendants violated federal securities laws by making materially false and misleading statements beginning in October 2018 regarding revenue recognition, customer concerns about implementation issues, and a purported need to write off inventory. The plaintiff seeks unspecified monetary damages and other relief. On October 24, 2019, Frank Bursick was appointed Lead Plaintiff. The Court ordered Lead Plaintiff to file an amended complaint by November 28, 2019 and the Company to respond to the amended complaint by January 2, 2020. The Company intends to defend the lawsuit vigorously.

In August 2019, the Company received a letter from the Denver office of the SEC seeking information related to the Company's accounting processes and procedures. The Company responded and is fully cooperating with the SEC.

## **Note 12. Income Taxes**

The Company generally provides for income taxes in interim periods based on the estimated annual effective tax rate for the year, adjusting for discrete items in the quarter in which they arise. The annual effective tax rate before discrete items was 24.6% and 19.0% for the nine months ended September 30, 2019 and 2018, respectively.

As a result of global operational centralization activities during the nine months ended September 30, 2018, the Company recognized \$4.2 million of a discrete tax benefit associated with making a check-the-box election to treat Aesynt

Holding Coöperatief U.A. (Netherlands) as a U.S. disregarded entity beginning in the first quarter of 2018. Due to continuing global operational centralization activities during the first quarter of 2019, the Company recognized gain on the sale of certain intellectual property rights by Aesynt Holding Coöperatief U.A. to Omnicell, Inc., which resulted in a discrete tax expense in the amount of \$9.6 million during the nine months ended September 30, 2019. The Company also recognized a discrete tax benefit related to equity compensation in the amount of \$8.1 million and \$4.8 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

The 2019 annual effective tax rate differed from the statutory rate of 21% primarily due to the unfavorable impact of the state income taxes, non-deductible equity charges, and non-deductible expenses, partially offset by the favorable impact of the research and development credits, foreign rate differential, and foreign derived intangible income (“FDII”) benefit deduction. The 2018 annual effective tax rate differed from the statutory rate of 21% primarily due to the favorable impact of the research and development credits and foreign rate differential, which were partially offset by the unfavorable impact of state income taxes, non-deductible expenses, and non-deductible equity charges.

As of September 30, 2019 and December 31, 2018, the Company had gross unrecognized tax benefits of \$14.0 million and \$10.0 million, respectively. It is the Company’s policy to classify accrued interest and penalties as part of the unrecognized tax benefits, but to record interest and penalties in Interest and other income (expense), net in the Condensed Consolidated Statements of Operations. As of September 30, 2019 and December 31, 2018, the amount of accrued interest and penalties was \$1.7 million and \$1.4 million, respectively.

The Company files income tax returns in the United States and various states and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities, including major jurisdictions such as the United States, Germany, Italy, Netherlands, and the United Kingdom. With few exceptions, as of September 30, 2019, the Company is no longer subject to United States, state, and foreign examination for years before 2015, 2014, and 2014, respectively.

Although the Company believes it has adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. It is not possible at this time to reasonably estimate changes in the unrecognized tax benefits within the next twelve months.

### Note 13. Employee Benefits and Share-Based Compensation

#### Stock-Based Plans

For a detailed explanation of the Company's stock plans, please refer to Note 11, *Employee Benefits and Share-Based Compensation*, of the Company's annual report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 27, 2019.

#### Share-Based Compensation Expense

The following table sets forth the total share-based compensation expense recognized in the Company’s Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Cost of product and service revenues	\$ 1,316	\$ 1,150	\$ 4,194	\$ 3,346
Research and development	1,652	1,397	4,938	4,068
Selling, general, and administrative	5,537	4,538	16,043	13,437
Total share-based compensation expense	\$ 8,505	\$ 7,085	\$ 25,175	\$ 20,851

In the first quarter of 2019, the Company modified the terms of its stock options by extending the post-employment exercise period for certain employees. The Company recorded share-based compensation expense related to this modification of approximately \$0.2 million on the stock options modification date. As of September 30, 2019, share-based compensation expense related to unvested stock options impacted by the modification was approximately \$0.7 million, which is expected to be recognized over the remaining weighted-average vesting period of 1.9 years.

## Stock Options and ESPP Shares

The following assumptions were used to value stock options and Employee Stock Purchase Plan (“ESPP”) shares granted pursuant to the Company’s equity incentive plans for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Stock options</b>				
Expected life, years	4.3	4.8	4.4	4.8
Expected volatility, %	34.7%	30.4%	33.7%	31.1%
Risk-free interest rate, %	1.6%	2.8%	2.1%	2.7%
Estimated forfeiture rate, %	7.2%	6.9%	7.2%	6.9%
Dividend yield, %	—%	—%	—%	—%

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Employee stock purchase plan shares</b>				
Expected life, years	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Expected volatility, %	28.9% - 39.9%	28.1% - 33.8%	28.2% - 39.9%	27.7% - 33.8%
Risk-free interest rate, %	1.4% - 2.7%	0.8% - 2.7%	1.3% - 2.7%	0.7% - 2.7%
Dividend yield, %	—%	—%	—%	—%

### Stock Options Activity

The following table summarizes the share option activity under the Company’s equity incentive plans during the nine months ended September 30, 2019:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Years	Aggregate Intrinsic Value
(In thousands, except per share data)				
Outstanding at December 31, 2018	3,748	\$ 41.27	7.6	\$ 78,365
Granted	687	75.49		
Exercised	(597)	32.66		
Expired	(9)	37.08		
Forfeited	(234)	47.23		
Outstanding at September 30, 2019	3,595	\$ 48.86	7.7	\$ 87,453
Exercisable at September 30, 2019	1,470	\$ 33.91	6.3	\$ 56,377
Vested and expected to vest at September 30, 2019 and thereafter	3,401	\$ 48.07	7.7	\$ 85,235

The weighted-average fair value per share of options granted during the three months ended September 30, 2019 and 2018 was \$21.59 and \$12.49, respectively, and the weighted-average fair value per share of options granted during the nine months ended September 30, 2019 and 2018 was \$23.41 and \$15.02, respectively. The intrinsic value of options exercised during the three months ended September 30, 2019 and 2018 was \$2.7 million and \$8.2 million, respectively, and the intrinsic value of options exercised during the nine months ended September 30, 2019 and 2018 was \$27.0 million and \$16.7 million, respectively.

As of September 30, 2019, total unrecognized compensation cost related to unvested stock options was \$33.5 million, which is expected to be recognized over a weighted-average vesting period of 2.7 years.

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*Employee Stock Purchase Plan Activity*

For the nine months ended September 30, 2019 and 2018, employees purchased approximately 374,000 and 452,038 shares of common stock, respectively, under the ESPP at weighted average prices of \$41.44 and \$29.69, respectively. As of September 30, 2019, the unrecognized compensation cost related to the shares to be purchased under the ESPP was approximately \$2.6 million and is expected to be recognized over a weighted-average period of 1.5 years.

**Restricted Stock Units (“RSUs”) and Restricted Stock Awards (“RSAs”)**

Summaries of the restricted stock activity under the Company’s 2009 Equity Incentive Plan, as amended (the “2009 Plan”) are presented below for the nine months ended September 30, 2019:

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Years	Aggregate Intrinsic Value
(In thousands, except per share data)				
<b>Restricted stock units</b>				
Outstanding at December 31, 2018	538	\$ 51.52	1.6	\$ 32,935
Granted (Awarded)	77	77.48		
Vested (Released)	(120)	40.87		
Forfeited	(49)	47.21		
Outstanding and unvested at September 30, 2019	<u>446</u>	<u>\$ 59.39</u>	1.3	<u>\$ 32,199</u>

As of September 30, 2019, total unrecognized compensation cost related to RSUs was \$21.0 million, which is expected to be recognized over the remaining weighted-average vesting period of 2.6 years.

	Number of Shares	Weighted-Average Grant Date Fair Value
(In thousands, except per share data)		
<b>Restricted stock awards</b>		
Outstanding at December 31, 2018	21	\$ 46.60
Granted (Awarded)	17	81.86
Vested (Released)	(21)	46.96
Forfeited	—	—
Outstanding and unvested at September 30, 2019	<u>17</u>	<u>\$ 81.92</u>

As of September 30, 2019, total unrecognized compensation cost related to RSAs was \$0.8 million, which is expected to be recognized over the remaining weighted-average vesting period of 0.6 years.

**Performance-Based Restricted Stock Units**

A summary of the performance-based restricted stock activity under the 2009 Plan is presented below for the nine months ended September 30, 2019:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Unit
(In thousands, except per share data)		
Outstanding at December 31, 2018	197	\$ 34.83
Granted	71	73.38
Vested	(68)	35.74
Forfeited	(33)	33.84
Outstanding and unvested at September 30, 2019	<u>167</u>	<u>\$ 51.07</u>

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As of September 30, 2019, total unrecognized compensation cost related to PSUs was approximately \$4.0 million, which is expected to be recognized over the remaining weighted-average vesting period of 1.3 years.

**Summary of Shares Reserved for Future Issuance under Equity Incentive Plans**

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of September 30, 2019:

	<b>Number of Shares</b> <b>(In thousands)</b>
Share options outstanding	3,595
Non-vested restricted share awards	630
Shares authorized for future issuance	3,672
ESPP shares available for future issuance	1,539
Total shares reserved for future issuance	<u>9,436</u>

**Stock Repurchase Program**

On August 2, 2016, the Company's Board of Directors (the "Board") authorized a stock repurchase program providing for the repurchase of up to \$50.0 million of the Company's common stock (the "2016 Repurchase Program"). The 2016 Repurchase Program is in addition to the stock repurchase program approved by the Board on November 4, 2014 (the "2014 Repurchase Program"). As of September 30, 2019, the maximum dollar value of shares that may yet be purchased under the two repurchase programs was \$54.9 million. The stock repurchase programs do not obligate the Company to repurchase any specific number of shares, and the Company may terminate or suspend the repurchase programs at any time.

During the three and nine months ended September 30, 2019 and 2018, the Company did not repurchase any of its outstanding common stock.

**Note 14. Equity Offerings**

On November 3, 2017, the Company entered into a Distribution Agreement (the "Distribution Agreement") with J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, and HSBC Securities (USA) Inc., as its sales agents, pursuant to which the Company may offer and sell from time to time through the sales agents up to \$125.0 million maximum aggregate offering price of the Company's common stock. Sales of the common stock pursuant to the Distribution Agreement may be made in negotiated transactions or transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the Nasdaq Stock Market, or sales made to or through a market maker other than on an exchange.

For the three months ended September 30, 2019, the Company did not sell any of its common stock under the Distribution Agreement.

For the nine months ended September 30, 2019, the Company received gross proceeds of \$38.5 million from sales of its common stock under the Distribution Agreement and incurred issuance costs of \$0.7 million on sales of approximately 460,000 shares of its common stock at an average price of approximately \$83.81 per share.

For the three and nine months ended September 30, 2018, the Company did not sell any of its common stock under the Distribution Agreement.

As of September 30, 2019, the Company had an aggregate of \$31.5 million available to be offered under the Distribution Agreement.

**Note 15. Restructuring Expenses**

In the fourth quarter of 2018, the Company announced a company-wide organizational realignment initiative in order to align its organizational infrastructure for future expected growth. During the year ended December 31, 2018, the Company incurred and accrued for \$1.3 million of restructuring expenses, which includes severance and consulting-related expenses. As of September 30, 2019, there was no unpaid balance related to this restructuring plan.

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On March 2, 2018, the Company initiated the realignment of its Automation and Analytics commercial group in North America and France. During the nine months ended September 30, 2018, the Company accrued and paid out \$3.0 million of employee severance cost and related expenses. As of December 31, 2018, there was no unpaid balance related to this restructuring program.

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

### FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

*This quarterly report on Form 10-Q contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include, but are not limited to, statements about:*

- *our expectations regarding our future pipeline and product bookings;*
- *the extent and timing of future revenues, including the amounts of our current backlog;*
- *the size or growth of our market or market share;*
- *our ability to acquire companies, businesses, products or technologies on commercially reasonable terms and integrate such acquisitions effectively;*
- *our continued investment in, and ability to deliver on, our key business strategies of developing differentiated solutions, increasing penetration of new markets, and expanding our solutions through acquisitions and partnerships, as well as our goal of advancing our platform with new product introductions annually;*
- *our ability to deliver on our vision of the Autonomous Pharmacy, as well as our plans to integrate our current offerings and technologies on cloud infrastructure and invest in certain key areas as we execute on this vision;*
- *continued investment in our vision of the Autonomous Pharmacy, our beliefs about the anticipated benefits of such investments, and our expectations regarding continued growth in subscription and cloud-based offerings as we execute on this vision;*
- *our belief that continued investment in our key business strategies will continue to generate our revenue and earnings growth while supporting our customers' initiatives and needs;*
- *our belief that our solutions and our vision for the future of medication management automation are strongly aligned with long-term trends in the healthcare market and well-positioned to address the evolving needs of the healthcare institutions;*
- *the bookings, revenue, and margin opportunity presented by new products, emerging markets, and international markets;*
- *our ability to align our cost structure and headcount with our current business expectations;*
- *the operating margins or earnings per share goals we may set;*
- *our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;*
- *the expected impacts of new accounting standards or changes to existing accounting standards;*
- *our expected future uses of cash and the sufficiency of our sources of funding; and*
- *our ability to generate cash from operations and our estimates regarding the sufficiency of our cash resources.*

*In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "seeks," "may," "plans," "potential," "predicts," "projects," "should," "will," "would," "vision," and variations of these terms and similar expressions. Forward-looking statements are based on our current expectations and assumptions and are subject to known and unknown risks and uncertainties, which may cause our actual*

*results, performance, or achievements to be materially different from those expressed or implied in the forward-looking statements.*



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*Such risks and uncertainties include those described throughout this quarterly report, particularly in Part II - Item 1A. "Risk Factors" below. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. You should carefully read this quarterly report and the documents that we reference in this quarterly report and have filed as exhibits, as well as other documents we file from time to time with the Securities and Exchange Commission, with the understanding that our actual future results may be materially different from what we expect. All references in this report to "Omniceil," "our," "us," "we," or the "Company" collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries. The term "Omniceil, Inc.," refers only to Omnicell, Inc., excluding its subsidiaries. The forward-looking statements in this quarterly report represent our estimates and assumptions only as of the date of this quarterly report. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those expressed or implied in any forward-looking statements, even if new information becomes available in the future.*

*We own various trademarks and service marks used in our business, including the following registered and unregistered marks which appear in this report: Omnicell®, the Omnicell logo, Ateb®, InPharmics®, Aesynt®, and Performance Center™. This report also includes the trademarks and service marks of other companies. All other trademarks and service marks used in this report are the marks of their respective holders.*

## OVERVIEW

### Our Business

We are a leading provider of medication and supply dispensing automation, central pharmacy automation, analytics software, and medication adherence solutions. As we build on our vision of the Autonomous Pharmacy - a more fully automated and digitized system of medication management - we believe we will further help enable healthcare providers to improve patient safety, increase efficiency, lower costs, tighten regulatory compliance, and address population health challenges.

