OMNICELL, Inc
Form 10-Q
November 03, 2017
Table of Contents

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2017

OR

o 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	94-3166458
(State or other jurisdiction of incorporation or organization)	(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)

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 ý No o

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

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. o

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

As of October 26, 2017, there were 37,932,401 shares of the registrant's common stock, $0.001 par value, outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
OMNICELL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2017	December 31, 2016
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$7,466	$ 54,488
Accounts receivable, net of allowances of $5,279 and $4,796, respectively	171,869	150,303
Inventories	92,239	69,297
Prepaid expenses	28,044	28,646
Other current assets	15,763	12,674
Total current assets	315,381	315,408
Property and equipment, net	40,219	42,011
Long-term investment in sales-type leases, net	15,986	20,585
Goodwill	334,780	327,724
Intangible assets, net	174,227	190,283
Long-term deferred tax assets	5,629	4,041
Other long-term assets	37,596	35,051
Total assets	$923,818	$ 935,103
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$51,182	$ 27,069
Accrued compensation	27,380	26,722
Accrued liabilities	33,061	31,195
Long-term debt, current portion, net	13,410	8,410
Deferred revenue, net	80,837	87,516
Total current liabilities	205,870	180,912
Long-term deferred revenue	16,376	17,051
Long-term deferred tax liabilities	40,527	51,592
Other long-term liabilities	9,625	8,210
Long-term debt, net	178,923	245,731
Total liabilities	451,321	503,496
Commitments and contingencies (Note 10)		
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; 47,064 and 45,778 shares issued; 37,919 and 36,633 shares outstanding, respectively	47	46
Treasury stock at cost, 9,145 shares outstanding	(185,074)	(185,074)
Additional paid-in capital	565,406	525,758
Retained earnings	98,294	100,396
Accumulated other comprehensive loss	(6,176)	(9,519)
Total stockholders' equity	472,497	431,607
Total liabilities and stockholders' equity	$923,818	$ 935,103

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

3

Table of Contents

OMNICELL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Revenues:				
Product	$135,103	$133,621	$362,089	$392,190
Services and other revenues	51,679	43,116	156,132	128,458
Total revenues	186,782	176,737	518,221	520,648
Cost of revenues:				
Cost of product revenues	79,725	76,188	225,051	224,412
Cost of services and other revenues	22,204	19,041	66,150	56,766
Total cost of revenues	101,929	95,229	291,201	281,178
Gross profit	84,853	81,508	227,020	239,470
Operating expenses:				
Research and development	16,414	15,264	50,128	42,896
Selling, general and administrative	58,725	61,316	186,818	189,912
Total operating expenses	75,139	76,580	236,946	232,808
Income (loss) from operations	9,714	4,928	(9,926)	6,662
Interest and other income (expense), net	(2,732)	(2,721)	(4,992)	(6,773)
Income (loss) before provision for income taxes	6,982	2,207	(14,918)	(111)
Provision for (benefit from) income taxes	751	224	(11,232)	(557)
Net income (loss)	$6,231	$1,983	$(3,686)	$446
Net income (loss) per share:				
Basic	$0.17	$0.05	$(0.10)	$0.01
Diluted	$0.16	$0.05	$(0.10)	$0.01
Weighted-average shares outstanding:				
Basic	37,698	36,332	37,266	36,020
Diluted	38,973	37,079	37,266	36,695

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

Table of Contents

OMNICELL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income (loss)	$6,231	$1,983	$(3,686)	$446
Other comprehensive income (loss), net of reclassification adjustments:				
Unrealized gains (losses) on interest rate swap contracts	(74)	108	(45)	108
Foreign currency translation adjustments	1,389	(502)	3,388	(5,296)
Other comprehensive income (loss)	1,315	(394)	3,343	(5,188)
Comprehensive income (loss)	$7,546	$1,589	$(343)	$(4,742)

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

Table of Contents

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

	Nine months ended September 30,	
	2017	2016
	(In thousands)	
Operating Activities		
Net income (loss)	$(3,686)	$446
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	38,542	43,905
Loss on disposal of fixed assets	128	(9)
Share-based compensation expense	16,315	14,063
Income tax benefits from employee stock plans	11	1,256
Deferred income taxes	(11,071)	(4,767)
Amortization of debt financing fees	1,192	1,192
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(21,710)	(25,802)
Inventories	(22,942)	(7,745)
Prepaid expenses	602	(5,782)
Other current assets	(5,133)	(89)
Investment in sales-type leases	6,643	(5,296)
Other long-term assets	(150)	1,153
Accounts payable	23,717	5,573
Accrued compensation	658	(687)
Accrued liabilities	4,021	(1,901)
Deferred revenue	(7,354)	12,819
Other long-term liabilities	865	(2,299)
Net cash provided by operating activities	20,648	26,030
Investing Activities		
Purchases of intangible assets, intellectual property and patents	(160)	(1,311)
Software development for external use	(10,121)	(10,569)
Purchases of property and equipment	(9,374)	(10,005)
Business acquisitions, net of cash acquired	(4,446)	(271,458)
Net cash used in investing activities	(24,101)	(293,343)
Financing Activities		
Proceeds from debt	37,000	247,051
Repayment of debt and revolving credit facility	(100,000)	(25,000)
Payment for contingent consideration	(2,400)	(3,000)
Proceeds from issuances under stock-based compensation plans	26,468	16,516
Employees' taxes paid related to restricted stock units	(3,133)	(1,917)
Net cash provided by (used in) financing activities	(42,065)	233,650
Effect of exchange rate changes on cash and cash equivalents	(1,504)	(1,267)
Net decrease in cash and cash equivalents	(47,022)	(34,930)
Cash and cash equivalents at beginning of period	54,488	82,217
Cash and cash equivalents at end of period	$7,466	$47,287
Supplemental disclosure of non-cash activities		
Unpaid purchases of property and equipment	$886	$948
Effect of adoption of new accounting standard	$1,582	$—

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

Table of Contents

OMNICELL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Organization and Summary of Significant Accounting Policies

Business

Omnicell, Inc. was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our major products are automated medication, supply control systems and medication adherence solutions which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States and Europe. "Omnicell", "our", "us", "we" 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, 2017 and December 31, 2016, the results of its operations, comprehensive income (loss) and cash flows for the three and nine months ended September 30, 2017 and September 30, 2016. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“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, 2016 filed with the SEC on February 28, 2017. The Company's results of operations, comprehensive income (loss) and cash flows for the three and nine months ended September 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017, 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.

Certain prior year amounts have been reclassified to conform to the 2017 presentation with the adoption of ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Additionally, see "Recently adopted authoritative guidance" for the effects of first quarter adoption of ASU 2016-09.

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, inventory valuation, capitalized software development costs, valuation and impairment of goodwill, purchased intangibles and long-lived assets, fair value of assets acquired and liabilities assumed in business combination, share-based compensation, and accounting for income taxes.

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's segments using information about its revenues, gross profit, and income from operations. Such evaluation excludes general corporate-level costs that are not specific to either of the reportable segments and are managed separately at the corporate level. Corporate-level costs include expenses related to executive management, finance and accounting, human resources, legal, training and development, and certain other administrative expenses. See Note 13, Segment and Geographical Information, for additional information on segment reporting.

7

Table of Contents

Recently adopted authoritative guidance

In March 2016, the FASB issued ASU No. 2016-09. This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The provision of ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted the standard effective January 1, 2017. The impact of adoption was the recording of excess tax benefits within income tax expense, rather than in Additional Paid in Capital of $2.1 million and $4.7 million for the three and nine months ended September 30, 2017, respectively. Additionally, in the first quarter of 2017, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect adjustment of $1.6 million to retained earnings.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under ASC 350, "Intangibles-Goodwill and Other." Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates the current ASC 350 requirement to calculate a goodwill impairment charge using Step 2. ASU 2017-04 is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company adopted ASU 2017-04 effective January 1, 2017. The adoption of this authoritative guidance did not have impact on the Company's Condensed Consolidated Financial Statements or related disclosures for the periods presented.

In January 2017, the FASB issued ASU 2017-01, Business Combinations, which clarifies the definition of a business and provides a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2017-01 effective January 1, 2017. The adoption of this authoritative guidance did not have impact on the Company's Condensed Consolidated Financial Statements or related disclosures for the periods presented.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which simplifies the application of the hedge accounting guidance and improves the financial reporting, specifically simplifies designation and measurement for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods with early adoption permitted. The Company adopted ASU 2017-12 effective August 1, 2017. The adoption of this authoritative guidance did not have impact on the Company's Condensed Consolidated Financial Statements or related disclosures for the periods presented.

Recently issued authoritative guidance

In May 2014, the FASB issued ASU 2014-09-Revenue from Contracts with Customers, which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, accordingly, it is possible more judgment and estimates may be required within the revenue recognition process than is required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The FASB has recently issued several amendments to ASU 2014-09, including clarification on accounting for licenses of intellectual property and identifying performance obligations. ASU 2014-09 will be effective for the Company beginning January 1, 2018. The two permitted transition methods under ASU 2014-09 are the full retrospective method, in which case ASU 2014-09 would be applied to each prior reporting period presented and the cumulative effect of applying ASU

2014-09 would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying ASU 2014-09 would be recognized at the date of initial application. While the Company currently expects to apply the full retrospective method, the Company is continuing to evaluate the availability of information and resources necessary and may decide the benefit of applying the full retrospective method is not significant enough to support the cost.

Currently, the Company is in the process of reviewing its historical contracts to quantify the impact on its consolidated financial statements. The most significant impact of the standard relates to accounting for term software license revenue, contingent income, and commission expense. Specifically, under the standard the Company expects to recognize revenue on term software licenses upon installation of the license rather than ratably over the life of the term license. Additionally, the

Table of Contents

standard no longer requires deferral of contingent revenue in transactions where the amount charged to the customer for a particular performance obligation is less than the allocation of standalone selling price which will result in earlier recognition of revenue. Finally, the standard requires expense to be recognized for incremental costs incurred to obtain a contract, primarily commission expense, on a systematic basis that is consistent with the transfer to the customer of the product and services to which the cost relates, including an estimate of the period of service renewals for the transaction. Currently, the Company recognizes commission expense at the time of recognizing the related product revenue. The Company is also in the process of assessing the appropriate changes to its business processes and upgrading its systems and controls to support recognition and disclosure under ASU 2014-09. The Company expects to complete its assessment process within the last quarter of 2017.

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. Business Acquisitions

2017 Acquisitions

On April 12, 2017, the Company completed the acquisition of all of the membership interest of Dixie Drawl, LLC d/b/a InPharmics ("InPharmics") pursuant to InPharmics' Member Interest Purchase Agreement. InPharmics is a technology and services company that provides advanced pharmacy informatics solutions to hospital pharmacies. The total consideration for the transaction was $5.0 million, net of cash on hand at signing of $0.3 million. Approximately $0.5 million of the total consideration was classified as a long-term liability for potential settlement of performance obligations. The Company accounted for the acquisition of InPharmics in accordance with the authoritative guidance on business combinations; therefore, the tangible and intangible assets acquired and liabilities assumed were recorded at fair value on the acquisition date. The purchase price was preliminary allocated to intangible assets in the amount of $1.9 million, which included developed technology and customer contracts, with the remainder allocated to goodwill. The results of the InPharmics' operations have been included in our consolidated results of operations, and presented as part of the Automation and Analytics segment.

2016 Acquisitions

On January 5, 2016, the Company completed the acquisition of all of the membership interests of Aesynt pursuant to the Aesynt Securities Purchase Agreement. Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, I.V. sterile preparation robotics, and software, including software related to medication management. The total consideration was $271.5 million, net of cash on hand at signing of $8.2 million. The results of Aesynt's operations have been included in the Company's consolidated results of operations as of the time of the acquisition, and presented as part of the Automation & Analytics segment.

On December 8, 2016, the Company completed its acquisition of ateb, Inc., and Ateb Canada Ltd. (together, “Ateb”) pursuant to Ateb's Securities Purchase Agreement for $40.7 million of cash consideration, net of $0.9 million cash on hand. The cash consideration, included the repayment of Ateb indebtedness and other adjustments provided for in the Ateb's Securities Purchase Agreement. Ateb is a provider of pharmacy-based patient care solutions and the medication synchronization solutions leader to independent and chain pharmacies. The results of Ateb's operations have been included in the Company's consolidated results of operations as of the time of the acquisition, and presented as part of the Medication Adherence segment.

The Company accounted for the acquisitions of Aesynt and Ateb in accordance with the authoritative guidance on business combinations; therefore, the tangible and intangible assets acquired and liabilities assumed were recorded at fair value on the acquisition dates, respectively.

The following table represents the allocation of the purchase price to the assets acquired and the liabilities assumed by the Company during each acquisition, respectively, reconciled to the purchase price transferred included in the Company's Consolidated Balance Sheet:

Table of Contents

	Aesynt	Ateb (preliminary)	Total
	(in thousands)		
Cash	$8,164	$ 902	$9,066
Accounts receivable	43,312	7,761	51,073
Inventory	19,021	225	19,246
Other current assets	3,787	1,239	5,026
Total current assets	74,284	10,127	84,411
Property and equipment	10,389	2,447	12,836
Intangibles	123,700	12,500	136,200
Goodwill	163,599	21,651	185,250
Other non-current assets	968	334	1,302
Total assets	372,940	47,059	419,999
Current liabilities	26,753	2,314	29,067
Deferred revenue	25,512	2,776	28,288
Non-current deferred tax liabilities	38,622	—	38,622
Other non-current liabilities	2,431	367	2,798
Total liabilities	93,318	5,457	98,775
Total purchase price	$279,622	$ 41,602	$321,224
Total purchase price, net of cash received	$271,458	$ 40,700	$312,158

The $163.6 million of goodwill arising from the Aesynt acquisition is primarily attributed to sales of future products and services and Aesynt's assembled workforce. The goodwill has been assigned to the Automation & Analytics segment and is not deductible for tax purposes.

The $21.7 million of goodwill arising from the Ateb acquisition is primarily attributed to sales of future products and services and Ateb's assembled workforce.

Intangibles eligible for recognition separate from goodwill were those that satisfied either the contractual/legal criterion or the separability criterion in the accounting guidance. The identifiable intangible assets acquired and their estimated useful lives for amortization are as follows:

	Aesynt		Ateb (Preliminary)	
	Fair value	Weighted average useful life	Fair value	Weighted average useful life
	(In thousands)	(In years)	(In thousands)	(In years)
Customer relationships	$58,200	14-16	$8,900	12
Developed technology	38,800	8	3,400	5
Backlog	20,200	1-3	—	—
In-process research and development [(1)]	3,900	—	—	—
Non-compete	1,800	3	100	1
Trade names	800	1	100	1
Total purchased intangible assets	$123,700		$12,500	

[(1)] The amortization of the in-process R&D assets begins when the in-process R&D projects are complete.

Table of Contents

Aesynt Acquisition

Customer relationships represent the fair value of the underlying relationships and agreements with Aesynt’s customers, acquired developed technology represents the fair value of Aesynt products that have reached technological feasibility and were part of Aesynt’s product offerings at the date of acquisition, backlog represents the fair value of sales order backlog at the date of acquisition, non-compete intangible asset represents the fair value of non-compete agreements with former key members of Aesynt's management, and trade name represents the fair value of brand and name recognition associated with the marketing of Aesynt’s products and services. In-process research and development ("IPR&D") represents the fair value of incomplete Aesynt research and development projects that had not reached technological feasibility as of the date of acquisition. Incremental costs incurred for those projects are expensed as incurred in research and development.

The fair value of trade names, acquired developed technology, and acquired IPR&D was determined based on an income approach using the relief-from-royalty method at the royalty rates of 0.5%, 4% to 8% and 12.5%, respectively. The fair value of customer relationships, backlog, and non-compete intangible assets were determined based on an income approach using the discounted cash flow method, at the discounted rates of 13%, 10% and13%, respectively. The intangible assets, except customer relationship and IPR&D, are being amortized over their estimated useful lives using the straight line method of amortization. The customer relationship intangible asset is being amortized using a double-declining method of amortization as such method better represents the economic benefits to be obtained. In accordance with authoritative guidance, the IPR&D is accounted for as an indefinite-lived intangible asset until completion or abandonment of the associated research and development efforts. IPR&D is tested for impairment during the period it is considered an indefinite lived asset. IPR&D related projects are expected to be completed in two to three years. As of September 30, 2017, none of the IPR&D projects have been completed, and they have progressed as previously estimated and are expected to be completed in fiscal 2018.

Ateb Acquisition

Customer relationships represent the fair value of the underlying relationships and agreements with Ateb’s customers expected to result in future sales, acquired developed technology represents the fair value of Ateb intellectual property incorporated in their products, non-compete intangible asset represents the fair value of non-compete agreements with former key members of Ateb's management, and trade name represents the fair value of brand and name recognition associated with the marketing of Ateb’s products and services.

The fair value of Ateb trade names and acquired developed technology was determined based on an income approach using the relief-from-royalty method at the royalty rates of 0.5% and 5% to 6%, respectively. The fair value of customer relationships, and non-compete intangible assets were determined based on an income approach using the discounted cash flow method, both using a 15% discount rate. The intangible assets for non-compete agreements and trade name are being amortized over their estimated useful lives using the straight line method of amortization. The intangible assets for customer relationship and developed technology are being amortized using a double-declining method of amortization as such method better represents the economic benefits to be obtained.

Note 3. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of shares outstanding during the period, less shares repurchased. 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.

Table of Contents

The basic and diluted net income (loss) per share calculation for the three and nine months ended September 30, 2017 and 2016 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net income (loss)	$6,231	$1,983	$(3,686)	$446
Weighted-average shares outstanding — basic	37,698	36,332	37,266	36,020
Effect of dilutive securities from stock award plans	1,275	747	—	675
Weighted-average shares outstanding — diluted	$38,973	$37,079	37,266	36,695
Net income (loss) per share - basic	$0.17	$0.05	$(0.10)	$0.01
Net income (loss) per share - diluted	$0.16	$0.05	$(0.10)	$0.01
Anti-dilutive weighted-average shares related to stock award plans	1,383	326	3,757	1,255

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

Cash and cash equivalents of $7.5 million and $54.5 million as of September 30, 2017 and December 31, 2016, respectively, consisted of demand deposits only.