Over 5,500 facilities worldwide use our automation and analytics solutions to help increase operational efficiency, reduce medication errors, deliver actionable intelligence, and improve patient safety. More than 40,000 institutional and retail pharmacies across North America and the United Kingdom leverage our innovative medication adherence solutions designed to improve patient engagement and adherence to prescriptions, helping to reduce costly hospital readmissions.

We sell our product and consumable solutions together with related service offerings. Revenues generated in the United States represented 90% and 88% of our total revenues for the three months ended September 30, 2019 and 2018, respectively, and 90% and 87% of our total revenues for the nine months ended September 30, 2019 and 2018, respectively. We have not in the past sold, and have no future plans to sell, our products, either directly or indirectly, to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, or those subject to economic sanctions and export controls.

### Operating Segments

Our Chief Operating Decision Maker ("CODM") is our Chief Executive Officer. The CODM allocates resources and evaluates Omnicell's performance using information about our revenues, gross profit, income from operations, and other key financial data. We previously operated and reported our business in two segments: Automation and Analytics, and Medication Adherence. In the fourth quarter of 2018, we introduced our vision of the Autonomous Pharmacy in order to address changes in the healthcare industry as we execute on our plan to deliver end-to-end solutions with a greater emphasis on automating manual processes for our customers. These industry changes include the continuing consolidation of healthcare systems, rising pharmaceutical costs, and increased scrutiny on controlled substances. In an effort to deliver on our strategic vision, we initiated a company-wide organizational realignment in the fourth quarter of 2018 to centrally manage our business operations, including the development and marketing of all of our products, sales and distribution, supply chain and inventory management, as well as regulatory and quality functions. As a result of this organizational realignment, all significant operating decisions are based upon an analysis of Omnicell as one operating segment. Therefore, effective January 1, 2019, we started reporting as only one operating segment, which is the same as the reporting segment. Accordingly, prior period information has been revised to conform with current period presentation.

### Strategy

The healthcare market is experiencing a period of substantive change. In recent years, healthcare providers and facilities have faced increased spending on medication management, rising pharmaceutical costs, and substantial increases in healthcare administration. These factors, combined with continuing consolidation in the healthcare industry, have increased the need for the efficient delivery of healthcare in order to control costs and improve patient safety, and have elevated the strategic

importance of medication management across the continuum of care. Furthermore, the adoption of electronic healthcare records, new regulatory constraints, and changes in reimbursement arrangements have caused healthcare institutions to re-examine their operating structures, re-prioritize their investments, and seek efficiencies. We believe the evolving operating environments of our customers create challenges for any supplier, but also afford opportunities for suppliers that are able to partner with customers to help them meet the changing demands. We have invested, and intend to continue to invest in the strategies that we believe have generated, and will continue to generate, our revenue and earnings growth, while supporting initiatives and needs of our customers. These strategies include:

- **Development of a differentiated platform.** We intend to continue our focus on further penetrating existing markets through technological leadership and our differentiated platform by consistently innovating our product and service offerings and maintaining our customer-oriented product installation process. We have developed numerous technologies that solve significant challenges for our customers. For example, our XR2 Automated Central Pharmacy System is designed to allow pharmacies to more fully automate medication dispensing, and help to reduce labor cost, decrease medication waste, and improve patient safety; our IVX Workflow solution is designed to reduce medication compounding errors compared to manual compounding methods; and our Performance Center offering leverages predictive analytics to help pharmacies be more proactive in addressing drug shortages.
- **Delivery of our solutions to new markets.** We seek to increase penetration of new markets, such as non-acute care and international markets by: launching new products and technologies that are specific to the needs of those markets; building and establishing direct sales, distribution or other capabilities when and where it is appropriate; partnering with companies that have sales, distribution, or other capabilities that we do not possess; and increasing customer awareness of safety issues in the administration of medications. Consistent with this strategy, we have made investments in expanding our sales team and marketing to new customers. Our international efforts have focused primarily on two markets: Western Europe and the Middle East. We have also expanded our sales efforts to medication adherence customers in the United States.
- **Expansion of our solutions through acquisitions and partnerships.** We believe that expansion of our product lines through acquisitions and partnerships to meet our customers' changing and evolving expectations is a key component to our historical and future success. Building on the successful acquisitions of the past few years, we intend to continue to explore acquisition and partnership opportunities that are a strategic fit for our business, including in support of our Autonomous Pharmacy vision. We have also developed relationships with major providers of hospital information management systems with the goal of enhancing the interoperability of our products with their systems.

Among other financial measures, we utilize product bookings to assess the current success of our strategies. Product bookings consist of all firm orders, as evidenced generally by a non-cancelable contract and purchase order for equipment and software, and by a purchase order for consumables. Equipment and software bookings are generally installable within twelve months and, other than sales based on subscription services, generally recorded as revenue upon customer receipt of goods or acceptance of the installation. Consumables are recorded as revenue upon shipment to a customer or receipt by the customer, depending upon contract terms. Consumable bookings are generally recorded as revenue within one month.

In addition to product solution sales, we provide services to our customers. We provide installation planning and consulting as part of most product sales which is included in the initial price of the solution. To help assure the maximum availability of our systems, our customers typically purchase maintenance and support contracts in increments of one to five years. As a result of the growth of our installed base of customers, our service revenues have also grown.

In the future, we expect our strategies to evolve as the business environment of our customers evolves, but for our focus to remain on improving outcomes for healthcare providers and patients. We expect our investment in differentiated products, new markets, and acquisitions and partnerships to continue.

Our full-time headcount was approximately 2,630 and 2,480 on September 30, 2019 and December 31, 2018, respectively.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based on our Condensed Consolidated Financial Statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. We regularly

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review our estimates and assumptions, which are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

We believe the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements:

- Revenue recognition;
- Allowance for doubtful accounts and notes receivable from investment in sales-type leases;
- Leases;
- Inventory;
- Software development costs;
- Valuation and impairment of goodwill, intangible assets, and other long-lived assets;
- Share-based compensation; and
- Accounting for income taxes.

There were no material changes in the matters for which we make critical accounting estimates in the preparation of our Condensed Consolidated Financial Statements during the nine months ended September 30, 2019 as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2018, except as discussed in "Recently Adopted Authoritative Guidance" in Note 1, *Organization and Summary of Significant Accounting Policies*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

### Recently Issued Authoritative Guidance

Refer to Note 1, *Organization and Summary of Significant Accounting Policies*, of the Notes to Condensed Consolidated Financial Statements in this quarterly report for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial position, and cash flows.

## RESULTS OF OPERATIONS

### Total Revenues

	Three months ended September 30,			
	2019	2018	Change in	
			\$	%
	(Dollars in thousands)			
Product revenues	\$ 168,488	\$ 149,709	\$ 18,779	13%
<i>Percentage of total revenues</i>	<i>74%</i>	<i>73%</i>		
Services and other revenues	60,317	54,558	5,759	11%
<i>Percentage of total revenues</i>	<i>26%</i>	<i>27%</i>		
Total revenues	\$ 228,805	\$ 204,267	\$ 24,538	12%

Product revenues represented 74% and 73% of total revenues for the three months ended September 30, 2019 and 2018, respectively. Product revenues increased by \$18.8 million, primarily due to an increase in our Automated Dispensing Cabinet business, driven primarily by the growth of XT series products, partially offset by a decrease in sales of Performance Center, primarily due to a large installation during the three months ended September 30, 2018.

Services and other revenues represented 26% and 27% of total revenues for the three months ended September 30, 2019 and 2018, respectively. Services and other revenues include revenues from service and maintenance contracts, and rentals of automation systems. Services and other revenues increased by \$5.8 million, primarily due to higher service renewal fees, driven mainly by an increase in our installed customer base, as well as an increase in revenues from Population Health Solutions.



Our international sales represented 10% and 12% of total revenues for the three months ended September 30, 2019 and 2018, respectively, and are expected to be affected by foreign currency exchange rate fluctuations. We are unable to predict the extent to which revenues in future periods will be impacted by changes in foreign currency exchange rates.

	Nine months ended September 30,			
	2019	2018	Change in	
			\$	%
	(Dollars in thousands)			
Product revenues	\$ 472,477	\$ 415,004	\$ 57,473	14%
<i>Percentage of total revenues</i>	73%	72%		
Services and other revenues	176,258	160,555	15,703	10%
<i>Percentage of total revenues</i>	27%	28%		
Total revenues	<u>\$ 648,735</u>	<u>\$ 575,559</u>	<u>\$ 73,176</u>	13%

Product revenues represented 73% and 72% of total revenues for the nine months ended September 30, 2019 and 2018, respectively. Product revenues increased by \$57.5 million, primarily due to an increase in our Automated Dispensing Cabinet business, driven primarily by the growth of XT series products, partially offset by a decrease in sales of Performance Center, primarily due to a large installation during the nine months ended September 30, 2018.

Services and other revenues represented 27% and 28% of total revenues for the nine months ended September 30, 2019 and 2018, respectively. Services and other revenues include revenues from service and maintenance contracts, and rentals of automation systems. Services and other revenues increased by \$15.7 million, primarily due to higher service renewal fees, driven mainly by an increase in our installed customer base, as well as an increase in revenues from Population Health Solutions.

Our international sales represented 10% and 13% of total revenues for the nine months ended September 30, 2019 and 2018, respectively, and are expected to be affected by foreign currency exchange rate fluctuations. We are unable to predict the extent to which revenues in future periods will be impacted by changes in foreign currency exchange rates.

Our ability to continue to grow revenues is dependent on our ability to continue to obtain orders from customers, our ability to produce quality products and consumables to fulfill customer demand, the volume of installations we are able to complete, our ability to meet customer needs by providing a quality installation experience, and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues for equipment is primarily dependent on when our customers' schedules allow for installations.

#### Cost of Revenues and Gross Profit

Cost of revenues is primarily comprised of three general categories: (i) standard product costs, which accounts for the majority of the product cost of revenues that are provided to customers, and are inclusive of purchased material, labor to build the product and overhead costs associated with production; (ii) installation costs as we install our equipment at the customer site and include costs of the field installation personnel, including labor, travel expense, and other expenses; and (iii) other costs, including variances in standard costs and overhead, scrap costs, rework, warranty, provisions for excess and obsolete inventory, and amortization of software development costs and intangibles.

	Three months ended September 30,			
	2019	2018	Change in	
			\$	%
	(Dollars in thousands)			
Cost of revenues:				
Cost of product revenues	\$ 86,695	\$ 79,149	\$ 7,546	10%
<i>As a percentage of related revenues</i>	51%	53%		
Cost of services and other revenues	29,963	26,209	3,754	14%
<i>As a percentage of related revenues</i>	50%	48%		
Total cost of revenues	\$ 116,658	\$ 105,358	\$ 11,300	11%
<i>As a percentage of total revenues</i>	51%	52%		
Gross profit	\$ 112,147	\$ 98,909	\$ 13,238	13%
<i>Gross margin</i>	49%	48%		

Cost of revenues for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 increased by \$11.3 million, of which \$7.5 million was attributed to the increase in cost of product revenues and \$3.8 million was attributed to the increase in cost of services and other revenues. The increase in cost of product revenues is primarily driven by the increase in product revenues of \$18.8 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, partially offset by sales of product portfolios with higher margins as well as lower costs associated with the XT series manufacturing ramp up and economies of scale. The increase in cost of services and other revenues is primarily driven by increase in services and other revenues of \$5.8 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, as well as product mix with lower margins.

The overall increase in gross margin primarily relates to lower costs associated with the XT series manufacturing ramp up and economies of scale. Our gross profit for the three months ended September 30, 2019 was \$112.1 million, as compared to \$98.9 million for the three months ended September 30, 2018.

	Nine months ended September 30,			
	2019	2018	Change in	
			\$	%
	(Dollars in thousands)			
Cost of revenues:				
Cost of product revenues	\$ 250,089	\$ 229,642	\$ 20,447	9%
<i>As a percentage of related revenues</i>	53%	55%		
Cost of services and other revenues	85,337	75,770	9,567	13%
<i>As a percentage of related revenues</i>	48%	47%		
Total cost of revenues	\$ 335,426	\$ 305,412	\$ 30,014	10%
<i>As a percentage of total revenues</i>	52%	53%		
Gross profit	\$ 313,309	\$ 270,147	\$ 43,162	16%
<i>Gross margin</i>	48%	47%		

Cost of revenues for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 increased by \$30.0 million, of which \$20.4 million was attributed to the increase in cost of product revenues and \$9.6 million was attributed to the increase in cost of services and other revenues. The increase in cost of product revenues is primarily driven by the increase in product revenues of \$57.5 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, partially offset by sales of product portfolios with higher margins as well as lower costs associated with the XT series manufacturing ramp up and economies of scale. The increase in cost of services and other revenues is primarily driven by the increase in services and other revenues of \$15.7 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, as well as product mix with lower margins.

The overall increase in gross margin primarily relates to lower costs associated with the XT series manufacturing ramp up and economies of scale. Our gross profit for the nine months ended September 30, 2019 was \$313.3 million, as compared to \$270.1 million for the nine months ended September 30, 2018.