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 foreign currency contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. In accordance with the 2015 Avantec share purchase agreement, the Company agreed to make potential earn-out payments of $3.0 million based on the achievement of bookings targets. The Company has concluded that only $2.4 million of the total potential earn out payment has been earned, which was paid out during the three month period ended September 30, 2017.

The following table represents the fair value hierarchy of the Company’s financial assets and financial liabilities measured at fair value as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Interest rate swap contracts	$—	$1,200	$—	$1,200
Total financial assets	$—	$1,200	$—	$1,200

There have been no transfers between fair value measurement levels during the nine months ended September 30, 2017 and September 30, 2016.

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, 2016:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Interest rate swap contracts	$—	$1,245	$—	$1,245
Total financial assets	$—	$1,245	$—	$1,245
Contingent consideration liability	$—	$—	$2,400	$2,400
Total financial liabilities	$—	$—	$2,400	$2,400

Net investment in sales-type leases. The carrying amount of the Company's sales-type lease receivables is a reasonable estimate of fair value, as the unearned interest income is immaterial.

12

Table of Contents

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 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 counter-party that became effective on June 30, 2016 and is maturing on April 30, 2019. The swap agreement requires the Company to pay a fixed rate of 0.8% and provides that the Company will 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 will be net settled with the respective counter-party on the last business day of each month, commencing July 31, 2016.

The fair value of the interest rate swap agreements at September 30, 2017 and December 31, 2016 was $1.2 million and $1.2 million, respectively. 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, 2017 and December 31, 2016 are presented in the tables below:

	September 30, 2017	December 31, 2016
	(In thousands)	
Inventories:		
Raw materials	$20,736	$ 14,322
Work in process	10,769	7,800
Finished goods	60,734	47,175
Total inventories	$92,239	$ 69,297
Prepaid expense		
Prepaid commissions	$11,622	$ 13,176
Other prepaid expenses	16,422	15,470
Total prepaid expense	$28,044	$ 28,646
Property and equipment:		
Equipment	$70,343	$ 64,384
Furniture and fixtures	6,881	6,517
Leasehold improvements	10,143	9,778
Software	37,574	35,607
Construction in progress	8,083	7,211
Property and equipment, gross	133,024	123,497
Accumulated depreciation and amortization	(92,805)	(81,486)
Total property and equipment, net	$40,219	$ 42,011
Other long term assets:		
Capitalized software, net	$36,713	$ 33,233
Other assets	883	1,818
Total other long term assets, net	$37,596	$ 35,051

Table of Contents

	September 30, 2017	December 31, 2016
Accrued liabilities:		
Advance payments from customers	$ 7,780	$ 7,030
Rebates and lease buyouts	5,943	4,025
Group purchasing organization fees	3,380	3,737
Taxes payable	5,575	4,003
Other accrued liabilities	10,383	12,400
Total accrued liabilities	$ 33,061	$ 31,195

The following tables summarize the changes in accumulated balances of other comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,					
	2017			2016		
	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	$(8,765)	$ 1,274	$(7,491)	$(7,524)	$ —	$(7,524)
Other comprehensive income (loss) before reclassifications	1,389	35	1,424	(502)	108	(394)
Amounts reclassified from other comprehensive income (loss), net of tax	—	(109)	(109)	—	—	—
Net current-period other comprehensive income (loss), net of tax	1,389	(74)	1,315	(502)	108	(394)
Ending balance	$(7,376)	$ 1,200	$(6,176)	$(8,026)	$ 108	$(7,918)

	Nine months ended September 30,					
	2017			2016		
	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	$(10,764)	$ 1,245	$(9,519)	$(2,730)	$ —	$(2,730)
Other comprehensive income (loss) before reclassifications	3,388	111	3,499	(5,296)	108	(5,188)
Amounts reclassified from other comprehensive income (loss), net of tax	—	(156)	(156)	—	—	—
Net current-period other comprehensive income (loss), net of tax	3,388	(45)	3,343	(5,296)	108	(5,188)
Ending balance	$(7,376)	$ 1,200	$(6,176)	$(8,026)	$ 108	$(7,918)

Note 6. Net Investment in Sales-Type Leases

On a recurring basis, we enter into sales-type lease transactions with the majority varying in length from one to five years. 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, 2017 and December 31, 2016:

Table of Contents

	September 30, 2017	December 31, 2016
	(In thousands)	
Net minimum lease payments to be received	$26,173	$ 33,591
Less: Unearned interest income portion	(1,986)	(2,763)
Net investment in sales-type leases	24,187	30,828
Less: Short-term portion[1]	(8,201)	(10,243)
Long-term net investment in sales-type leases	$15,986	$ 20,585

[1] The short-term portion of the net investments in sales-type leases is included in other current assets in the Condensed Consolidated Balance Sheets.

The Company evaluates its sales-type leases individually and collectively for impairment. The allowance for credit losses were $0.2 million and $0.3 million as of September 30, 2017 and of December 31, 2016, respectively.

At September 30, 2017, the future minimum lease payments under sales-type leases are as follows:

	September 30, 2017
	(In thousands)
Remaining three months of 2017	$ 2,470
2018	8,038
2019	6,474
2020	4,548
2021	2,749
Thereafter	1,894
Total	$ 26,173

Note 7. Goodwill and Intangible Assets

Goodwill

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

	Automation and Analytics	Medication Adherence	Total
	(In thousands)		
Net balance as of December 31, 2016	$215,082	$ 112,642	$327,724
Goodwill acquired	3,113	819	3,932
Foreign currency exchange rate fluctuations	2,351	773	3,124
Net balance as of September 30, 2017	$220,546	$ 114,234	$334,780

Goodwill acquired in the Automation and Analytics segment represents the value assigned to goodwill as part of the InPharmics acquisition. Goodwill acquired in the Medication Adherence segment represents adjustments to the preliminary value assigned to goodwill in connection with Ateb acquisition to reflect measurement period adjustments related to accounts receivable and other non-current assets of $0.1 million and $0.7 million, respectively.

Intangible assets, net

The carrying amounts of intangibles assets as of September 30, 2017 and December 31, 2016 are as follows:

Table of Contents

	September 30, 2017				
	Gross carrying amount	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
	(In thousands, except for years)				
Customer relationships	$133,456	$ (30,421)	$ 297	$103,332	1 - 30
Acquired technology	74,457	(19,493)	75	55,039	3 - 20
Backlog	21,702	(16,654)	—	5,048	1 - 5
Trade names	8,683	(4,508)	13	4,188	1 - 12
Patents	3,290	(1,331)	(6)	1,953	2 - 20
Non-compete agreements	1,900	(1,133)	—	767	3
In-process technology	3,900	—	—	3,900	—
Total intangibles assets, net	$247,388	$ (73,540)	$ 379	$174,227	

	December 31, 2016				
	Gross carrying amount	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
	(In thousands, except for years)				
Customer relationships	$133,358	$ (20,930)	$ (596)	$111,832	1 - 30
Acquired technology	73,599	(13,287)	(159)	60,153	3 - 20
Backlog	20,550	(14,083)	—	6,467	1 - 3
Trade names	8,667	(3,887)	(31)	4,749	1 - 12
Patents	3,154	(1,264)	—	1,890	2 - 20
Non-compete agreements	1,900	(608)	—	1,292	3
In-process technology	3,900	—	—	3,900	—
Total intangibles assets, net	$245,128	$ (54,059)	$ (786)	$190,283	

Amortization expense of intangible assets was $6.4 million and $8.9 million for the three months ended September 30, 2017 and 2016, respectively. Amortization expense of intangible assets was $19.4 million and $27.2 million for the nine months ended September 30, 2017 and 2016, respectively.

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

	September 30, 2017
	(In thousands)
Remaining three months of 2017	$ 6,166
2018	23,302
2019	17,837
2020	16,631
2021	15,065
Thereafter (excluding in-process technology)	91,326
Total	$ 170,327

Note 8. Debt

On January 5, 2016, the Company entered into a $400 million senior secured credit facility pursuant to a credit agreement, by and among the Company, the lenders from time to time party thereto, 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 million (the "Revolving Credit Facility") and (b) a five-year $200 million term loan facility (the "Term Loan Facility" and together with the Revolving Credit Facility, the "Facilities"). In addition, the Credit

Table of Contents

Agreement includes a letter of credit sub-limit of up to $10 million and a swing line loan sub-limit of up to $10 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 2016 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 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 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 January 5, 2016, the Company borrowed the full $200.0 million under the Term Loan Facility and $55.0 million under the Revolving Credit Facility to complete the Aesynt acquisition and pay related fees and expenses. On December 2, 2016, the Company borrowed $40.0 million under the Revolving Credit Facility to complete the Ateb acquisition and pay related fees and expenses. On April 3, 2017, the Company borrowed an additional $10.0 million under the Revolving Credit Facility to pay for the InPharmics acquisition and fund its operations. On July 7, 2017 and July 31, 2017, the Company borrowed an additional $15.0 million and $12.0 million, respectively, under the Revolving Credit Facility to fund its operations. As of September 30, 2017 the Company has repaid $134.5 million borrowed under these Facilities, which includes $100.0 million repaid during the nine months ended September 30, 2017.

On April 11, 2017, the parties entered into the First Amendment to Credit Agreement and Collateral 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.

In connection with these Facilities, the Company incurred $7.9 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 in accordance with

the accounting guidance. 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 $1.6 million and $1.2 million for the three months ended September 30, 2017 and 2016, respectively. Interest expense (exclusive of fees and issuance cost amortization) was approximately $4.6 million and $4.0 million for the nine months ended September 30, 2017 and 2016, respectively. The Company was in full compliance with all covenants as of September 30, 2017 and December 31, 2016.

The components of the Company’s debt obligations for the nine months ended September 30, 2017 are as follows:

Table of Contents

	December 31, 2016	Borrowings	Repayment / Amortization	September 30, 2017
	(In thousands)			
Term loan facility	$192,500	$ —	$ (7,500)	$ 185,000
Revolving credit facility	68,000	37,000	(92,500)	12,500
Total debt under the facilities	260,500	37,000	(100,000)	197,500
Less: Deferred issuance cost	(6,359)	—	1,192	(5,167)
Total Debt, net of deferred issuance cost	$254,141	$ 37,000	$ (98,808)	$ 192,333
Long term debt, current portion, net of deferred issuance cost	8,410			13,410
Long term debt, net of deferred issuance cost	$245,731			$ 178,923

As of September 30, 2017, the carrying amount of debt of $197.5 million approximates the comparable fair value of $199.2 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 interest rate changes, comparable instruments, and long-term credit ratings.

Note 9. Deferred revenue

Short-term deferred revenue includes deferred revenue from product sales and service contracts, net of deferred cost of sales of $14.5 million and $14.2 million as of September 30, 2017 and December 31, 2016, respectively. The short-term deferred revenues from product sales relate to the delivered and invoiced products, pending installation and acceptance, expected to occur within the next twelve months.

Long-term deferred revenue includes deferred revenue from service contracts of $16.4 million and $17.1 million, as of September 30, 2017 and December 31, 2016, respectively.

Note 10. Commitments and Contingencies

Lease commitments

The Company leases office space and office equipment under operating leases. Commitments under operating leases primarily relate to leasehold property and office equipment. At September 30, 2017, the minimum future payments on non-cancelable operating leases were as follows:

	(In thousands)
Remaining three months of 2017	$ 3,203
2018	12,447
2019	12,270
2020	10,972
2021	10,316
Thereafter	31,168
Total minimum future lease payments	$ 80,376

Purchase obligations

In the ordinary course of business, the Company issues purchase orders based on its current manufacturing needs. At September 30, 2017, the Company had non-cancelable purchase commitments of $59.9 million, which are expected to be paid within the next twelve months.

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 any current legal proceedings 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

18

Table of Contents

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.

The Company is not a party to any legal proceedings that management believes may have a material impact on the Company's financial position or results of operations.

Note 11. 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. For the three month ended September 30, 2017, the provision for income taxes was computed based on the actual effective tax rate for the year-to-date by applying the discrete method. The Company determined that as small changes in estimated “ordinary” income result in significant changes in the estimated annual effective tax rate, the actual effective tax rate provided a more accurate income tax provision for the reporting period ended September 30, 2017. The estimated effective tax rate before discrete items was 34.4% and 38.3% for the nine months ended September 30, 2017 and 2016, respectively.

The estimated effective tax rate for the nine months ended September 30, 2017 differed from the statutory rate of 35% primarily due to the unfavorable impact of state income taxes, foreign rate differential, and non-deductible equity charges, which were partially offset by the favorable impact of the Research & Development credits. The effective tax rate for the nine months ended September 30, 2016 differed from the statutory rate of 35% primarily due to the favorable impact of the IRS settlement and release of tax reserves, the domestic production activities deduction, Research & Development credits and a calculated benefit in state income taxes, offset by unfavorable items such as non-deductible transaction costs related to the Aesynt transaction, and non-deductible equity charges under ASC 740-718.

As of September 30, 2017 and December 31, 2016, the Company had gross unrecognized tax benefits of $6.8 million and $6.5 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 operating expense. As of September 30, 2017 and December 31, 2016, the amount of accrued interest and penalties was $1.2 million and $0.7 million, respectively.

As of September 30, 2017, calendar years 2011 and thereafter are open and subject to potential examination in one or more jurisdictions. However, our research credit carryforwards that may be used in future years are subject to adjustment, if and when utilized. As such our federal and California tax years remain open from 2015 and 1992, respectively. During fiscal 2016, the Internal Revenue Service and the Company settled all outstanding items related to the audit of the Company's federal income tax returns for the fiscal year ended December 31, 2014.

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 12. Employee Benefits and Share-Based Compensation

Stock based plans

For a detailed explanation of the Company's stock plans and subsequent changes, please refer to Note 11, Employee Benefits and Stock-Based Compensation, of the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 28, 2017.

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:

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
	(In thousands)			
Cost of product and service revenues	$882	$ 628	$2,727	$ 1,821
Research and development	915	825	2,651	2,267
Selling, general and administrative	3,462	3,224	10,937	9,975
Total share-based compensation expense	$5,259	$ 4,677	$16,315	$ 14,063

19

Table of Contents

The following weighted average assumptions are used to value stock options and Employee Stock Purchase Plan ("ESPP") shares issued pursuant to the Company's equity incentive plans for the three and nine months ended September 30, 2017 and 2016:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Stock Option Plans				
Expected life, years	4.67	4.92	4.67	4.92
Expected volatility, %	28.1%	30.0%	29.2%	31.4%
Risk free interest rate, %	1.81%	1.21%	1.83%	1.34%
Estimated forfeiture rate %	7.7%	8.6%	7.7%	8.6%
Dividend yield, %	—%	—%	—%	—%

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Employee Stock Purchase Plan				
Expected life, years	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Expected volatility, %	26.7-32.1%	25.8-34.8%	25.8-32.8%	25.8-34.8%
Risk free interest rate, %	0.61-1.39%	0.41-0.79%	0.52-1.39%	0.34-0.79%
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, 2017:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Years	Aggregate Intrinsic Value
	(In thousands, except per share data)			
Stock Options				
Outstanding at December 31, 2016	3,214	$ 26.06	7.3	$ 26,331
Granted	504	38.87		
Exercised	(668)	21.66		
Expired	(6)	27.53		
Forfeited	(79)	32.54		
Outstanding at September 30, 2017	2,965	$ 29.06	7.4	$ 65,247
Exercisable at September 30, 2017	1,252	$ 22.36	5.5	$ 35,915
Vested and expected to vest at September 30, 2017 and thereafter	2,965	$ 29.06	7.4	$ 65,247

The weighted-average fair value per share of options granted during the three months ended September 30, 2017 and 2016 was $12.49 and $10.32, respectively, and the weighted-average fair value per share of options granted during the nine months ended September 30, 2017 and 2016 was $11.22 and $8.82, respectively. The intrinsic value of options exercised during the three months ended September 30, 2017 and 2016 was $6.8 million and $2.1 million, respectively, and the intrinsic value of options exercised during the nine months ended September 30, 2017 and 2016 was $14.6 million and $5.0 million, respectively,

As of September 30, 2017, total unrecognized compensation cost related to unvested stock options was $13.7 million, which is expected to be recognized over a weighted-average vesting period of 2.8 years.

Restricted stock activity

The following table summarizes the restricted stock activity under the Company’s equity incentive plans during the nine months ended September 30, 2017:

20

Table of Contents

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Years	Aggregate Intrinsic Value
	(In thousands, except per share data)			
Restricted Stock Units ("RSUs")				
Outstanding at December 31, 2016	505	$ 31.42	1.6	$ 17,135
Granted	93	37.86		
Vested	(126)	29.19		
Forfeited	(16)	32.17		
Outstanding and unvested at September 30, 2017	456	$ 33.33	1.2	$ 23,257

The weighted-average grant date fair value per share of RSUs granted during the nine months ended September 30, 2017 and September 30, 2016 was $37.86 and $29.19, respectively.

As of September 30, 2017, total unrecognized compensation expense related to RSUs was $11.4 million, which is expected to be recognized over the remaining weighted-average vesting period of 2.4 years.

	Number of Shares	Weighted-Average Grant Date Fair Value
	(In thousands, except per share data)	
Restricted Stock Awards ("RSAs")		
Outstanding at December 31, 2016	30	$ 31.57
Granted	24	41.10
Vested	(30)	31.58
Forfeited	—	—
Outstanding and unvested at September 30, 2017	24	$ 41.05

As of September 30, 2017, total unrecognized compensation cost related to RSAs was $0.6 million, which is expected to be recognized over the remaining weighted-average vesting period of 0.64 years.