### Operating Expenses and Interest and Other Income (Expense), Net

	Three months ended September 30,			
	2019	2018	Change in	
			\$	%
(Dollars in thousands)				
Operating expenses:				
Research and development	\$ 16,625	\$ 15,805	\$ 820	5%
<i>As a percentage of total revenues</i>	<i>7%</i>	<i>8%</i>		
Selling, general, and administrative	70,876	65,609	5,267	8%
<i>As a percentage of total revenues</i>	<i>31%</i>	<i>32%</i>		
Total operating expenses	\$ 87,501	\$ 81,414	\$ 6,087	7%
<i>As a percentage of total revenues</i>	<i>38%</i>	<i>40%</i>		
Interest and other income (expense), net	\$ (1,168)	\$ (2,837)	\$ 1,669	(59)%

*Research and Development.* Research and development expenses increased by \$0.8 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The increase was primarily attributed to increased spend on consulting expenses, as well as a higher headcount in the research and development function. This increase was partially offset by several research and development projects reaching capitalization stage during the three months ended September 30, 2019, decreasing research and development expenses, as we are allocating additional resources to software projects.

*Selling, General, and Administrative.* Selling, general, and administrative expenses increased by \$5.3 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily due to growth of operations, substantially attributed to higher consulting and employee-related expenses, as well as higher commissions incurred in connection with increased revenues.

*Interest and Other Income (Expense), Net.* Interest and other income (expense), net decreased by \$1.7 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, primarily driven by a \$0.7 million increase in other income and a \$1.0 million decrease in other expenses. The increase in other income is primarily attributable to higher interest income received due to higher cash balances. The decrease in other expenses is primarily due to lower interest expense as a result of significant debt repayments during the year ended December 31, 2018 and nine months ended September 30, 2019, as well as favorable foreign currency fluctuations during the period.

	Nine months ended September 30,			
	2019	2018	Change in	
			\$	%
(Dollars in thousands)				
Operating expenses:				
Research and development	\$ 49,551	\$ 47,854	\$ 1,697	4%
<i>As a percentage of total revenues</i>	<i>8%</i>	<i>8%</i>		
Selling, general, and administrative	207,588	196,831	10,757	5%
<i>As a percentage of total revenues</i>	<i>32%</i>	<i>34%</i>		
Total operating expenses	\$ 257,139	\$ 244,685	\$ 12,454	5%
<i>As a percentage of total revenues</i>	<i>40%</i>	<i>43%</i>		
Interest and other income (expense), net	\$ (4,207)	\$ (6,462)	\$ 2,255	(35)%

*Research and Development.* Research and development expenses increased by \$1.7 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The increase was primarily attributed to increased spend on consulting expenses, as well as a higher headcount in the research and development function. This increase was partially offset by several research and development projects reaching capitalization stage during the nine months ended September 30, 2019, decreasing research and development expenses, as we are allocating additional resources to software projects.

*Selling, General, and Administrative.* Selling, general, and administrative expenses increased by \$10.8 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to growth of operations, substantially attributed to higher consulting and employee-related expenses, as well as higher commissions incurred in connection with increased revenues.

*Interest and Other Income (Expense), Net.* Interest and other income (expense), net decreased by \$2.3 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily driven by a \$3.7 million decrease in other expenses and a \$1.4 million decrease in other income. The decrease in other expenses is primarily due to lower interest expense as a result of significant debt repayments during the year ended December 31, 2018 and nine months ended September 30, 2019, as well as favorable foreign currency fluctuations during the period. The decrease in other income is primarily due to the \$2.5 million contingent gain recognized during the nine months ended September 30, 2018 related to a settlement agreement associated with the Ateb acquisition, partially offset by higher interest income received due to higher cash balances.

#### Provision for (Benefit from) Income Taxes

	Three months ended September 30,			
	2019	2018	Change in	
			\$	%
	(Dollars in thousands)			
Provision for (benefit from) income taxes	\$ 3,495	\$ 1,030	\$ 2,465	239%

  

	Nine months ended September 30,			
	2019	2018	Change in	
			\$	%
	(Dollars in thousands)			
Provision for (benefit from) income taxes	\$ 12,720	\$ (3,936)	\$ 16,656	(423)%

Our annual effective tax rate before discrete items was 24.6% and 19.0% for the nine months ended September 30, 2019 and 2018, respectively. The increase in the estimated annual effective tax rate for the nine months ended September 30, 2019 compared to the same period in 2018 was primarily due to state income taxes, non-deductible equity charges, and research and development credits.

Provision for income taxes for the nine months ended September 30, 2019 included net discrete income tax benefit of \$0.1 million. The net discrete income tax benefit was primarily related to a \$8.1 million tax benefit from equity compensation, partially offset by income tax expense of \$9.6 million recognized on the sale of certain intellectual property rights by Aesynt Holdings Coöperatief U.A. to Omnicell, Inc. in the first quarter of 2019.

Provision for income taxes for the nine months ended September 30, 2018 included net discrete income tax benefit of \$7.6 million. The net discrete income tax benefit was primarily related to a recognized benefit of \$4.2 million associated with making a check-the-box election to treat Aesynt Holdings Coöperatief U.A. as a U.S. disregarded entity beginning the first quarter of 2018 as well as a discrete income tax benefit of \$4.8 million related to equity compensation.

Refer to Note 12, *Income Taxes*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report for more details.

#### LIQUIDITY AND CAPITAL RESOURCES

We had cash and cash equivalents of \$137.3 million at September 30, 2019 compared to \$67.2 million at December 31, 2018. All of our cash and cash equivalents are invested in bank accounts with major financial institutions.



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Our cash position and working capital at September 30, 2019 and December 31, 2018 were as follows:

	September 30, 2019	December 31, 2018
	(In thousands)	
Cash	\$ 137,277	\$ 67,192
Working capital	\$ 248,909	\$ 192,554

Our ratio of current assets to current liabilities was 2.1:1 at September 30, 2019 and 1.9:1 at December 31, 2018.

### Sources of Cash

#### *Credit Agreement*

On January 5, 2016, we entered into a \$400.0 million secured credit facility pursuant to a credit agreement with certain lenders, Wells Fargo Securities, LLC as sole lead arranger, and Wells Fargo Bank, National Association as administrative agent (the “Credit Agreement”). The Credit Agreement provides for a \$200.0 million term loan facility (the “Term Loan Facility”), and prior to the amendment discussed below, a \$200.0 million revolving credit facility (the “Revolving Credit Facility” and together with the Term Loan Facility, the “Facilities”). In addition, the Credit Agreement includes a letter of credit sub-limit of up to \$10.0 million and a swing line loan sub-limit of up to \$10.0 million.

On December 26, 2017 and April 11, 2017, we entered into amendments to the Credit Agreement. Under these amendments, the Revolving Credit Facility was increased from \$200.0 million to \$315.0 million and certain other modifications were made. Refer to Note 8, *Debt and Credit Agreements*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report. We expect to use future loans under the Revolving Credit Facility, if any, for general corporate purposes, including acquisitions.

As of September 30, 2019, the outstanding balance from the Facilities was \$80.0 million and we were in compliance with all covenants.

#### *Distribution Agreement*

On November 3, 2017, we entered into a Distribution Agreement (the “Distribution Agreement”) with J.P. Morgan Securities LLC, Wells Fargo Securities, LLC and HSBC Securities (USA) Inc., as our sales agents, pursuant to which we may offer and sell from time to time through the sales agents up to \$125.0 million maximum aggregate offering price of our common stock. Sales of the common stock pursuant to the Distribution Agreement may be made in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the Nasdaq Stock Market, or sales made to or through a market maker other than on an exchange. We intend to use the net proceeds from the sale, if any, of common stock in the offering for general corporate purposes, which may include, without limitation, the acquisition of complementary businesses, the repayment of outstanding indebtedness, capital expenditures, and working capital.

For the three months ended September 30, 2019, we did not sell any of our common stock under the Distribution Agreement.

For the nine months ended September 30, 2019, we received gross proceeds of \$38.5 million from sales of our common stock under the Distribution Agreement and incurred issuance costs of \$0.7 million on sales of approximately 460,000 shares of our common stock at an average price of approximately \$83.81 per share.

For the three and nine months ended September 30, 2018, we did not sell any of our common stock under the Distribution Agreement.

As of September 30, 2019, we had an aggregate of \$31.5 million available to be offered under the Distribution Agreement.

### Uses of Cash

Our future uses of cash are expected to be primarily for working capital, capital expenditures, loan principal and interest payments, and other contractual obligations. We also expect a continued use of cash for potential acquisitions and acquisition-related activities.

Our stock repurchase programs have a total of \$54.9 million remaining for future repurchases as of September 30, 2019, which may result in additional use of cash. See “Stock Repurchase Program” under Note 13, *Employee Benefits and*

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*Share-Based Compensation*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report. There were no stock repurchases during the nine months ended September 30, 2019 and 2018.

Based on our current business plan and revenue backlog, we believe that our existing cash and cash equivalents, our anticipated cash flows from operations, cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan, along with the availability of funds under the Facilities will be sufficient to meet our cash needs for working capital, capital expenditures, potential acquisitions, and other contractual obligations for at least the next twelve months. For periods beyond the next twelve months, we also anticipate that our net operating cash flows plus existing balances of cash and cash equivalents will suffice to fund the continued growth of our business.

## Cash Flows

The following table summarizes, for the periods indicated, selected items in our Condensed Consolidated Statements of Cash Flows:

	Nine months ended September 30,	
	2019	2018
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$ 110,188	\$ 56,514
Investing activities	(46,761)	(41,472)
Financing activities	7,045	(2,919)
Effect of exchange rate changes on cash and cash equivalents	(387)	(373)
Net increase in cash and cash equivalents	\$ 70,085	\$ 11,750

### Operating Activities

We expect cash from our operating activities to fluctuate in future periods as a result of a number of factors, including the timing of our billings and collections, our operating results, and the timing of other liability payments.

Net cash provided by operating activities was \$110.2 million for the nine months ended September 30, 2019, primarily consisting of net income of \$39.2 million adjusted for non-cash items of \$78.8 million, offset by changes in assets and liabilities of \$7.8 million. The non-cash items primarily consisted of depreciation and amortization expense of \$39.5 million, share-based compensation expense of \$25.2 million, amortization of operating lease right-of-use asset amortization of \$7.9 million, debt financing fees of \$1.7 million, and the change in deferred income taxes of \$4.0 million. Changes in assets and liabilities include cash outflows from (i) a decrease in accrued compensation of \$8.2 million primarily due to a decrease in accrued commissions and restructuring expenses, as well as timing of payroll, (ii) a decrease in operating lease liabilities of \$7.9 million, (iii) an increase in accounts receivable and unbilled receivables of \$7.7 million primarily due to an increase in billings, (iv) an increase in inventories of \$7.0 million for inventory buildup in support of forecasted sales of new and existing products, (v) an increase in investment in sales-type leases of \$5.1 million, and (vi) an increase in prepaid expenses of \$1.3 million. These cash outflows were partially offset by (i) an increase in accounts payable of \$10.3 million, (ii) an increase in accrued liabilities of \$5.3 million, (iii) an increase in other long-term liabilities of \$4.1 million, (iv) a decrease in other long-term assets of \$3.9 million, (v) an increase in deferred revenues of \$3.9 million, (vi) a decrease in other current assets of \$1.0 million, and (vii) a decrease in prepaid commissions of \$0.9 million.

Net cash provided by operating activities was \$56.5 million for the nine months ended September 30, 2018, primarily consisting of net income of \$22.9 million adjusted for non-cash items of \$51.3 million, offset by changes in assets and liabilities of \$17.7 million. The non-cash items primarily consisted of depreciation and amortization expense of \$37.5 million, share-based compensation expense of \$20.9 million, amortization of debt financing fees of \$1.7 million, and the change in deferred income taxes of \$8.8 million. Changes in assets and liabilities include cash outflows from (i) an increase in accounts receivable and unbilled receivables of \$16.2 million primarily due to an increase in billings, (ii) a decrease in accounts payable of \$8.4 million, primarily due to the timing of payments, (iii) an increase in other long-term assets of \$6.2 million as a result of the increase in unbilled receivables, (iv) an increase in inventories of \$5.3 million due to inventory buildup in support of forecasted sales, (v) an increase in investment in sales-type leases of \$1.7 million, and (vi) a decrease in other long-term liabilities of \$1.0 million. These cash outflows were partially offset by (i) an increase in deferred revenues of \$9.0 million due to timing of orders and revenues being recognized for installed product, (ii) an increase in accrued compensation of \$5.7 million, (iii) a decrease in other current assets of \$3.1 million, (iv) an increase in accrued liabilities of \$1.5 million, (v) a decrease in prepaid commissions of \$1.0 million, and (vi) a decrease in prepaid expenses of \$0.8 million.

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### *Investing Activities*

Net cash used in investing activities was \$46.8 million for the nine months ended September 30, 2019, which consisted of capital expenditures of \$12.6 million for property and equipment, and \$34.1 million for costs of software development for external use.

Net cash used in investing activities was \$41.5 million for the nine months ended September 30, 2018, which consisted of capital expenditures of \$19.3 million for property and equipment and \$22.2 million for costs of software development for external use.

### *Financing Activities*

Net cash provided by financing activities was \$7.0 million for the nine months ended September 30, 2019, primarily due to proceeds of \$37.8 million from sales of our common stock under the Distribution Agreement and \$35.0 million in proceeds from employee stock option exercises and employee stock plan purchases, partially offset by the repayment of \$60.0 million of the Facilities and \$5.8 million in employees' taxes paid related to restricted stock unit vesting.

Net cash used in financing activities was \$2.9 million for the nine months ended September 30, 2018, primarily due to the repayment of \$27.0 million of the Facilities and \$3.6 million in employees' taxes paid related to restricted stock unit vesting, partially offset by \$27.7 million of proceeds from employee stock option exercises and employee stock plan purchases.

### **Contractual Obligations**

There have been no significant changes during the nine months ended September 30, 2019 to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our annual report on Form 10-K for the year ended December 31, 2018.

Contractual obligations as of September 30, 2019 were as follows:

	Payments due by period				
	Total	Remainder of 2019	2020 - 2021	2022 - 2023	2024 and thereafter
	(In thousands)				
Operating leases <sup>(1)</sup>	\$ 78,023	\$ 3,655	\$ 26,542	\$ 20,241	\$ 27,585
Purchase obligations <sup>(2)</sup>	75,289	57,104	17,633	331	221
Term loan facility <sup>(3)</sup>	80,000	—	80,000	—	—
Total <sup>(4) (5)</sup>	<u>\$ 233,312</u>	<u>\$ 60,759</u>	<u>\$ 124,175</u>	<u>\$ 20,572</u>	<u>\$ 27,806</u>

<sup>(1)</sup> Commitments under operating leases relate primarily to leased office buildings, data centers, office equipment, and vehicles. Refer to Note 10, *Lessee Leases*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

<sup>(2)</sup> We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. These amounts are associated with agreements that are enforceable and legally binding. The amounts under such contracts are included in the table above because we believe that cancellation of these contracts is unlikely and we expect to make future cash payments according to the contract terms or in similar amounts for similar materials.

<sup>(3)</sup> Amount shown for term loan is principal repayments only. Due to use of interest rate swaps, the cash interest expense is partly variable and partly fixed, and is not reflected in the above table. Refer to Note 8, *Debt and Credit Agreements*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

<sup>(4)</sup> We have recorded \$10.1 million for uncertain tax positions under long-term liabilities as of September 30, 2019 in accordance with U.S. GAAP. As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, the \$10.1 million in uncertain tax position liabilities have not been included in the table above.

<sup>(5)</sup> Refer to Note 11, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

### **Off-Balance Sheet Arrangements**

As of September 30, 2019, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

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

We are exposed to market risks related to fluctuations in foreign currency exchange rates and interest rates.

#### Foreign Currency Exchange Risk

We operate in foreign countries which expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which are the British Pound and the Euro. In order to manage foreign currency risk, at times we enter into foreign exchange forward contracts to mitigate risks associated with changes in spot exchange rates of mainly non-functional currency denominated assets or liabilities of our foreign subsidiaries. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. By working only with major banks and closely monitoring current market conditions, we seek to limit the risk that counterparties to these contracts may be unable to perform. We do not enter into derivative contracts for trading purposes. As of September 30, 2019, we did not have any outstanding foreign exchange forward contracts.

#### Interest Rate Fluctuation Risk

We are exposed to interest rate risk through our borrowing activities. As of September 30, 2019, we had total debt under the Credit Agreement of \$80.0 million. See Note 8, *Debt and Credit Agreements*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

We use interest rate swap agreements to protect against adverse fluctuations in interest rates by reducing our exposure to variability in cash flows relating to interest payments on a portion of our outstanding debt. Our interest rate swaps, which are designated as cash flow hedges, involve the receipt of variable amounts from counterparties in exchange for us making fixed-rate payments over the life of the agreements. We do not hold or issue any derivative financial instruments for speculative trading purposes. As of September 30, 2019, we did not have any outstanding interest rate swap agreements. Our interest rate swap agreement matured during the second quarter of 2019.

There were no significant changes in our market risk exposures during the nine months ended September 30, 2019 as compared to the market risk exposures disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7A, of our annual report on Form 10-K for the year ended December 31, 2018.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this report. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in this report was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

#### Limitations on Effectiveness of Controls

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements for external purposes in accordance with U.S. GAAP. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the internal control system are met.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the three months ended September 30, 2019.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information set forth under “Legal Proceedings” in Note 11, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Our business faces significant risks and the risks described below may not be the only risks we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations, or financial condition could suffer and the market price of our common stock could decline.

In assessing these risks, you should also refer to other information contained in this quarterly report on Form 10-Q, including the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Condensed Consolidated Financial Statements and related Notes. We have marked with an asterisk (\*) those risks, when applicable, that reflect substantive changes from, or additions to, the risks described in our annual report on Form 10-K for the year ended December 31, 2018, if any.

***If we fail to develop new products or enhance our existing products to react to rapid technological change and market demands in a timely and cost-effective manner, or if newly developed solutions, such as our XT Series, XR2 Automated Central Pharmacy System, and IVX Workflow, are not adopted in the same time frame and/or quantity as we anticipate, our business will suffer.***

We must develop new products or enhance our existing products with improved technologies to meet rapidly evolving customer requirements. We are constantly engaged in the development process for next generation products, and we need to successfully design our next generation and other products for customers who continually require higher performance and functionality at lower costs. The development process for these advancements is lengthy and usually requires us to accurately anticipate technological innovations and market trends. Developing and enhancing these products can be time-consuming, costly, and complex. Our ability to fund product development and enhancements partially depends on our ability to generate revenues from our existing products.

There is a risk that these developments, such as our XR2 Automated Central Pharmacy System and IVX semi-automated workflow solution, or product enhancements, will be late, will have technical problems, will fail to meet customer or market specifications or will not be competitive with other products using alternative technologies that offer comparable performance and functionality. While our business strategy includes a goal of advancing our platform with new product introductions annually, we may be unable to successfully develop additional next generation products, new products or product enhancements on an annual basis or at all. Our next generation products, such as our XT Series, or any new products, such as our VBM 200F packaging solution for multimедication blister cards, XR2 Automated Central Pharmacy System, IVX semi-automated workflow solution, SupplyX Inventory Management System, RDX Essential solution designed for the European retail pharmacy market, or product enhancements may not be accepted in new or existing markets.

Our ability to execute successfully on our recently-launched vision of a fully digitized and autonomous pharmacy depends on our ability to continue to develop and introduce new products or product enhancements, and integrate new products with existing offerings, in furtherance of this vision in a timely manner and on a cost-effective basis. If we fail to do so, we may be unable to achieve our vision of the Autonomous Pharmacy, we may not realize the anticipated benefits of our investments in support of this vision, and our business will suffer.

***We operate in highly competitive markets, and we may be unable to compete successfully against new entrants and established companies with greater resources and/or existing business relationships with our current and potential customers.\****

The markets in which we operate are intensely competitive. We expect continued and increased competition from current and future competitors, many of which have significantly greater financial, technical, marketing and other resources than we do. Our current direct competitors in the medication management and supply chain solutions market include Becton, Dickinson and Company; ARxIUM; Cerner Corporation; Swisslog Healthcare as a division of KUKA; TouchPoint Medical, Inc.; Cardinal Health, Inc.; PAR Excellence Systems, Inc.; TECSYS Inc.; Kit Check, Inc.; Baxter Healthcare Corporation; Grifols, S.A.; Willach Pharmacy Solutions; DIH Technologies Corporation; Yuyama Co., Ltd; RoboPharma B.V.; Meditech-Pharma; Knapp AG; KLS Steuerungstechnik GmbH; and Gollmann Kommissioniersysteme GmbH. Our current direct

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competitors in the medication adherence solutions market include Drug Package, Inc.; ARxIUM; Manchac Technologies, LLC; RX Systems, Inc.; McKesson Corporation; Digital Pharmacist Inc.; Tabula Rasa Healthcare, Inc. (through its acquisition of PrescribeWellness); Synergy Medical Systems; and TCGRx/Parata Systems in the United States, and Jones Packaging Ltd.; Synergy Medical Systems; and WebsterCare outside the United States.

The competitive challenges we face in the markets in which we operate include, but are not limited to, the following:

- certain competitors may offer or have the ability to offer a broader range of solutions in the marketplace that we are unable to match;
- certain competitors may develop alternative solutions to the customer problems our products are designed to solve that may provide a better customer outcome or a lower cost of operation;
- certain competitors may develop new features or capabilities for their products not previously offered that could compete directly with our products;
- competitive pressures could result in increased price competition for our products and services, fewer customer orders, and reduced gross margins, any of which could harm our business;
- current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, including larger, more established healthcare supply companies, thereby increasing their ability to develop and offer a broader suite of products and services to address the needs of our prospective customers;
- our competitive environment has recently experienced a significant degree of consolidation which could lead to competitors developing new business models that require us to adapt how we market, sell, or distribute our products; for example, in the fourth quarter of 2018, we initiated a company-wide organizational realignment in order to align our organizational infrastructure to centrally manage our business, including the marketing, sale, and distribution of our products, in part to address the continuing consolidation in the healthcare industry;
- other established or emerging companies may enter the medication management and supply chain solutions market, or the medication adherence market, with products and services that are preferred by our current and potential customers based on factors such as features, capabilities, or cost;
- our competitors may develop, license, or incorporate new or emerging technologies or devote greater resources to the development, promotion, and sale of their products and services than we do;
- certain competitors have greater brand name recognition and a more extensive installed base of medication and supply dispensing systems or other products and services than we do, and such advantages could be used to increase their market share;
- certain competitors may have existing business relationships with our current and potential customers, which may cause these customers to purchase medication and supply dispensing systems or automation solutions from these competitors; and
- our competitors may secure products and services from suppliers on more favorable terms or secure exclusive arrangements with suppliers or buyers that may impede the sales of our products and services.

***Unfavorable economic and market conditions, a decreased demand in the capital equipment market, and uncertainty regarding the rollout of government legislation in the healthcare industry could adversely affect our operating results.***

Customer demand for our products is significantly linked to the strength of the economy. If decreases in demand for capital equipment caused by weak economic conditions and decreased corporate and government spending, including any effects of fiscal budget balancing at the federal level, deferrals or delays of capital equipment projects, longer time frames for capital equipment purchasing decisions, or generally reduced expenditures for capital solutions occurs, we will experience decreased revenues and lower revenue growth rates, and our operating results could be materially and adversely affected.

Additionally, as the U.S. Federal Government implements healthcare reform legislation, and as Congress, regulatory agencies, and other state governing organizations continue to review and assess additional healthcare legislation and regulations, there may be an impact on our business. Healthcare facilities may decide to postpone or reduce spending until the implications of such healthcare enactments are more clearly understood, which may affect the demand for our products and harm our business.

***Any reduction in the demand for or adoption of our medication and supply systems, related services, or consumables would reduce our revenues.***

Our medication and supply dispensing systems represent only one approach to managing the distribution of pharmaceuticals and supplies at acute healthcare facilities, and our medication packaging systems represent only one way of managing medication distribution at non-acute care facilities. While a significant portion of domestic acute care facilities have adopted some level of medication and/or supply automation, a significant portion of domestic and international healthcare facilities still use traditional approaches in some form that do not include fully automated methods of medication and supply management. As a result, we must continuously educate existing and prospective customers about the advantages of our products, which requires significant sales efforts, particularly when we are seeking to replace an incumbent supplier of medication and supply automation solutions and can cause longer sales cycles. Despite our significant efforts and extensive time commitments in sales to healthcare facilities, we cannot be assured that our efforts will result in sales to these customers.

In addition, our medication and supply dispensing systems and our more complex automated packaging systems typically represent a sizable initial capital expenditure for healthcare organizations. Changes in the budgets of these organizations and the timing of spending under these budgets can have a significant effect on the demand for our medication and supply dispensing systems and related services and our medication packaging systems. These budgets are often supported by cash flows that can be negatively affected by declining investment income and influenced by limited resources, increased operational and financing costs, macroeconomic conditions such as unemployment rates, and conflicting spending priorities among different departments. Any decrease in expenditures by healthcare facilities or increased financing costs could decrease demand for our medication and supply dispensing systems and related services and our medication packaging systems, and reduce our revenues.

***The transition to selling more products which include a software as a service or solution as a service subscription presents a number of risks.***

We currently offer our IV compounding robots, Medication Packager products, and XR2 Automated Central Pharmacy System together with personnel to operate the equipment, through subscription agreements. We also offer Performance Center, Patient Engagement and Guided Packing software, Electronic Medication Administration (eMAR), SupplyX Inventory Management System, Omnicell Analytics, and some central pharmacy solutions as a subscription and/or service. IVX Workflow also contains a payment stream as part of the license fees in its pricing structure. As we continue to execute on our Autonomous Pharmacy vision and grow subscription and cloud-based offerings, we may offer additional products and services on a subscription basis. The transition to selling more products on a subscription basis presents a number of risks. The shift requires an investment of technical, financial, compliance and sales resources, and we cannot guarantee that we will recoup the costs of such investments, or that these investments will improve our long-term growth and results of operations. If adoption of certain subscription products takes place faster than anticipated, the shift to subscription revenues from capital equipment sales will defer revenue recognition and we may experience a temporary reduction of revenues. If any of our subscription products do not substantially meet customer requirements, customers may cancel subscriptions, causing a decline in revenue. Customers may elect not to renew their subscriptions upon expiration, or they may attempt to renegotiate pricing or other contractual terms at or prior to renewal on terms that are less favorable to us. In addition, since revenue is generally recognized over the term of the subscription, any decrease in customer purchases of our subscription-based products and services will not be fully reflected in our operating results until future periods, and it will also be more difficult for us to rapidly increase our revenue through additional subscription sales in any one period.

***We have incurred substantial debt, which could impair our flexibility and access to capital and adversely affect our financial position.\****

In connection with the Aesynt acquisition, we entered into a \$400.0 million senior secured credit facility pursuant to a credit agreement with certain lenders, Wells Fargo Securities, LLC as sole lead arranger, and Wells Fargo Bank, National Association as administrative agent (as subsequently amended, the "Credit Agreement"). In December 2017, we entered into an amendment to the Credit Agreement with Wells Fargo Bank, National Association and certain other lenders pursuant to which the revolving credit facility was increased from \$200.0 million to \$315.0 million, and certain other modifications were made, including amendments to certain negative covenants. The Credit Agreement also provides for a \$200.0 million term loan facility. At September 30, 2019, the loan balance of the term loan facility was \$80.0 million, and there was no outstanding loan balance for the revolving credit facility.

Our debt may:

- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;



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- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Our ability to meet our debt service obligations will depend on our future performance, which will be subject to financial, business, and other factors affecting our operations, many of which are beyond our control. If we do not have sufficient funds to meet our debt service obligations, we may be required to refinance or restructure all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can assure you that we would be able to do in a timely manner, or at all. In addition, as more fully described in the risk factor titled “Covenants in our Credit Agreement restrict our business and operations in many ways and if we do not effectively manage our compliance with these covenants, our financial conditions and results of operations could be adversely affected” below, the Credit Agreement includes customary restrictive covenants that impose operating and financial restrictions on us, including restrictions on our ability to take actions that could be in our best interests.

In addition, borrowings under the Credit Agreement bear interest based on the London Interbank Offered Rate (“LIBOR”). LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to disappear entirely or to perform differently than in the past. The consequences of these developments cannot be entirely predicted, but could include an increase in the cost of borrowings under the Credit Agreement and other financial contracts that we may enter into that are indexed to LIBOR.