Performance-based restricted stock unit activity

The following table summarizes the performance-based restricted stock activity under the Company’s equity incentive plans during the nine months ended September 30, 2017:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Unit
	(In thousands, except per share data)	
Performance-based Restricted Stock Units ("PSUs")		
Outstanding at December 31, 2016	184	$ 24.89
Granted	146	33.89
Vested	(69)	24.43
Forfeited	—	—
Outstanding and unvested at September 30, 2017	261	$ 30.06

The weighted-average grant date fair value per share of PSUs granted during the nine months ended September 30, 2017 and 2016 was $33.89 and $24.66, respectively. As of September 30, 2017, total unrecognized compensation cost related to PSUs was $3.5 million, which is expected to be recognized over the remaining weighted-average period of 1.3 years.

Employee Stock Purchase Plan activity

For the nine months ending September 30, 2017 and 2016, purchases under the ESPP were approximately 465,696 and 420,000 shares at weighted average prices of $25.78 and $23.23, respectively. As of September 30, 2017, the unrecognized

21

Table of Contents

compensation cost related to the shares to be purchased under the ESPP was approximately $1.6 million and is expected to be recognized over a weighted-average period of 1.6 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, 2017:

	Number of Shares (In thousands)
Share options outstanding	2,965
Non-vested restricted share awards	741
Shares authorized for future issuance	2,191
ESPP shares available for future issuance	2,365
Total shares reserved for future issuance	8,262

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, 2017, 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 program at any time.

During the three and nine months period ended September 30, 2017 and 2016, the Company did not repurchase any of its outstanding common stock.

Note 13. Segment and Geographical Information

The Company's Chief Operating Decision Maker ("CODM") is its Chief Executive Officer. The CODM allocates resources and evaluates the performance of the Company's segments using information about its revenues, gross profit, and income from operations. Such evaluation excludes general corporate-level costs that are not specific to either of the reportable segments and are managed separately at the corporate level. Corporate-level costs include expenses related to executive management, finance and accounting, human resources, legal, training and development, and certain administrative expenses. The two operating segments, which are the same as the Company's two reportable segments, are as follows:

Automation and Analytics

The Automation and Analytics segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. The Automation and Analytics products are designed to enable the Company's customers to enhance and improve the effectiveness of the medication-use process, the efficiency of the medical-surgical supply chain, overall patient care and clinical and financial outcomes of medical facilities. Through modular configuration and upgrades, the Company's systems can be tailored to specific customer needs.

Medication Adherence

The Medication Adherence segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services. These products are used to manage medication administration outside of the hospital setting and include medication adherence products, which consist of proprietary medication packaging systems and related products for use by institutional pharmacies servicing long-term care, and correctional facilities or retail pharmacies serving patients in their local communities.

The following tables summarize the financial performance of the Company's reportable segments, including a reconciliation of income from segment operations to income from total operations:

Table of Contents

	Three months ended September 30, 2017			September 30, 2016		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
	(In thousands)					
Revenues	$154,651	$ 32,131	$186,782	$152,437	$ 24,300	$176,737
Cost of revenues	79,740	22,189	101,929	77,828	17,401	95,229
Gross profit	74,911	9,942	84,853	74,609	6,899	81,508
Operating expenses	46,849	9,901	56,750	49,123	6,137	55,260
Income (loss) from segment operations	$28,062	$ 41	$28,103	$25,486	$ 762	$26,248
Corporate costs			18,389			21,320
Income (loss) from operations			$9,714			$4,928

	Nine months ended September 30, 2017			September 30, 2016		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
	(In thousands)					
Revenues	$427,250	$ 90,971	$518,221	$450,043	$ 70,605	$520,648
Cost of revenues	229,218	61,983	291,201	233,401	47,777	281,178
Gross profit	198,032	28,988	227,020	216,642	22,828	239,470
Operating expenses	146,651	31,196	177,847	151,108	17,518	168,626
Income (loss) from segment operations	$51,381	$ (2,208)	$49,173	$65,534	$ 5,310	$70,844
Corporate costs			59,099			64,182
Income (loss) from operations			$(9,926)			$6,662

Significant customers

There were no customers that accounted for more than 10% of our total revenues for the three and nine months ended September 30, 2017 and 2016. Also, there were no customers that accounted for more than 10% of our accounts receivable as of September 30, 2017 and December 31, 2016.

Table of Contents

Geographical Information

Revenues

	Three months ended	
	September 30, 2017	September 30, 2016
	(In thousands)	
United States	$164,190	$ 155,989
Rest of world [1]	22,592	20,748
Total revenues	$186,782	$ 176,737

	Nine months ended	
	September 30, 2017	September 30, 2016
	(In thousands)	
United States	$449,755	$ 445,470
Rest of world [1]	68,466	75,178
Total revenues	$518,221	$ 520,648

[1] No individual country represented more than 10% of the respective totals.

Property and equipment, net

	September 30, 2017	December 31, 2016
	(In thousands)	
United States	$33,620	$ 36,497
Rest of world [1]	6,599	5,514
Total property and equipment, net	$40,219	$ 42,011

[1] No individual country represented more than 10% of the respective totals.

Property and equipment, net is attributed to the geographic location in which it is located.

Note 14. Restructuring Expenses

On February 15, 2017, the Company announced its plan to reduce its workforce by approximately 100 full-time employees and close the Company’s Nashville, Tennessee and Slovenia facilities. The plan is expected to be completed in fiscal year 2017. The estimated total cost for the plan is $4.3 million, which includes estimated employee severance cost of approximately $3.8 million, and facility-related costs of approximately $0.5 million.

During the nine months ended September 30, 2017, the Company accrued $3.8 million of severance and related expenses, and paid out $3.2 million. The remaining unpaid balance of $0.6 million accrued severance and related expenses as of September 30, 2017 is presented as a component of accrued compensation in the Condensed Consolidated Balance Sheet.

There were $0.6 million of facility-related costs incurred during the nine months ended September 30, 2017, of which $0.2 million was paid out. The remaining unpaid balance of $0.4 million accrued facilities-related expenses as of September 30, 2017 is presented as a component of accrued liabilities in the Condensed Consolidated Balance Sheet.

For the three and nine months periods ending September 30, 2017, the total restructuring expense was $0 and $4.3 million, respectively.

During the second quarter of 2016, the Company integrated its Sales and Field organizations in North America to better serve its customers which resulted in a reduction in headcount of 36 employees. Accordingly, the Company incurred approximately $1.7 million of restructuring expenses in the nine months ended September 30, 2016, based on

agreements with

Table of Contents

terminated employees covering salary and benefit continuation. As of September 30, 2016 the restructuring program has been concluded.

Note 15. Subsequent Event

On October 2, 2017 and October 10, 2017, the Company borrowed $12.0 million and $10.0 million, respectively, under the Revolving Credit Facility to fund its operations.

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 within the meaning of Section 27A of the United States Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Statements other than statements of historical facts are forward-looking statements and are contained principally in the sections entitled “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations.” These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our expectations regarding our future product bookings;
- our ability to acquire companies, businesses, products or technologies on commercially reasonable terms and integrate such acquisitions effectively;
- the extent and timing of future revenues, including the amounts of our current backlog, which represents firm orders that have not completed installation and therefore have not been recognized as revenue;
- the size or growth of our market or market share;
- the 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; 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," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. We discuss many of these risks in this annual report in greater detail in Part II - Item 1A. “Risk Factors” below. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this annual report. You should also read this annual report and the documents that we reference in this annual report and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to "Omnicell," "our," "us," "we," or the "Company" collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries. The term "Omnicell, Inc.," refers only to Omnicell, Inc., excluding its subsidiaries. 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 anticipated in any forward-looking statements, even if new information becomes available in the future.

We own various trademarks, copyrights and trade names used in our business, including the following: Omnicell®, the Omnicell logo, OmniRx®, OmniCenter®, OmniSupplier®, OmniBuyer®, SafetyStock®, WorkflowRx™, OmniLinkRx™, Optiflex™, SinglePointe™, AnywhereRN™, Anesthesia Workstation™ , Savvy™, MTS Medication Technologies, the MTS Medication Technologies logo, Medlocker®, AccuFlex®, Autobond ™, AutoGen ™, easyBLIST™, PanoDose®, OmniDemand®, Multi-Med™, RxMap®, MTS-350 ™, MTS-400 ™, MTS-500 ™ SureMed, ROBOT-Rx®, MedCarousel®, MedShelf-Rx™, PROmanager-Rx™, PACMED™, NarcStation™, PakPlus-Rx®, i.v.STATION™, i.v.SOFT®, Enterprise Medication Manager

XT Anesthesia Workstation™, Performance Center™, Time My Meds® and Automation Decision Support™ . This report also includes other trademarks, service marks and trade names of other companies. All other trademarks used in this report are trademarks of their respective holders.