***We are subject to laws, regulations, and other legal obligations related to privacy, data protection, and information security, and the costs of compliance with, and potential liability associated with, our actual or perceived failure to comply with such obligations could harm our business.\****

We receive, store, and process personal information and other data from and about customers, in addition to our employees and services providers. In addition, our customers use our solutions to obtain and store personal information, including personal health information. For example, our customers use our Omnicell Patient Engagement platform to guide and track patient notes, interventions and appointments, which involves the collection of personal health information of patients. Our handling of data is subject to a variety of laws and regulations by state, local, and foreign agencies, as well as contractual obligations and industry standards. Regulatory focus on data privacy and security concerns continues to increase globally, and laws and regulations concerning the collection, use, and disclosure of personal information are expanding and becoming more complex. In the United States, these include federal health information privacy laws (such as HIPAA, discussed below), security breach notification laws, and consumer protection laws, as well as state laws addressing privacy and data security. For example, The California Consumer Privacy Act of 2018, which was enacted on June 28, 2018, becomes effective in January 2020 and imposes additional obligations on companies that process information on California residents.

Internationally, various foreign jurisdictions in which we operate have established, or are developing, their own data privacy and security legal framework with which we or our customers must comply. In certain cases, these international laws and regulations are more restrictive than those in the United States. For example, within the European Union, the General Data Protection Regulation (“GDPR”), which became effective in May 2018, imposes more stringent data protection requirements on U.S.-based companies such as ours which receive or process personal information from EU residents, and establishes greater penalties for non-compliance. Violations of the GDPR can result in penalties up to the greater of €20.0 million or 4% of global annual revenues, and may also lead to damages claims by data controllers and data subjects. Such penalties are in addition to any civil litigation claims by data controllers, customers, and data subjects. Further, Brexit (discussed below) has created uncertainty regarding the regulation of data protection in the United Kingdom. In particular, although the United Kingdom enacted a Data Protection Act in May 2018 that is designed to be consistent with the GDPR, uncertainty remains regarding how data transfers to and from the United Kingdom will be regulated following Brexit.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that may legally or contractually apply to us. We also expect that there will continue to be new proposed laws, regulations, and industry standards relating to privacy, data protection, and information security. We cannot predict the scope of any such future laws, regulations, and standards that may be applicable to us, or how courts, agencies, or data protection authorities might interpret current ones. It is possible that these laws and other obligations may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the functionality of our solutions, and we cannot predict the impact of such potential, future, inconsistent interpretations.



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Compliance with privacy, data protection, and information security laws, regulations, and other obligations is costly, and we may encounter difficulties, delays, or significant expenses in connection with our compliance, or because of our customers' need to comply or our customers' interpretation of their own legal requirements. In addition, any failure or perceived failure by us to comply with laws, regulations, policies, legal or contractual obligations, industry standards, or regulatory guidance relating to privacy or data security could result in governmental investigations and enforcement actions, litigation, fines and penalties, exposure to indemnification obligations or other liabilities, and adverse publicity, all of which could have an adverse effect on our reputation, as well as our business, financial condition, and results of operation. For example, as discussed further in the section entitled "Legal Proceedings" in Note 11, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report, we are currently subject to certain class action lawsuits asserting, among other allegations, claims of violation of the Illinois Biometric Information Privacy Act.

***If we experience a significant disruption in our information technology systems, breaches of data security, or cyber-attacks on our systems or solutions, our business could be adversely affected.***

We rely on information technology systems to keep financial records and corporate records, communicate with staff and external parties, and operate other critical functions, including sales and manufacturing processes. In addition, we also utilize third-party cloud services in connection with our operations. Our information technology systems and third-party cloud services are potentially vulnerable to disruption due to breakdown, malicious intrusion and computer viruses, or environmental impact. If we were to experience a prolonged system disruption in our information technology systems or third-party cloud services, it could negatively impact the coordination of our sales, planning, and manufacturing activities, which could adversely affect our business. In addition, in order to maximize our information technology efficiency, we have physically consolidated our primary corporate data and computer operations. This concentration, however, exposes us to a greater risk of disruption to our internal information technology systems. Although we maintain offsite back-ups of our data, if operations at our facilities were disrupted, it may cause a material disruption in our business if we are not capable of restoring function on an acceptable time frame.

Our information technology systems and third-party cloud services are potentially vulnerable to cyber-attacks or other data security breaches, whether by employees or others, which may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of sensitive and confidential information of our employees, customers, suppliers, and others, any of which could have a material adverse effect on our business, financial condition, and results of operations. Moreover, a security breach or privacy violation that leads to disclosure or modification of, or prevents access to, patient information, including personally identifiable information or protected health information, could harm our reputation, result in litigation, compel us to comply with federal and/or state breach notification laws, subject us to mandatory corrective action, require us to verify the correctness of database contents, and otherwise subject us to liability under laws and regulations that protect personal data, resulting in increased costs or loss of revenues.

In addition, we sell certain solutions that receive, store, and process our customers' data. For example, our Performance Center solution combines a cloud-based predictive intelligence platform with expert services designed to monitor pharmacy operations and recommend opportunities to help improve efficiency, regulatory compliance and patient outcomes. In addition, our Omnicell Patient Engagement platform is a private cloud-based solution that supports improving patient adherence goals through a single web-based platform that hosts functionality to guide and track patient notes, interventions and appointments. An effective attack on our solutions could disrupt the proper functioning of our solutions, allow unauthorized access to sensitive and confidential information of our customers (including protected health information), and disrupt our customers' operations. Any of these events could cause our solutions to be perceived as having security vulnerabilities and reduce demand for our solutions, which could have a material adverse effect on our business, financial condition, and results of operations. These risks are likely to increase as we continue to grow our cloud-based offerings, including in support of our Autonomous Pharmacy vision, and as we receive, store, and process more of our customers' data. We use third-party cloud providers in connection with certain of our cloud-based offerings or third-party providers to host our own data, in which case we rely on the processes, controls, and security such third parties have in place to protect the infrastructure. We also may acquire companies, products, services, and technologies and inherit such risks when we integrate these acquisitions within Omnicell.

While we have implemented a number of security measures designed to protect our systems and data, including firewalls, antivirus and malware detection tools, patches, log monitors, routine back-ups, system audits, routine password modifications, and disaster recovery procedures, and have designed certain security features into our solutions, such measures may not be adequate or implemented properly to prevent or fully address the adverse effect of such events, and in some cases we may be unaware of an incident or its magnitude and effects. Any failure to prevent such security breaches or privacy violations, or implement satisfactory remedial measures, could require us to expend significant resources to remediate any damage, disrupt our operations or the operations of our customers, damage our reputation, or expose us to a risk of financial

loss, litigation, regulatory penalties, contractual indemnification obligations, or other liability because of lost or misappropriated information, including sensitive patient data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

***We may fail to realize the potential benefits of recently acquired businesses.***

In 2016, we acquired Aesynt and Ateb, and in 2017, we acquired InPharmics, in an effort to realize certain potential benefits, including expansion of the combined businesses and broader market opportunities. However, our ability to realize these potential benefits depends on our successfully combining the businesses of Omnicell, Aesynt, Ateb, and InPharmics. The combined company may fail to realize the potential benefits of the acquisition for a variety of reasons, including the following:

- inability or failure to expand product bookings and sales;
- inability to maintain business relationships with customers and suppliers of newly acquired companies, such as Ateb and InPharmics, due to post-acquisition disruption;
- inability or failure to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- inability or failure to successfully integrate and harmonize financial reporting and information technology systems;
- inability or failure to achieve the expected operational and cost efficiencies;
- and
- loss of key employees.

The actual integration may result in additional and unforeseen expenses or delays. If we are not able to successfully integrate the acquired businesses and their operations, or if there are delays in combining the businesses, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.

***If goodwill or other intangible assets that we recorded in connection with the Aesynt, Ateb, and InPharmics acquisitions, or have recorded in connection with prior acquisitions, become impaired, we could be required to take significant charges against earnings.***

In connection with the accounting for the Aesynt and Ateb acquisitions in 2016, and the InPharmics acquisition in 2017, we recorded a significant amount of goodwill and other intangible assets, and we maintain significant goodwill and other intangible assets relating to prior acquisitions, such as our acquisitions of MTS, Avantec, and Mach4. As of September 30, 2019, we had recorded approximately \$462.0 million net, in goodwill and intangible assets in connection with past acquisitions. Under U.S. generally accepted accounting principles, we must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect our results of operations and shareholders' equity in future periods.

***We may not be able to successfully integrate acquired businesses or technologies into our existing business, which could negatively impact our operating results.***

As a part of our business strategy we may seek to acquire businesses, technologies or products in the future. We cannot provide assurance that any acquisition or any future transaction we complete will result in long-term benefits to us or our stockholders, or that we will be able to integrate or manage the acquired business effectively. Acquisitions entail numerous risks, including difficulties associated with the integration of operations, technologies, products and personnel that, if realized, could harm our operating results. Risks related to potential and completed acquisitions include, but are not limited to:

- difficulties in combining previously separate businesses into a single unit and the complexity of managing a more dispersed organization as sites are acquired;
- complying with international labor laws that may restrict our ability to right-size organizations and gain synergies across acquired operations;
- complying with regulatory requirements, such as those of the Food and Drug Administration, that we were not previously subject to;
- the substantial costs that may be incurred and the substantial diversion of management's attention from day-to-day business when evaluating and negotiating such transactions and then integrating an acquired business;

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- discovery, after completion of the acquisition, of liabilities assumed from the acquired business or of assets acquired that are broader in scope and magnitude or are more difficult to manage than originally assumed;
- failure to achieve anticipated benefits such as cost savings and revenue enhancements;
- difficulties related to assimilating the products or key personnel of an acquired business;
- failure to understand and compete effectively in markets in which we have limited previous experience; and
- difficulties in integrating newly acquired products and solutions into a logical offering that our customers understand and embrace.

Successful integration of acquired operations, products, and personnel into Omnicell may place a significant burden on the combined company's management and internal resources. We may also experience difficulty in effectively integrating the different cultures and practices of any acquired entity. The challenges of integrating acquired entities could disrupt the combined company's ongoing business, distract its management focus from other opportunities and challenges, and increase expenses and working capital requirements. The diversion of management attention and any difficulties encountered in the transition and integration process could harm our business, financial condition, and operating results.

### ***Changing customer requirements could decrease the demand for our products and services, and our new product solutions may not achieve market acceptance.***

The markets in which we operate are characterized by evolving technologies and industry standards, frequent new product introductions and dynamic customer requirements that may render existing products obsolete or less competitive. These markets could erode rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. Our future success will depend in part upon our ability to enhance our existing products and services, and to develop and introduce new products and services to meet changing customer requirements. The process of developing products and services such as those we offer is extremely complex, and is expected to become increasingly more complex and expensive in the future as new technologies are introduced. If we are unable to enhance our existing products or develop new products to meet changing customer requirements, and bring such enhancements and products to market in a timely manner, demand for our products could decrease.

We cannot provide assurance that we will be successful in marketing any new products or services that we introduce, that new products or services will compete effectively with similar products or services sold by our competitors, or that the level of market acceptance of such products or services will be sufficient to generate expected revenues and synergies with our other products or services. For example, we recently announced our XR2 Automated Central Pharmacy System, IVX Workflow, and RDX Essential solutions, and we cannot guarantee that demand will meet our expectations. In addition, our XT Series, as well as our VBM 200F automated pharmacy solution for multi-medication blister card packaging, are relatively new to the market. Deployment of new products or services often requires interoperability with other Omnicell products or services as well as with healthcare facilities' existing information management systems. If these products or services fail to satisfy these demanding technological objectives, our customers may be dissatisfied, and we may be unable to generate future sales.

### ***The healthcare industry faces changes to healthcare legislation and other healthcare reform, as well as financial constraints and consolidation, which could adversely affect the demand for our products and services.***

The healthcare industry has faced, and will likely continue to face, significant financial constraints. U.S. government legislation such as the American Recovery and Reinvestment Act of 2009, the Patient Protection and Affordable Care Act of 2010 (the "PPACA"), the Budget Control Act of 2011, and other health reform legislation, or the repeal of all or a portion of any such legislation, may cause customers to postpone purchases of our products due to reductions in federal healthcare program reimbursement rates and/or needed changes to their operations in order to meet the requirements of legislation. Our automation solutions often involve a significant financial commitment from our customers and, as a result, our ability to grow our business is largely dependent on our customers' capital and operating budgets. To the extent legislation promotes spending on other initiatives or healthcare providers' spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

For example, prior proposals for healthcare reform, such as the "Medicare for All" bill introduced by Senator Bernie Sanders in September 2017, have included the concept of a "single-payer" government-funded healthcare system. Such a system could reduce our customers' revenues, as Medicare and other public reimbursement rates are on average lower than commercial health plan reimbursement rates. While it is not likely that legislation creating such a single-payer system will pass Congress and be signed by the President in the near term, continued introduction of legislation promoting a single-payer system by several members of Congress could increase uncertainty for our customers and cause them to delay purchases of our products and services.

In addition, healthcare providers have consolidated to create larger healthcare delivery organizations in order to achieve economies of scale and/or greater market power. If this consolidation continues, it would increase the size of certain target customers, which could increase the cost, effort, and difficulty in selling our products to such target customers, or could cause our existing customers or potential new customers to begin utilizing our competitors' products if such customers are acquired by healthcare providers that prefer our competitors' products to ours. In addition, the resulting organizations could have greater bargaining power, which may lead to price erosion.

***Government regulation of the healthcare industry could reduce demand for our products, or substantially increase the cost to produce our products.***

The manufacture and sale of most of our current products are not regulated by the U.S. Food and Drug Administration ("FDA"), or the Drug Enforcement Administration ("DEA"). Through our acquisition of Aesynt, we have both Class I and Class II, 510(k) exempt medical devices which are subject to FDA regulation and require compliance with the FDA Quality System Regulation as well as medical device reporting. Additional products may be regulated in the future by the FDA, DEA, or other federal agencies due to future legislative and regulatory initiatives or reforms. Direct regulation of our business and products by the FDA, DEA, or other federal agencies could substantially increase the cost to produce our products and increase the time required to bring those products to market, reduce the demand for our products, and reduce our revenues. In addition, healthcare providers and facilities that use our equipment and dispense controlled substances are subject to regulation by the DEA. The failure of these providers and facilities to comply with DEA requirements, including the Controlled Substances Act and its implementing regulations, could reduce demand for our products and harm our competitive position, results of operations, and financial condition. Pharmacies are regulated by individual state boards of pharmacy that issue rules for pharmacy licensure in their respective jurisdictions. State boards of pharmacy do not license or approve our medication and supply dispensing systems; however, pharmacies using our equipment are subject to state board approval. The failure of such pharmacies to meet differing requirements from a significant number of state boards of pharmacy could decrease demand for our products and harm our competitive position, results of operations, and financial condition. Similarly, hospitals must be accredited by an accrediting organization approved by The Centers for Medicare & Medicaid Services, such as The Joint Commission, in order to be eligible for Medicaid and Medicare funds. The Joint Commission does not approve or accredit medication and supply dispensing systems; however, disapproval of our customers' medication and supply dispensing management methods, and their failure to meet The Joint Commission standards could decrease demand for our products and harm our competitive position, results of operations, and financial condition.

While we have implemented a Privacy and Use of Information Policy and adhere to established privacy principles, use of customer information guidelines, and related federal and state statutes, we cannot assure you that we will be in compliance with all federal and state healthcare information privacy and security laws that we are directly or indirectly subject to, including, without limitation, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). Among other things, this legislation required the Secretary of Health and Human Services to adopt national standards governing the conduct of certain electronic health information transactions and protecting the privacy and security of personally identifiable health information maintained or transmitted by "covered entities," which include pharmacies and other healthcare providers with which we do business.

The standards adopted to date include, among others, the "Standards for Privacy of Individually Identifiable Health Information," which restrict the use and disclosure of personally identifiable health information by covered entities, and the "Security Standards," which require covered entities to implement administrative, physical, and technical safeguards to protect the integrity and security of certain electronic health information. Under HIPAA, we are considered a "business associate" in relation to many of our customers that are covered entities, and as such, most of these customers have required that we enter into written agreements governing the way we handle and safeguard certain patient health information we may encounter in providing our products and services, and may impose liability on us for failure to meet our contractual obligations. Further, pursuant to changes in HIPAA under the American Recovery and Reinvestment Act of 2009, we are covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties, and other sanctions.

In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our customers to obtain, use, or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

***When we experience delays in installations of our medication and supply dispensing systems or our more complex medication packaging systems, resulting in delays in our ability to recognize revenue, our competitive position, results of operations, and financial condition could be harmed.***

The purchase of our medication and supply dispensing systems or our more complex medication packaging systems is often part of a customer's larger initiative to re-engineer its pharmacy and their distribution and materials management systems. As a result, our sales cycles are often lengthy. The purchase of our systems often entails larger strategic purchases by customers that frequently require more complex and stringent contractual requirements and generally involve a significant commitment of management attention and resources by prospective customers. These larger and more complex transactions often require the input and approval of many decision-makers, including pharmacy directors, materials managers, nurse managers, financial managers, information systems managers, administrators, lawyers and boards of directors. In addition, new product announcements, such as that of our XT Series, can cause a delay in our customers' decision to purchase our products or convert orders from our older products to those of our newer products, such as the XT Series. For these and other reasons, the sales cycle associated with sales of our medication and supply dispensing systems and our more complex medication packaging systems is often lengthy and subject to a number of delays over which we have little or no control. A delay in, or loss of, sales of these systems could have an adverse effect upon our operating results and could harm our business.

In addition, and in part as a result of the complexities inherent in larger transactions, the time between the purchase and installation of our systems can range from two weeks to one year. Delays in installation can occur for reasons that are often outside of our control. We have also experienced fluctuations in our customer and transaction size mix, which makes our ability to forecast our product bookings more difficult. Because we recognize revenues for our medication and supply dispensing systems and our more complex medication packaging systems only upon installation at a customer's site, any delay in installation by our customers will also cause a delay in the recognition of the revenues for that system.

***Our international operations may subject us to additional risks that can adversely affect our operating results.\****

We currently have operations outside of the United States, including sales efforts centered in Canada, Europe, the Middle East, and Asia-Pacific regions and supply chain efforts in Asia. We intend to continue to expand our international operations, particularly in certain markets that we view as strategic, including the Middle East. Our international operations subject us to a variety of risks, including:

- our reliance on distributors for the sale and post-sale support of our automated dispensing systems outside the United States and Canada;
- the difficulty of managing an organization operating in various countries;
- political sentiment against international outsourcing of production;
- reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;
- changes in foreign regulatory requirements;
- the requirement to comply with a variety of international laws and regulations, including privacy and security, labor, import, export, trade, environmental standards, product compliance, tax, anti-bribery, and employment laws;
- fluctuations in currency exchange rates and difficulties in repatriating funds from certain countries;
- additional investment, coordination, and lead-time necessary to successfully interface our automation solutions with the existing information systems of our customers or potential customers outside of the United States; and
- political unrest, terrorism, and the potential for other hostilities in areas in which we have facilities or operations.

If we are unable to anticipate and address these risks properly, our business or operating results will be harmed.

In addition, changes in export or import regulation and other trade barriers and uncertainties may have an adverse effect on our business. For example, the current U.S. administration has advocated greater restrictions on trade generally and tariff increases on certain goods imported into the United States, particularly from China. Effective September 2018, the Office of the U.S. Trade Representative ("USTR") imposed tariffs of 10% on specified products imported from China ("List 3 products"), including certain components that we import from China, and increased these tariffs to 25% in June 2019. In August 2019, the President directed the USTR to increase tariffs on List 3 products from 25% to 30% effective October 2019, which increases were subsequently delayed indefinitely. In May 2019, the USTR proposed imposing additional tariffs of up to 25% on an expanded list of products ("List 4 products"); tariffs of 15% were imposed on certain List 4 products effective

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September 2019 and the remainder are scheduled to be subject to these tariffs effective December 2019. While we are actively evaluating mitigation strategies, we cannot predict what actions may ultimately be taken with respect to tariffs or trade relations between the United States and other countries (including China), what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. The adoption and expansion of trade restrictions, the occurrence of a trade war, other governmental action related to tariffs or trade agreements or policies, or the related uncertainties, has the potential to adversely impact our supply chain and costs, which could in turn adversely affect our business, financial condition, and results of operation.

***In the past, we have experienced substantial fluctuations in customer demand, and we cannot be sure that we will be able to respond proactively to future changes in customer demand.***

Our ability to adjust to fluctuations in our revenues while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If our revenues increase or decrease rapidly, we may not be able to manage these changes effectively. Future growth is dependent on the continued demand for our products and services, the volume of installations we are able to complete, our ability to continue to meet our customers' needs and provide a quality installation experience, and our flexibility in manpower allocations among customers to complete installations on a timely basis.

Our ability to control expenses is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our ability to gain efficiencies in our workforce through the local and worldwide labor markets, and our ability to grow our outsourced vendor supply model. Our expense growth rate may equal or exceed our revenue growth rate if we are unable to streamline our operations, incur significant research and development expenses prior to, or without recognizing the benefits, of those solutions under development, incur acquisition-related integration expenses greater than those we anticipate, or fail to reduce the costs or increase the margins of our products. In addition, we may not be able to reduce our expenses to keep pace with any reduction in our revenue, which could harm our results of operations and financial position.

***Covenants in our Credit Agreement restrict our business and operations in many ways, and if we do not effectively manage our compliance with these covenants, our financial conditions and results of operations could be adversely affected.***

The Credit Agreement contains various customary covenants that limit our ability and/or our subsidiaries' ability to, among other things:

- incur or assume liens or additional debt or provide guarantees in respect of obligations or other persons;
- issue redeemable preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase certain debt;
- make loans, investments, acquisitions (including acquisitions of exclusive licenses) and capital expenditures;
- enter into agreements that restrict distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- enter into certain transactions with affiliates; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

The Credit Agreement also includes financial covenants requiring us (i) not to exceed a maximum consolidated total leverage ratio of 3.50:1 through the end of 2018, 3.25:1 through the end of the second quarter of 2019, and 3.00:1 thereafter (subject to certain exceptions) and (ii) to maintain a minimum fixed charge coverage ratio of 1.50:1. Our ability to comply with these financial covenants may be affected by events beyond our control. Our failure to comply with any of the covenants under the Credit Agreement could result in a default under the terms of the Credit Agreement, which could permit the administrative agent or the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the revolving credit facility, which could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions to take advantage of certain business opportunities that may be presented to us. In addition, if we are unable to repay those amounts, the administrative agent and the lenders under the Credit Agreement could proceed against the collateral granted to them to secure that debt, which would seriously harm our business.

***If we are unable to recruit and retain skilled and motivated personnel, our competitive position, results of operations, and financial condition could be harmed.***

Our success is highly dependent upon the continuing contributions of our key management, sales, technical, and engineering staff. We believe that our future success will depend upon our ability to attract, train and retain highly skilled and motivated personnel. As more of our products are installed in increasingly complex environments, greater technical expertise will be required. As our installed base of customers increases, we will also face additional demands on our customer service and support personnel, requiring additional resources to meet these demands. We may experience difficulty in recruiting qualified personnel. Competition for qualified technical, engineering, managerial, sales, marketing, financial reporting, and other personnel can be intense, and we may not be successful in attracting and retaining qualified personnel. Competitors have in the past attempted, and may in the future attempt, to recruit our employees.

In addition, we have historically used stock options, restricted stock units, and other forms of equity compensation as key components of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. The effect of managing share-based compensation expense and minimizing shareholder dilution from the issuance of new shares may make it less favorable for us to grant stock options, restricted stock units, or other forms of equity compensation, to employees in the future. In order to continue granting equity compensation at competitive levels, we must seek stockholder approval for any increases to the number of shares reserved for issuance under our equity incentive plans, such as the share increase that was approved at our 2019 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals in the future. Any failure to receive approval for future proposed increases could prevent us from granting equity compensation at competitive levels and make it more difficult to attract, retain and motivate employees. Further, to the extent that we expand our business or product lines through the acquisition of other businesses, any failure to receive any such approvals could prevent us from securing employment commitments from such newly acquired employees. Failure to attract and retain key personnel could harm our competitive position, results of operations, and financial condition.

***Our failure to protect our intellectual property rights could negatively affect our ability to compete.***

Our success depends in part on our ability to obtain patent protection for technology and processes and our ability to preserve our trademarks, copyrights, and trade secrets. We have pursued patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and for technology that offers us a potential competitive advantage for our products. We intend to continue to pursue such protection in the future. Our issued patents relate to various features of our medication and supply dispensing systems and our packaging systems. We cannot assure you that we will file any patent applications in the future and that any of our patent applications will result in issued patents, or that, if issued, such patents will provide significant protection for our technology and processes. As an example, in September 2014, an action was brought against us, to, among other matters, correct the inventorship of certain patents owned by us. Furthermore, we cannot assure you that others will not develop technologies that are similar or superior to our technology or that others will not design around the patents we own. All of our system software is copyrighted and subject to the protection of applicable copyright laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary, which could harm our competitive position.

***Our quarterly operating results may fluctuate and may cause our stock price to decline.\****

Our quarterly operating results may vary in the future depending on many factors that include, but are not limited to, the following:

- our ability to successfully install our products on a timely basis and meet other contractual obligations necessary to recognize revenue;
- our ability to continue cost reduction efforts;
- the size, product mix, and timing of orders for our medication and supply dispensing systems, and our medication packaging systems, and their installation and integration;
- the overall demand for healthcare medication management and supply chain solutions and medication adherence solutions;
- changes in pricing policies by us or our competitors;
- the number, timing, and significance of product enhancements and new product announcements by us or our competitors;
- the timing and significance of any acquisition or business development transactions that we may consider or negotiate and the revenues, costs, and earnings that may be associated with these transactions;
- the relative proportions of revenues we derive from products and services;



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- fluctuations in the percentage of sales attributable to our international business;
- our customers' budget cycles;
- changes in our operating expenses and our ability to stabilize expenses;
- expenses incurred to remediate product quality, security, or safety issues;
- our ability to generate cash from our accounts receivable on a timely basis;
- the performance of our products;
- changes in our business strategy;
- macroeconomic and political conditions, including fluctuations in interest rates, tax increases, availability of credit markets, and trade and tariff actions; and
- volatility in our stock price and its effect on equity-based compensation expense.

Due to all of these factors, our quarterly revenues and operating results are difficult to predict and may fluctuate, which in turn may cause the market price of our stock to decline.

***If we are unable to maintain our relationships with group purchasing organizations or other similar organizations, we may have difficulty selling our products and services to customers represented by these organizations.***

A number of group purchasing organizations, including HealthTrust Purchasing Group, Intalere (f.k.a. Amerinet, Inc.), Premier Inc., The Resource Group, Resource Optimization & Innovation, LLC, and Vizient Inc., have negotiated standard contracts for our products on behalf of their member healthcare organizations. Members of these group purchasing organizations may purchase under the terms of these contracts, which obligate us to pay the group purchasing organization a fee. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense, and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our revenue targets or increase our revenues. These organizations may not renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire, any of which could cause our revenues to decline.

***If we are not able to supply the demand from our institutional and retail pharmacy customers on schedule and with quality consumable medication packaging products, or if we are otherwise unable to maintain our relationships with major institutional pharmacies, they may use alternative means to distribute medications to their customers and our revenue from sales of blister cards and other consumables may decline.\****

Approximately 9% of our revenues during the nine months ended September 30, 2019 were generated from the sale of consumable medication packages, most of which are produced in our St. Petersburg, Florida facility on a continuous basis and are shipped out to fulfill the demands of our institutional pharmacy and retail pharmacy customers domestically and abroad. The demands placed on institutional pharmacies and retail pharmacies by their customers represent real time requirements of those customers. Our customer agreements for the sale of consumable medication packages are typically short-term in nature and typically do not include any volume commitments on the part of the customer. Although our packaging may be considered the preferred method of maintaining control of medications during the medication distribution and administration process, institutional and retail pharmacies have alternative methods of distributing medications, including bulk and alternative packaging, and medication adherence packaging may be supplied by our competitors. To the extent that we are unable to supply quality packaging to our customers in a timely manner, that demand will be met via alternative distribution methods, including consumable medication packaging sold by our competitors, and our revenues will decline. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages globally and would reduce our revenues.

In addition, the institutional pharmacy market consists of significant national suppliers of medications to non-acute care facilities, smaller regional suppliers, and very small local suppliers. If we are unable to maintain our relationships with the major institutional pharmacies we do business with, they may purchase consumable blister card components from alternative sources, or choose to use alternatives to blister cards for medication control, and our revenues would decline.