Table of Contents

OVERVIEW

Our Business

We are a leading provider of comprehensive automation and business analytics software solutions for patient-centric medication and supply management across the entire healthcare continuum, from the acute care hospital setting to post-acute skilled nursing and long-term care facilities to the home. Our Omnicell Automation and Analytic customers worldwide use our medication automation, supply chain and analytics solutions to help enable them to increase operational efficiency, reduce errors, deliver actionable intelligence and improve patient safety.

Omnicell Medication Adherence solutions, including the MTS and Ateb brands, provide innovative medication adherence packaging solutions that can help reduce costly hospital readmissions and enable institutional and retail pharmacies worldwide to maintain high accuracy and quality standards in medication dispensing and administration while optimizing productivity and controlling costs.

We sell our product and consumable solutions together with related service offerings. Revenue generated in the United States represented 88% and 88% of total revenue for the three months ended September 30, 2017 and 2016, respectively, and 87% and 86% of total revenue for the nine months ended September 30, 2017 and 2016. We expect our revenues from international operations to increase in future periods as we continue to grow our international business. We have not sold in the past, 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, and are subject to economic sanctions and export controls.

Operating Segments

We manage our business as two operating segments, which are the same as our two reportable segments: Automation and Analytics, and Medication Adherence.

Automation and Analytics

The Automation and Analytics segment is organized around the design, manufacturing, selling, and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. Our Automation and Analytics products are designed to enable our customers to enhance and improve the effectiveness of the medication-use process, the efficiency of the medical-surgical supply chain, overall patient care and clinical and financial outcomes of medical facilities. Through modular configuration and upgrades, our systems can be tailored to specific customer needs.

Medication Adherence

The Medication Adherence segment includes the development, manufacturing and selling of consumable medication blister cards, packaging equipment, pharmacy-based patient care software solutions including a medication synchronization platform, and ancillary products and services. These products are used to manage medication administration outside of the hospital setting and include medication adherence products sold under the brand name MTS, SureMed, Ateb, and the Omnicell brands. MTS products consist of proprietary medication packaging systems and related products for use by institutional pharmacies servicing long-term care and correctional facilities, or retail pharmacies serving patients in their local communities. Recently acquired Ateb is a provider of pharmacy-based patient care solutions and medication synchronization to independent and chain pharmacies.

For further description of our operating segments, refer to Note 13, Segment and Geographical Information, of the Notes to Consolidated Financial Statements in this quarterly report.

Strategy

The healthcare market is experiencing a period of substantive change. The adoption of electronic healthcare records, new regulatory constraints, and changes in the reimbursement structure have caused healthcare institutions to re-examine their operating structures, re-prioritize their investments, and seek efficiencies. We believe our customers' evolving operating environment creates challenges for any supplier, but also affords opportunities for suppliers that are able to partner with customers to help them meet the changing demands. We have, and intend to continue to, invest in the strategies which we believe have generated and will continue to generate our revenue and earnings growth, while supporting our customers' initiatives and needs. These strategies include:

- Development of differentiated solutions. We invest in the development of products that we believe bring patient safety and workflow efficiency to our customers' operations that they cannot get from other competing solutions.

These differentiators may be as small as how a transaction operates or information provided on a report or as large

Table of Contents

as the entire automation of a workflow that would otherwise be completed manually. We intend to continue our focus on differentiating our products, and we carefully assess our investments regularly as we strive to ensure those investments provide the solutions most valuable to our customers.

- Deliver our solutions to new markets. Areas of healthcare where work is done manually may benefit from our existing solutions. These areas include hospitals that continue to employ manual operations, healthcare segments of the U.S. market outside hospitals and markets outside the United States. We weigh the cost of entering these new markets against the expected benefits and focus on the markets that we believe are most likely to adopt our products.
- Expansion of our solutions through acquisitions and partnerships. Our acquisitions have generally been focused on automation of manual workflows or data analytics, which is the enhancement of data for our customers' decision-making processes. We believe that expansion of our product lines through acquisition and partnerships to meet our customers changing and evolving expectations is a key component to our historical and future success.

Our investments have been consistent with the strategies outlined above. To differentiate our solutions from others available in the market, in December 2016 we introduced the XT Series, our new generation of medication and supply automation that is fully integrated on our Unity enterprise platform. The XT Series includes automated medication and supply dispensing cabinets, the Anesthesia Workstation, and Controlled Substance Manager. The XT Automated Medication Cabinets have been integrated with Connect-Rx® from Aesynt, so customers in the United States who use AcuDose-Rx® cabinets can take advantage of the XT Series hardware without changing their software or server infrastructure. As part of this product introduction, we developed a new hardware and electronics architecture for the XT Series. Additionally, in February 2017 we introduced VBM 200F, an automated pharmacy solution that fills and checks SureMed® multiple medication blister cards utilizing guided light, barcode and RFID technologies to allow the filled tray to be audited throughout the entire packing process. This technology helps ensure that pharmacies have the competitive advantage to easily scale their business to help improve adherence and patient outcomes.

Consistent with our strategy to enter new markets, we have made investments in our selling, general and administrative expenses to expand our sales team and market to new customers. Our international efforts have focused primarily on Western Europe, where we sell solutions through a direct sales team in the United Kingdom, France, and Germany and through resellers in other markets; and in the Middle Eastern countries of the Arabian Peninsula. We have also expanded our sales efforts to medication adherence customers in the United States which has allowed us to sell our automated dispensing solutions and other products to this market.

Expansion of our solutions through acquisitions and partnerships include our acquisition of MTS in 2012, our acquisition of Surgichem in August 2014, our acquisitions of Mach4 and Avantec in April 2015, our acquisition of Aesynt in January 2016, our acquisition of Ateb in December 2016, and most recently, our acquisition of InPharmics in April 2017. Surgichem is a provider of medication adherence products in the United Kingdom. Mach4 is a provider of automated medication management systems to retail and hospital pharmacy customers primarily in Europe, with additional installations in China, the Middle East and Latin America. Avantec develops medication and supply automation products that complement our solutions for configurations suited to the United Kingdom marketplace, and has been the exclusive United Kingdom distributor for our medication and supply automation solutions since 2005. Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, I.V. sterile preparation robotics and software, including software related to medication management. Ateb is a provider of pharmacy-based patient care solutions and medication synchronization to independent and chain pharmacies. InPharmics is a technology and services company that provides advanced pharmacy informatics solutions to hospital pharmacies. 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. We believe that enhanced interoperability will help reduce implementation costs, time, and maintenance for shared clients, while providing new clinical workflows designed to enhance efficiency and patient safety.

We believe that the success of our three leg strategy of differentiated products, expansion into new markets and acquisition and partnership in future periods, will be based on, among other factors:

- Our expectation that the overall market demand for healthcare services will increase as the population grows, life expectancies continue to increase and the quality and availability of healthcare services increases;

- Our expectation that the environment of increased patient safety awareness, increased regulatory control, increased demand for innovative products that improve the care experience and increased need for workflow efficiency through the adoption of technology in the healthcare industry will make our solutions a priority in the capital budgets of healthcare facilities; and

Table of Contents

- Our belief that healthcare customers will continue to value a consultative customer experience from their suppliers.

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 by a contract and purchase order for equipment and software, and by a purchase order for consumables. Equipment and software bookings are installable within twelve months and, other than subscription based sales, generally are recorded as revenue upon customer 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. Our healthcare customers expect a high degree of partnership involvement from their technology suppliers throughout their ownership of the products. We provide extensive installation planning and consulting as part of every product sale and included in the initial price of the solution. Our customers' medication control systems are mission critical to their success and our customers require these systems to be functional at all times. To help assure the maximum availability of our systems, our customers typically purchase maintenance and support contracts in one, two or five year increments. As a result of the growth of our installed base of customers, our service revenues have also grown. We strive to provide the best service possible, as measured by third-party rating agencies and by our own surveys, to assure our customers continue to seek service maintenance from us.

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 healthcare with solutions that help change the practices in ways that improve patient and provider outcomes. We expect our investment in differentiated products, new markets, and acquisitions and partnerships to continue. In 2017, we also intend to manage our business to operating profit margins similar to those achieved in 2016, bringing our strategies to bear in all the markets in which we participate.

On February 15, 2017, we announced our intention to create Centers of Excellence (“COE”) for product development, engineering and manufacturing, with the Point of Use COE located at our facilities in California, the Robotics and Central Pharmacy COE located at our facilities near Pittsburgh, Pennsylvania, and the Medication Adherence Consumables COE located at our facilities in St. Petersburg, Florida. As part of this initiative, we reduced our workforce by approximately 100 full-time employees, or about 4% of the total headcount, closed our Nashville, Tennessee facility, and plan to close our Slovenia facilities in the fourth quarter of 2017. Our full-time headcount was approximately 2,331 and 2,444 on September 30, 2017 on December 31, 2016, respectively.

Recent Acquisitions

On January 5, 2016, we completed the acquisition of all of the membership interests of Aesynt. Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, I.V. sterile preparation robotics and software, including software related to medication management. The purchase price consideration was $271.5 million, net of cash acquired of $8.2 million. The results of Aesynt's operations have been included in our consolidated results of operations since January 6, 2016, and presented as part of the Automation and Analytics segment.