***If we are unable to successfully interface our automation solutions with the existing information systems of our customers, they may choose not to use our products and services.***

For healthcare facilities to fully benefit from our automation solutions, our systems must interface with certain of their other information systems. This may require substantial cooperation, incremental investment, and coordination on the part of our customers, and may require coordination with third-party suppliers of the existing information systems. There is little uniformity in the systems currently used by our customers, which complicates the interfacing process. If these systems are not successfully interfaced, our customers could choose not to use or to reduce their use of our automation solutions, which would harm our business. Also, these information systems are impacted by regulatory forces, such as the Promoting Interoperability Program and HIPAA Omnibus Rules, and may evolve their interoperability functionality accordingly. We expect to comply with the mandatory standards and certifications that enable us to continuously interoperate with partner information systems, but such symbiotic evolution in a changing regulatory environment can at times create an execution risk.

Additionally, our competitors may enter into agreements with providers of hospital information systems that are designed to increase the interoperability of their respective products. To the extent our competitors are able to increase the interoperability of their products with those of the major hospital information systems providers, customers who utilize such information systems may choose not to use our products and services. In addition, hospital and physician office information systems providers may choose to develop their own solutions that could compete with ours. Furthermore, we expect the importance of interoperability to increase in the next few years. Regulations such as the Quality Payment Program are expected to heavily focus on evidence and outcomes. Given our role in care delivery process, the data generated by our products may be a key input for assessing and reporting on clinical outcomes. This may elevate interoperability with information systems to a relative importance to our customers creating a business opportunity and risk.

***We depend on a limited number of suppliers for our products, and our business may suffer if we were required to change suppliers to obtain an adequate supply of components, equipment, and raw materials on a timely basis.***

Although we generally use parts and components for our products with a high degree of modularity, certain components are presently available only from a single source or limited sources. We rely on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages. While we have generally been able to obtain adequate supplies of all components and raw materials in a timely manner from existing sources, or where necessary, from alternative sources of supply, we entered into relationships with new suppliers in connection with the launch of our XT Series products. We engage multiple single source third-party manufacturers to build several of our sub-assemblies. The risks associated with changing to alternative vendors, if necessary, for any of the numerous components used to manufacture our products could limit our ability to manufacture our products and harm our business. Due to our reliance on a few single source partners to build our hardware sub-assemblies and on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages, a reduction or interruption in supply from our partners or suppliers, or a significant increase in the price of one or more components could have an adverse impact on our business, results of operations, and financial condition. In certain circumstances, the failure of any of our suppliers or us to perform adequately could result in quality control issues affecting end users' acceptance of our products. These impacts could damage customer relationships and could harm our business.

***Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could cause our stock price to decline.***

Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission ("SEC") require annual management assessments of the effectiveness of our internal control over financial reporting, and a report by our independent registered public accounting firm attesting to the effectiveness of internal control. If we fail to maintain effective internal control over financial reporting, as such standards are modified, supplemented, or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting.

***If the market price of our common stock continues to be highly volatile, the investment value of our common stock may decline.\****

Our common stock traded between \$57.81 and \$92.59 per share during the nine months ended September 30, 2019. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

- actual or anticipated changes in our operating results;
- whether our operating results or forecasts meet the expectations of securities analysts or investors;

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- developments in our relationships with corporate customers;
- developments with respect to recently acquired businesses;
- changes in the ratings of our common stock by securities analysts or changes in their earnings estimates;
- announcements by us or our competitors of technological innovations or new products;
- announcements by us or our competitors of acquisitions of businesses, products or technologies; or other significant transactions by us or our competitors such as strategic partnerships or divestitures;
- actions by stockholders or short sellers of our common stock;
- the level of demand for our common stock, including short interest in our common stock; or
- general economic and market conditions.

Furthermore, the stock market as a whole from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for technology companies. These broad market fluctuations may cause the market price of our common stock to decline irrespective of our performance. In addition, sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could lower the market price of our common stock.

In addition, stockholders have initiated class action lawsuits against companies following periods of volatility in the market prices of these companies' stock. For example, on July 18, 2019, a putative class action lawsuit was filed against Omnicell and certain of our officers in the U.S. District Court for the Northern District of California alleging that the defendants violated federal securities laws by making materially false and misleading statements beginning in October 2018 regarding revenue recognition, customer concerns about implementation issues and a purported need to write off inventory. For further information, see the section entitled "Legal Proceedings" in Note 11, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

### ***Recent developments relating to the United Kingdom's referendum vote in favor of leaving the European Union and related actions could adversely affect us***

The United Kingdom (the "UK") held a referendum in June 2016 in which a majority voted for the United Kingdom's withdrawal from the European Union (the "EU"). In March 2017, the UK's ambassador to the EU delivered a letter to the president of the European Council that gave formal notice under Article 50 of the Lisbon Treaty of Britain's withdrawal from the EU, commonly referred to as "Brexit." Negotiations are underway to determine the terms of the UK's withdrawal from the EU as well as its relationship with the EU going forward, including the terms of trade between the UK and the EU. The effects of Brexit have been and are expected to continue to be far-reaching. Brexit and the perceptions as to its impact may adversely affect business activity and economic conditions in Europe and globally, and could continue to contribute to instability in global financial markets and uncertainty regarding the regulation of data protection in the UK. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the UK and the EU. However, the full effects of Brexit are uncertain and will depend on any agreements the UK may make to retain access to EU markets either during a transitional period or more permanently. Brexit could also lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Lastly, as a result of the Brexit, other European countries may seek to conduct referenda with respect to their continuing membership with the EU. Given these possibilities and others we may not anticipate, as well as the lack of comparable precedent, the full extent to which our business, results of operations, and financial condition could be adversely affected by Brexit is uncertain.

### ***Our U.S. government lease agreements are subject to annual budget funding cycles and mandated unilateral changes, which may affect our ability to enter into such leases or to recognize revenues, and sell receivables based on these leases.***

U.S. government customers that lease our equipment typically sign contracts with five-year payment terms that are subject to one-year government budget funding cycles. Further, the government has in certain circumstances mandated unilateral changes in its Federal Supply Services contract that could render our lease terms with the government less attractive. In our judgment and based on our history with these accounts, we believe these receivables are collectible. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. The balance of our unsold leases to U.S. government customers was \$18.5 million as of September 30, 2019.

***If we fail to manage our inventory properly, our revenue, gross margin, and profitability could suffer.***

Managing our inventory of components and finished products is a complex task. A number of factors, including, but not limited to, the need to maintain a significant inventory of certain components that are in short supply or that must be purchased in bulk to obtain favorable pricing, the general unpredictability of demand for specific products and customer requests for quick delivery schedules, may result in us maintaining large amounts of inventory. Other factors, including changes in market demand, customer requirements, and technology, may cause our inventory to become obsolete. Any excess or obsolete inventory could result in inventory write-downs, which in turn could harm our business and results of operations.

***Intellectual property claims against us could harm our competitive position, results of operations, and financial condition.***

We expect that developers of medication and supply dispensing systems and medication packaging systems will be increasingly subject to infringement claims as the number of products and competitors in our industry grows and the functionality of products in different industry segments overlaps. In the future, third parties may claim that we have infringed upon their intellectual property rights with respect to current or future products. We do not carry special insurance that covers intellectual property infringement claims; however, such claims may be covered under our traditional insurance policies. These policies contain terms, conditions, and exclusions that make recovery for intellectual property infringement claims difficult to guarantee. Any infringement claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays or require us to enter into royalty or licensing agreements. These royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all, which could harm our competitive position, results of operations, and financial condition.

***Our software products are complex and may contain defects, which could harm our reputation, results of operations, and financial condition.***

We market products that contain software and products that are software only. Although we perform extensive testing prior to releasing software products, these products may contain undetected errors or bugs when first released. These may not be discovered until the product has been used by customers in different application environments. Failure to discover product deficiencies or bugs could require design modifications to previously shipped products or cause delays in the installation of our products and unfavorable publicity or negatively impact system shipments, any of which could harm our business, financial condition, and results of operations.

***Product liability claims against us could harm our competitive position, results of operations and financial condition.***

Our products provide medication management and supply chain management solutions for the healthcare industry. Despite the presence of healthcare professionals as intermediaries between our products and patients, if our products fail to provide accurate and timely information or operate as designed, customers, patients or their family members could assert claims against us for product liability. For example, as further discussed under "Legal Proceedings" in Note 11, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report, we are currently subject to certain lawsuits, asserting, among other allegations, claims of product liability. Moreover, failure of health care facility employees to use our products for their intended purposes could result in product liability claims against us. Litigation with respect to product liability claims, regardless of any outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We possess a variety of insurance policies that include coverage for general commercial liability and technology errors and omissions liability. We attempt to mitigate these risks through contractual terms negotiated with our customers. However, these policies and protective contractual terms may not be adequate against product liability claims. A successful claim brought against us, or any claim or product recall that results in negative publicity about us, could harm our competitive position, results of operations, and financial condition. Also, in the event that any of our products is defective, we may be required to recall or redesign those products.

***We are dependent on technologies provided by third-party vendors, the loss of which could negatively and materially affect our ability to market, sell, or distribute our products.***

Some of our products incorporate technologies owned by third parties that are licensed to us for use, modification, and distribution. For example, the VBM 200F is manufactured by a third party and sold by us pursuant to a distribution and supplier agreement. If we lose access to third-party technologies, such as our ability to distribute the VBM 200F, or we lose the ongoing rights to modify and distribute these technologies with our products, we will have to devote resources to independently develop, maintain and support the technologies ourselves, pay increased license costs, or transition to another vendor. Any independent development, maintenance or support of these technologies by us or the transition to alternative technologies could be costly, time consuming, and could delay our product releases and upgrade schedules. These factors could negatively and materially affect our ability to market, sell or distribute our products.

***Complications in connection with our ongoing business information system upgrades, including those required to transition acquired entities onto information systems already utilized, and those implemented to adopt new accounting standards, may impact our results of operations, financial condition, and cash flows.***

We continue to upgrade our enterprise-level business information system with new capabilities and transition acquired entities onto information systems already utilized in the company. In 2016, we replaced the legacy Enterprise Requirements Planning systems used in Mach4 with systems currently in use in other parts of Omnicell, and we intend to do the same at Aesynt and Ateb. Based upon the complexity of some of the upgrades, there is risk that we will not see the expected benefit from the implementation of these upgrades in accordance with their anticipated timeline and will incur costs in addition to those we have already planned for. In addition, in future years, we will need to comply with new accounting standards established by the Financial Accounting Standards Board ("FASB") for components of our financial reporting. These new standards will require us to modify our accounting policies and financial reporting disclosure. We further anticipate that integration of these and possibly other new standards may require a substantial amount of management's time and attention, and require integration with our enterprise resource planning system. The implementation of the system and the adoption of future new standards, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to timely record certain business transactions. All of these potential results could adversely impact our results of operations, financial condition, and cash flows.

***Outstanding employee stock options have the potential to dilute stockholder value and cause our stock price to decline.***

We grant stock options to certain of our employees as incentives to join Omnicell or as an on-going reward and retention vehicle. We had options outstanding to purchase approximately 3.6 million shares of our common stock, at a weighted-average exercise price of \$48.86 per share as of September 30, 2019. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

***Raising additional capital may cause dilution to our existing stockholders, restrict our operations or harm our business, financial condition, and results of operations.***

We may seek additional capital through a variety of means, including through private and public equity offerings and debt financings. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of our stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures, entering into licensing arrangements, or declaring dividends. If we raise additional funds from third parties, we may have to relinquish valuable rights to our technologies, or grant licenses on terms that are not favorable to us.

For example, we filed a "shelf" registration statement on Form S-3 under the Securities Act in November 2017 (the "S-3 Registration Statement"), allowing us, from time to time, to offer any combination of registered common stock, preferred stock, debt securities and warrants. Under this S-3 Registration Statement, we also entered into a distribution agreement (the "Distribution Agreement") in November 2017 with J.P. Morgan Securities, LLC, Wells Fargo Securities, LLC, and HSBC Securities (USA) Inc. as our sales agents, pursuant to which we may offer and sell from time to time through "at-the-market" offerings, up to an aggregate of \$125.0 million of our common stock through the sales agents. As of September 30, 2019, we had an aggregate of \$31.5 million available to be offered under the Distribution Agreement.

If we are unable to raise additional funds through equity or debt financing when needed, our ability to market, sell or distribute our products may be negatively impacted and could harm our business, financial condition, and results of operations.

***Changes in our tax rates, exposure to additional tax liabilities, or the adoption of new tax legislation could adversely affect our business and financial condition.***

We are subject to taxes in the United States and foreign jurisdictions. Our future effective tax rates could be affected by several factors, many of which are outside of our control, including: changes in the mix of earnings with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in federal, state, and international laws or their interpretation, adjustments to income tax expense upon the finalization of tax returns, changes in tax attribute, or changes in accounting principles. We regularly assess the likelihood of adverse outcomes to determine the adequacy of our provision for taxes. We are also subject to examination of our income tax returns by the Internal Revenue Service and other tax authorities. There can be no assurance that the outcomes from these examinations will not materially adversely affect our financial condition and operating results. Forecasting our estimated annual effective tax rate is complex and subject to uncertainty, and there may be a material difference between the forecasted and the accrual tax rates. Any increase in our effective tax rate would reduce our profitability.

***Catastrophic events may disrupt our business and harm our operating results.***

We rely on our network infrastructure, data centers, enterprise applications, and technology systems for the development, marketing, support, and sales of our products, and for the internal operation of our business. These systems are susceptible to disruption or failure in the event of a major earthquake, fire, flood, cyber-attack, terrorist attack, telecommunications failure, or other catastrophic event. Many of these systems are housed or supported in or around our corporate headquarters located in Northern California, near major earthquake faults, and where a significant portion of our research and development activities and other critical business operations take place. Other critical systems, including our manufacturing facilities for our consumable medication packages, are housed in St. Petersburg, Florida, in communities that have been subject to significant tropical storms. Disruptions to or the failure of any of these systems, and the resulting loss of critical data, which is not quickly recoverable by the effective execution of disaster recovery plans designed to reduce such disruption, could cause delays in our product development, prevent us from fulfilling our customers' orders, and could severely affect our ability to conduct normal business operations, the result of which would adversely affect our operating results.

***The conflict minerals provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act could result in additional costs and liabilities.***

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC established disclosure and reporting requirements for those companies that use "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries, whether or not these products are manufactured by third parties. These new requirements could affect the sourcing of materials used in our products as well as the companies we use to manufacture our products. In circumstances where conflict minerals in our products are found to be sourced from the Democratic Republic of the Congo or surrounding countries, we may take actions to change materials or designs to reduce the possibility that our purchase of conflict minerals may fund armed groups in the region. These actions could add engineering and other costs to the manufacture of our products.

We expect to incur costs on an ongoing basis to comply with the requirements related to the discovery of the origin of the tantalum, tin, tungsten, and gold used in our products, including components we purchase from third parties, and to audit our conflict minerals disclosures. Our reputation may also suffer if we have included conflict minerals originating in the Democratic Republic of the Congo or surrounding countries in our products.

***Anti-takeover provisions in our charter documents and under Delaware law, and any stockholders' rights plan we may adopt in the future, make an acquisition of us, which may be beneficial to our stockholders, more difficult.***

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to the stockholders. Our anti-takeover provisions include provisions in our certificate of incorporation providing that stockholders' meetings may only be called by our Board of Directors and provisions in our bylaws providing that the stockholders may not take action by written consent and requiring that stockholders that desire to nominate any person for election to our Board of Directors or to make any proposal with respect to business to be conducted at a meeting of our stockholders be submitted in appropriate form to our Secretary within a specified period of time in advance of any such meeting. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until the holder has held the stock for three years unless, among other possibilities, our Board of Directors approves the transaction. Our Board of Directors may use these provisions to prevent changes in the management and control of our company. Also, under applicable Delaware law, our Board of Directors may adopt additional anti-takeover measures in the future.

The stockholder rights plan adopted by our Board of Directors in February 2003 expired by its terms in February 2013. Our Board of Directors could adopt a similar plan in the future if it determines that such action is in the best interests of our stockholders. Such a plan may have the effect of discouraging, delaying or preventing a change in control of our company that may be beneficial to our stockholders.

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

### **Stock Repurchase Programs**

During the nine months ended September 30, 2019, we did not repurchase any shares of our common stock under our stock repurchase programs. Refer to "Stock Repurchase Program" under Note 13, *Employee Benefits and Share-Based Compensation*, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report for more details.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description	Incorporated By Reference			
		Form	File No.	Exhibit	Filing Date
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Omnicell, Inc.</a>	10-Q	000-33043	3.1	9/20/2001
3.2	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.</a>	10-Q	000-33043	3.2	8/9/2010
3.3	<a href="#">Certificate of Designation of Series A Junior Participating Preferred Stock</a>	10-K	000-33043	3.2	3/28/2003
3.4	<a href="#">Amended and Restated Bylaws of Omnicell, Inc.</a>	10-Q	000-33043	3.4	5/4/2018
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4				
4.2	<a href="#">Form of Common Stock Certificate</a>	S-1/A	333-57024	4.1	7/24/2001
10.1 <sup>+</sup>	<a href="#">Fourth Amendment to Lease, between PR Amhurst Lake LLC and Omnicell, Inc., dated September 13, 2019</a>				
31.1 <sup>+</sup>	<a href="#">Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)</a>				
31.2 <sup>+</sup>	<a href="#">Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)</a>				
32.1 <sup>+(1)</sup>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)</a>				
101.INS <sup>+</sup>	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH <sup>+</sup>	Inline XBRL Taxonomy Extension Schema Document				
101.CAL <sup>+</sup>	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF <sup>+</sup>	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB <sup>+</sup>	Inline XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE <sup>+</sup>	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104 <sup>+</sup>	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).				

+ Filed herewith.

\* Indicates a management contract, compensation plan, or arrangement.

<sup>(1)</sup> This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.





**FOURTH AMENDMENT TO LEASE**

**THIS FOURTH AMENDMENT TO LEASE** (this “**Amendment**”) is made as of the 13<sup>th</sup> day of September, 2019 (the “**Effective Date**”), by and between **PR AMHURST LAKE LLC**, a Delaware limited liability company (“**Landlord**”), and **OMNICELL, INC.**, a Delaware corporation, f/k/a Omnicell Technologies, Inc. (“**Tenant**”).

**WITNESSETH:**

**WHEREAS**, Landlord, by its predecessors-in-interest (The Prudential Insurance Company of America and Amli Commercial Properties Limited Partnership), and Tenant entered into that certain Lease dated as of April 28, 1999 (the “**Original Lease**”), that certain First Amendment to Lease dated as of September 30, 1999 (the “**First Amendment**”), that certain Second Amendment to Lease made as of June 30, 2006 (the “**Second Amendment**”), and that certain Third Amendment to Lease made as of July 1, 2013 (the “**Third Amendment**”) (the Original Lease as amended by the First Amendment, Second Amendment and Third Amendment is hereinafter collectively referred to as the “**Lease**”), pursuant to which Tenant is leasing approximately 38,459 square feet of rentable area in the building located at 3661 Burwood Drive, Waukegan, Illinois;

**WHEREAS**, Landlord has succeeded to the interest of landlord in and to the Lease; and

**WHEREAS**, Landlord and Tenant desire to amend the Lease so as to extend the term thereof and otherwise amend the Lease as herein provided.

**NOW, THEREFORE**, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant hereby amend the Lease as follows:

1. **Definitions**. Unless the context otherwise requires, any capitalized term used herein shall have its respective meaning as set forth in the Lease.

2. **Integration of Amendment and Lease**. This Amendment and the Lease shall be deemed to be, for all purposes, one instrument. In the event of any conflict between the terms and provisions of this Amendment and the terms and provisions of the Lease, the terms and provisions of this Amendment shall, in all instances, control and prevail.

3. **Extension**. The Term of the Lease is currently scheduled to expire April 30, 2020. The Term of the Lease is hereby extended for a period of sixty (60) months, commencing on May 1, 2020, and expiring on April 30, 2025, unless the Lease shall be further extended or sooner terminated as provided therein and herein.

4. **Base Rent**. Effective as of May 1, 2020 (the “**Extension Date**”), Base Rent for the Premises shall be as set forth below and shall be paid in accordance with Section 4 of the Lease:

<b>Period</b>	<b>Annual Base Rent</b>	<b>Monthly Base Rent</b>
5/1/20 - 4/30/21	\$246,137.64	\$20,511.47
5/1/21 - 4/30/22	\$252,291.12	\$21,024.26
5/1/22 - 4/30/23	\$258,598.44	\$21,549.87
5/1/23 - 4/30/24	\$265,063.44	\$22,088.62
5/1/24 - 4/30/25	\$271,690.08	\$22,640.84

5. **Additional Rent.** Tenant shall continue to pay Additional Rent in accordance with Section 4 of the Lease and including Section 5 of the Third Amendment.

6. **Condition of Premises.**

(a) Tenant acknowledges that it is in possession of the Premises and that it accepts the Premises in their “as is” condition. No agreement of Landlord to alter, remodel, decorate, clean or improve the Premises or the Building (or to provide Tenant with any credit or allowance for the same), and no representation regarding the condition of the Premises or the Building, have been made by or on behalf of Landlord or relied upon by Tenant, except, as set forth in Section 7 below.

(b) Notwithstanding anything contained herein, Landlord agrees to replace the roof of the Building no later than March 31, 2020 subject to Section 23.15 of the Lease.

7. **Landlord’s Payment.** Within thirty (30) days after the Effective Date, Landlord shall pay Tenant \$115,377.00 (“**Landlord’s Payment**”) as additional consideration for entering into this Amendment. Notwithstanding the foregoing, if Tenant is in monetary default under the Lease after the expiration of applicable notice and cure periods (a “Default”), then in addition to all other rights and remedies available to Landlord, Landlord may recover an amount equal to Landlord’s Payment multiplied by a fraction, the numerator of which is the number of full calendar months remaining in the Term following the date of such Default and the denominator of which is the number of full calendar months between the Effective Date and April 30, 2025.

8. **Right to Extend.** All of Tenant’s options to extend the Term of the Lease set forth in the Lease are hereby deleted and shall be of no further force and effect, including, without limitation, the rights set forth in Section 9 of the Third Amendment, Section 1 of the Second Amendment and the rights set forth in Section 25 of the Original Lease and, in lieu thereof, Tenant shall have the extension options hereinafter provided.

(a) Provided that this Lease is then in full force and effect, that Tenant is not then in default under the Lease, and that Tenant is then occupying all of the Premises having

been leased to Tenant in the Building, Landlord hereby grants to Tenant an option to extend the term of the Lease, on the same terms and conditions set forth in the Lease, for one (1) additional five (5) year term (the “**Option Period**”). Tenant’s right to exercise an option to extend shall be conditioned upon Landlord’s receipt, no later than nine (9) months prior to the then current expiration date of the Term of Tenant’s then current certified financial statements showing a creditworthiness at least equal to the creditworthiness demonstrated to Landlord by Tenant prior to execution of the Amendment. The Option Period shall be exercised, if at all, by written notice (the “**Option Notice**”) to Landlord given not later than nine (9) months prior to the then current expiration date of the Term, time being of the essence. Once the Option Notice is given, Tenant’s exercise of such option shall be irrevocable. If the Option Period hereby granted is not so exercised, Tenant shall have no further right to extend the Term of this Lease. The Base Rent during the Option Period shall be the greater of (i) the Base Rent in effect as of the then current expiration date of the Term, and (ii) the annual rate of Base Rent determined by Landlord in good faith to be the Market Rate of Base Rent (as hereinafter defined). Landlord’s good faith determination of the Base Rent for the Option Period shall be conclusive. Tenant may request in writing that Landlord provide written notice to Tenant of Landlord’s determination of Base Rent for the Option Period. Landlord shall provide Tenant with Landlord’s determination of Base Rent for the Option Period within thirty (30) days after receipt of Tenant’s written request therefore, but in no event shall Landlord be required to provide such determination earlier than ten (10) months prior to the then current expiration date of the Term. Landlord shall have no obligation to make improvements, decorations, repairs, alterations or additions to the Premises as a condition to Tenant’s obligation to pay rent for the Option Period.

(b) **Market Rate of Base Rent.** As used in this Lease, the term “Market Rate of Base Rent” shall mean the then prevailing annual rental rate per square foot of rentable area of space in the Waukegan, Illinois, market area, comparable in area and location to the space for which the Market Rate of Base Rent is being determined and being renewed for a duration comparable to the period for which such space is to be renewed for periods commencing on or about the commencement of the term of such space, as determined by Landlord in good faith. The Market Rate of Base Rent shall be determined by taking into consideration comparable fact situations for lease renewals in comparable buildings in the Waukegan, Illinois, market area. In determining the Market Rate of Base Rent, the following shall be taken into consideration: use, location and floor level within the applicable building, the tenant improvements already in the space for which the Market Rate of Base Rent is being determined, the location, quality, age and reputation of the building, the definition of rentable area or net rentable area, as the case may be, with respect to which such rental rates are computed, leasehold improvements being provided (if any), rental concessions, abatements or other monetary inducements (if any), the term of the lease renewal under consideration and the extent of services provided thereunder, applicable distinctions between “gross” leases and “net” leases, base year figures (if any) for escalation purposes and other adjustments (including by way of indexes) to base rental (if any); and may take into consideration any other materially relevant term or condition in making such evaluation.

9. **Mutual Representations.** Tenant and Landlord represent and warrant to each other (a) it is not in default under any of the terms and provisions of the Lease, (b) to its knowledge, the other party is not in default in the performance of any of its obligations under the Lease, and (c) it has no defense, offset, lien, claims or counterclaim against the other party under the Lease or against the obligations of the other under the Lease (including, without limitation, any rentals or other charges due or to become due under the Lease).

10. **No Broker.** Tenant represents that Tenant has not dealt with any broker (other than Joseph Hamilton of Newmark Knight Frank and Christopher Volkert of Colliers International (the “**Brokers**”)) in connection with this Amendment and agrees to indemnify and hold Landlord harmless from all damages, liability and expense (including reasonable attorneys’ fees) arising from any claims or demands of any brokers or finders, other than the Brokers, for any commission alleged to be due such brokers or finders in connection with their participation in the negotiation with Tenant of this Amendment. Landlord shall be responsible for paying the Brokers’ commission due in connection with this Amendment pursuant to separate agreement.

11. **Lease in Full Force and Effect.** Except as expressly provided herein, all of the terms and provisions of the Lease shall remain in full force and effect. Without limiting the generality of the foregoing, Tenant acknowledges that Landlord’s liability is limited as set forth in Section 23.14 of the Lease and Tenant hereby remakes its representations and warranties set forth in Sections 10 and 11 of the Third Amendment as of the Effective Date hereof.

*[Signatures on Following Page]*

This Amendment is executed by the undersigned as of the Effective Date.

**LANDLORD**

**PR AMHURST LAKE LLC,**  
a Delaware limited liability company

By: PRISA LHC, LLC, a Delaware limited  
company, its sole member

By: /s/ Susan Lehman as Agent for Owner  
Name: Susan Lehman  
Title: Sr. Vice President

**TENANT**

**OMNICELL, INC.,**  
a Delaware company

By: /s/ Peter J. Kuipers  
Name: Peter J. Kuipers  
Title: EVP & Chief Financial Officer

## CERTIFICATION

I, Randall A. Lipps, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omnicell, 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.

November 1, 2019

/s/ Randall A. Lipps

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Randall A. Lipps  
President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Peter J. Kuipers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omnicell, 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.

November 1, 2019

/s/ Peter J. Kuipers

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Peter J. Kuipers

Executive Vice President & Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Randall A. Lipps, the President and Chief Executive Officer of Omnicell, Inc. (the “Company”), and Peter J. Kuipers, the Executive Vice President & Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2019 (the “Quarterly Report”), to which this Certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In witness whereof, the undersigned have set their hands hereto as of the 1st day of November, 2019.

/s/ Randall A. Lipps

/s/ Peter J. Kuipers

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Randall A. Lipps

\_\_\_\_\_  
Peter J. Kuipers

President and Chief Executive Officer  
(Principal Executive Officer)

Executive Vice President & Chief Financial Officer  
(Principal Financial Officer)

“This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Omnicell, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.”