On December 8, 2016, we completed our acquisition of ateb, Inc., and Ateb Canada Ltd. (together, “Ateb”). Ateb is a provider of pharmacy-based patient care solutions and the medication synchronization solutions leader to independent and chain pharmacies with over one million active pharmacy patients. The purchase price consideration was $40.7 million, net of cash acquired of $0.9 million. The results of Ateb's operations have been included in our consolidated results of operations beginning December 9, 2016, and presented as part of the Medication Adherence segment.

On April 12, 2017, we completed the acquisition of InPharmics, a technology and services company that provides advanced pharmacy informatics solutions to hospital pharmacies. The purchase price consideration was $5.0 million, net of cash acquired of $0.3 million. The results of InPharmics' operations have been included in our consolidated results of operations beginning April 13, 2017, and presented as part of the Automation and Analytics segment.

Table of Contents

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 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 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;
- Accounts receivable and notes receivable (net investment in sales-type leases);
- Inventory valuation;
- Capitalized software development cost;
- Valuation and impairment of goodwill, intangible assets and other long-lived assets;
- Business combinations;
- Valuation of share-based awards; and
- Accounting for income taxes.

There have been 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, 2017 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, 2016.

Recently adopted and 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 adopted and issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial positions and cash flows.

RESULTS OF OPERATIONS

Total Revenues

	Three months ended September 30,			
			Change in	
	2017	2016	$	%
	(Dollars in thousands)			
Product revenues	$135,103	$133,621	$1,482	1 %
Percentage of total revenues	72 %	76 %		
Service and other revenues	51,679	43,116	8,563	20%
Percentage of total revenues	28 %	24 %		
Total revenues	$186,782	$176,737	$10,045	6 %

Product revenues represented 72% and 76% of total revenues for the three months ended September 30, 2017 and September 30, 2016, respectively. Product revenues increased by $1.5 million due to increased sales for the Medication Adherence segment of $2.9 million, offset by decreased sales for the Automation and Analytics segment of $1.4 million. The decrease in the Automation and Analytics segment was attributed to a slower conversion of bookings and backlog into revenue due to the introduction of the new XT series of products introduced in the fourth quarter of 2016. The increase in the Medication Adherence segment was attributed to higher completed installations compared to the three months ended September 30, 2016, primarily due to the introduction in the fourth quarter of 2016 our VBM product line. In addition, $1.1 million of the increase was attributed to the Ateb acquisition in the fourth quarter of 2016.

Service and other revenues represented 28% and 24% of total revenues for the three months ended September 30, 2017 and September 30, 2016, respectively. Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. Service and other revenues increased by $8.6 million primarily due to an increase from our

Automation and Analytics segment of $3.7 million attributed to higher service renewal fees, driven mainly by an increase in our installed customer base. Service and other revenues from the Medication Adherence segment increased $4.9 million, primarily attributed to Ateb, acquired in the fourth quarter of 2016, which contributed $5.0 million to the service revenue during the three months ended September 30, 2017.

Our international sales represented 12% and 12% of total revenues for the three months ended September 30, 2017 and 2016, respectively, and are expected to be affected by foreign currency exchange rates fluctuations. We are unable to predict the extent to which revenue in future periods will be impacted by changes in foreign currency exchange rates.

	Nine months ended September 30,			
			Change in	
	2017	2016	$	%
	(Dollars in thousands)			
Product revenues	$362,089	$392,190	$(30,101)	(8)%
Percentage of total revenues	70 %	75 %		
Service and other revenues	156,132	128,458	27,674	22 %
Percentage of total revenues	30 %	25 %		
Total revenues	$518,221	$520,648	$(2,427)	— %

Product revenues represented 70% and 75% of total revenues for the nine months ended September 30, 2017 and September 30, 2016, respectively. Product revenues decreased by $30.1 million due to decreased sales for the Automation and Analytics segment of $35.4 million, partially offset by increased sales for the Medication Adherence segment of $5.3 million. The decrease in the Automation and Analytics segment was attributed to slower conversion of bookings and backlog into revenue as a result of the introduction of the XT series products in the fourth quarter of 2016. The increase in the Medication Adherence segment was attributed to higher machine sales compared to the nine months ended September 30, 2016, primarily due to the introduction of VBM product series in the fourth quarter of 2016. In addition, $2.7 million of the increase was attributed to Ateb.

Service and other revenues represented 30% and 25% of total revenues for the nine months ended September 30, 2017 and September 30, 2016, respectively. Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. Service and other revenues increased by $27.7 million primarily due to an increase from our Automation and Analytics segment of $12.6 million attributed to higher service renewal fees driven mainly by an increase in our installed customer base. Service and other revenues from the Medication Adherence segment increased $15.1 million, primarily attributed to Ateb, which contributed $15.5 million to the service revenue during the nine months ended September 30, 2017.

International revenues represented 13% and 14% of total revenues for the nine months ended September 30, 2017 and 2016, respectively, and are expected to be affected by foreign currency exchange rates fluctuations. The decrease as a percentage of our total revenues in international revenues were primarily related to our recently acquired companies, Aesynt and Ateb, which have a higher market presence in United States compared to international markets. We are unable to predict the extent to which revenue in future periods will be impacted by changes in foreign currency exchange rates.

Our ability to continue to grow revenue 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.

Financial Information by Segment

Revenues

	Three months ended September 30,			
			Change in	
	2017	2016	$	%
Revenues:	(Dollars in thousands)			
Automation and Analytics	$154,651	$152,437	$2,214	1.5%
Percentage of total revenues	83 %	86 %		
Medication Adherence	32,131	24,300	7,831	32 %
Percentage of total revenues	17 %	14 %		
Total revenues	$186,782	$176,737	$10,045	6 %

The $2.2 million increase in Automation and Analytics revenues for the three months ended September 30, 2017 in comparison to the three months ended September 30, 2016 was due to an increase in service revenues of $3.7 million, partially offset by a decrease in product revenue of $1.4 million. The decrease in product revenue in the Automation and Analytics segment was attributed to slower conversion of bookings and backlog into revenue as result of the introduction of the XT series products in the fourth quarter of 2016. The service revenue increase of $3.7 million was primarily attributed to higher service renewal fees driven mainly by an increase in installed customer base.

Medication Adherence revenues increased by $7.8 million for the three months ended September 30, 2017 in comparison to the three months ended September 30, 2016. The increase in revenue was due to an increase in product revenue of $2.9 million and an increase in service revenue of $4.9 million. The product revenue increase of $2.9 million was attributed primarily to the introduction of the VBM product series in the fourth quarter of 2016. The service revenue increase of $4.9 million was primarily attributed to Ateb, which contributed $5.0 million to the service revenue during the three months ended September 30, 2017.

	Nine months ended September 30,			
			Change in	
	2017	2016	$	%
Revenues:	(Dollars in thousands)			
Automation and Analytics	$427,250	$450,043	$(22,793)	(5)%
Percentage of total revenues	82 %	86 %		
Medication Adherence	90,971	70,605	20,366	29 %
Percentage of total revenues	18 %	14 %		
Total revenues	$518,221	$520,648	$(2,427)	— %

The $22.8 million decrease in Automation and Analytics revenues for the nine months ended September 30, 2017 in comparison to the nine months ended September 30, 2016 was due to a decrease in product revenue of $35.4 million, partially offset by an increase in service revenues of $12.6 million. The decrease in the Automation and Analytics segment was attributed to a slower conversion of bookings and backlog into revenue due to the introduction of the new XT series of products in the fourth quarter of 2016. While we have experienced larger deal sizes, the administrative process of converting our existing bookings of G4 products into XT series products has decelerated revenue recognition during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Service revenue increase of $12.6 million was primarily attributed to higher service renewal fees driven mainly by an increase in installed customer base.

Medication Adherence revenues increased by $20.4 million for the nine months ended September 30, 2017 in comparison to the nine months ended September 30, 2016. The increase in revenue was comprised of an increase in product revenue of $5.3 million and increase in service revenue of $15.1 million. Product revenue increase of $5.3 million was attributed primarily to the introduction of the VBM product series in the fourth quarter of 2016. The service revenue increase of $15.1 million was primarily attributed to Ateb, which contributed $15.5 million to the service revenue during the nine months ended September 30, 2017.

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,			
			Change in	
	2017	2016	$	%
Cost of revenues:	(Dollars in thousands)			
Automation and Analytics	$79,740	$77,828	$1,912	2 %
As a percentage of related revenues	52 %	51 %		
Medication Adherence	22,189	17,401	4,788	28 %
As a percentage of related revenues	69 %	72 %		
Total cost of revenues	$101,929	$95,229	$6,700	7 %
As a percentage of total revenues	55 %	54 %		
Gross profit:				
Automation and Analytics	$74,911	$74,609	$302	— %
Automation and Analytics gross margin	48 %	49 %		
Medication Adherence	9,942	6,899	3,043	44 %
Medication Adherence gross margin	31 %	28 %		
Total gross profit	$84,853	$81,508	$3,345	4 %
Total gross margin	45 %	46 %		

	Nine months ended September 30,			
			Change in	
	2017	2016	$	%
Cost of revenues:	(Dollars in thousands)			
Automation and Analytics	$229,218	$233,401	$(4,183)	(2)%
As a percentage of related revenues	54 %	52 %		
Medication Adherence	61,983	47,777	14,206	30 %
As a percentage of related revenues	68 %	68 %		
Total cost of revenues	$291,201	$281,178	$10,023	4 %
As a percentage of total revenues	56 %	54 %		
Gross profit:				
Automation and Analytics	$198,032	$216,642	$(18,610)	(9)%
Automation and Analytics gross margin	46 %	48 %		
Medication Adherence	28,988	22,828	6,160	27 %
Medication Adherence gross margin	32 %	32 %		
Total gross profit	$227,020	$239,470	$(12,450)	(5)%
Total gross margin	44 %	46 %		

Cost of Revenues. Cost of revenues for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 increased by $6.7 million, of which $1.9 million was attributed to the increase of cost of revenue in our Automation and Analytics segment and $4.8 million was attributed to the increase of cost of revenue in our Medication Adherence segment. The increase of the cost of revenue in the Automation and Analytics is consistent with the increase of revenue of $2.2 million in the Automation and Analytics for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase of the cost of revenue in the Medication Adherence segment was attributed to Ateb, which contributed $3.1 million to the increase.

32

Cost of revenues for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 increased by $10.0 million, $14.2 million of which was attributed to the increased cost of revenue in our Medication Adherence segment, partially offset by $4.2 million of decrease in cost of revenue in our Automation and Analytics segment. The decrease of the cost of revenue in the Automation and Analytics segment was attributed to a decrease of $35.4 million in product revenue and costs attributed to the XT series manufacturing ramp up, including addressing quality concerns, partially offset by lower amortization expenses of acquired technology and integration related expenses related to the Aesynt acquisition. The increase of the cost of revenue in the Medication Adherence segment was mainly attributed to Ateb, which contributed $9.1 million to the increase, and increased equipment sales including VBM medication packaging products.

Gross Profit. Gross profit for the three months ended September 30, 2017 increased by $3.3 million compared to the three months ended September 30, 2016 as a result of an increase in gross profit for the Medication Adherence segment of $3.0 million as a result of the Ateb acquisition.

Gross profit for the nine months ended September 30, 2017 decreased by $12.5 million compared to the nine months ended September 30, 2016 primarily due to the decrease in sales as part of the XT series product introduction, partially offset by approximately $9.1 million of gross profit from Ateb.

Operating Expenses and Income (loss) from Operations

	Three months ended September 30,			
			Change in	
	2017	2016	$	%
Operating expenses:	(Dollars in thousands)			
Research and development	$16,414	$15,264	$1,150	8 %
As a percentage of total revenues	9 %	9 %		
Selling, general and administrative	58,725	61,316	(2,591)	(4)%
As a percentage of total revenues	31 %	35 %		
Total operating expenses	$75,139	$76,580	$(1,441)	(2)%
As a percentage of total revenues	40 %	43 %		
Income (loss) from operations:				
Automation and Analytics	$28,062	$25,486	$2,576	10 %
Operating margin	18 %	17 %		
Medication Adherence	41	762	(721)	(95)%
Operating margin	— %	3 %		
Corporate Expenses	18,389	21,320	(2,931)	(14)%
Total income (loss) from operations	$9,714	$4,928	$4,786	97 %
Total operating margin	5 %	3 %		

Research and Development. The $1.2 million increase in research and development expenses for the three months ended September 30, 2017 compared to three months ended September 30, 2016 was primarily driven by an increase in research and development expenses of $1.5 million in our Medication Adherence segment as result of the Ateb acquisition which contributed $1.3 million to the increase.

Selling, General and Administrative. The $2.6 million decrease in selling, general and administrative expenses for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was primarily due to the decrease in corporate-related expenses of $3.2 million as a result of a decrease in employee-related expenses and a decrease of $1.7 million in our Automation and Analytics segment due to lower amortization expenses from the acquired intangible assets, partially offset by an increase of $2.3 million in our Medication Adherence segment primarily due to the Ateb acquisition, which contributed $2.2 million to the increase.

Operating Income (Loss). Operating income from our Automation and Analytics segment increased by $2.6 million due to the higher gross margin of $0.3 million, partially offset by lower research and development and selling, general and administrative costs of $2.3 million. Operating income from our Medication Adherence segment decreased by $0.7 million due to higher research and development and selling, general and administrative costs of attributed to

Ateb, which accounted for $3.4 million of the increase, partially offset by higher gross margin of $3.0 million.

	Nine months ended September 30,							
	2017		2016		Change in $		%	
Operating expenses:	(Dollars in thousands)							
Research and development	$50,128		$42,896		$7,232		17	%
As a percentage of total revenues	10	%	8	%				
Selling, general and administrative	186,818		189,912		(3,094	)	(1.6	)%
As a percentage of total revenues	36	%	36	%				
Total operating expenses	$236,946		$232,808		$4,138		2	%
As a percentage of total revenues	46	%	45	%				
Income (loss) from operations:								
Automation and Analytics	$51,381		$65,534		$(14,153)		(22	)%
Operating margin	12	%	15	%				
Medication Adherence	(2,208	)	5,310		(7,518	)	(142	)%
Operating margin	(2	)%	8	%				
Corporate Expenses	59,099		64,182		(5,083	)	(8	)%
Total income (loss) from operations	$(9,926	)	$6,662		$(16,588)		(249	)%
Total operating margin	(2	)%	1	%				

Research and Development. Research and development expenses increased by $7.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase was primarily driven by an increase of $4.9 million in our Medication Adherence segment, mainly due to the acquisition of Ateb in the fourth quarter of 2016, which accounted for $3.9 million of this segment's increase, and an increase of $1.4 million for the Automation and Analytics segment research and development expenses, primarily due to restructuring expenses.

Selling, General and Administrative. Selling, general and administrative expenses decreased by $3.1 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease was due to a $5.8 million decrease from our Automation and Analytics segment, and a decrease of $6.0 million in our corporate expenses, partially offset by an increase of $8.8 million in our Medication Adherence segment. The decrease in our Automation and Analytics segment was mainly due to lower amortization expense related to intangible assets and restructuring expenses as most restructuring activities related to this segment were concluded during the nine months ended September 30, 2016. The decrease in our corporate expenses was mainly due to lower integration and acquisition related cost as well as an overall reduction in cost as part of cost saving initiatives. The increase in the Medication Adherence segment is attributed to Ateb, which contributed $7.9 million.

Operating Income (Loss). Operating income from our Automation and Analytics segment decreased by $14.2 million due to the lower gross margin of $18.6 million, partially offset by selling, general and administrative costs. Operating income from our Medication Adherence segment decreased by $7.5 million due to increased research and development and selling, general and administrative costs of $11.8 million attributed to Ateb, partially offset by higher gross margin of $6.2 million.

Provision for (benefit from) Income Taxes

	Three months ended			
	September 30, 2017	September 30, 2016	Change in $	Change in %
	(Dollars in thousands)			
Provision for (benefit from) income taxes	$751	$ 224	$527	235%

	Nine months ended			
	September 30, 2017	September 30, 2016	Change in $	Change in %
	(Dollars in thousands)			
Provision for (benefit from) income taxes	$(11,232)	$ (557)	$(10,675)	1,917%

Our estimated effective tax rate before discrete items was 34.4% and 38.3% for the nine months ended September 30, 2017 and 2016, respectively. The decrease in the estimated effective tax rate for the nine months ended September 30, 2017 compared to the same period in 2016 was primarily due to changes in the mix of earnings with differing statutory rates and a decrease in domestic production activities deduction. Additionally, the Company adopted ASU 2016-09 effective January 1, 2017 and is now recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit. An income tax benefit of approximately $2.1 million and $4.7 million for the three and nine months ended September 30, 2017, respectively, was recorded as a result of the adoption of ASU 2016-09.

LIQUIDITY AND CAPITAL RESOURCES

Our cash position and working capital at September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Cash and cash equivalents	$7,466	$ 54,488
Working Capital	$109,511	$ 134,496

All of our cash and cash equivalents for these periods were invested in bank demand deposits. Our ratio of current assets to current liabilities was 1.5:1 at September 30, 2017 compared to 1.7:1 at December 31, 2016.

Sources of Cash

On January 5, 2016, we entered into a $400 million secured credit facility pursuant to a credit agreement, by and among us, the lenders from time to time party thereto, 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 million term loan facility (the “Term Loan Facility”) and a $200 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 million and a swing line loan sub-limit of up to $10 million. We expect to use future loans under the Revolving Credit Facility, if any, for general corporate purposes, including acquisitions. The Credit Agreement replaced our Credit Agreement, dated September 25, 2013, by and among the Company, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended. Loans under the Facilities bear interest, at our 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 our 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 our 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 our Consolidated Total Net Leverage Ratio on the average daily unused portion of the Revolving Credit Facility. A letter of credit

35

Table of Contents

participation fee ranging from 1.50% to 2.25% per annum based on our Consolidated Total Net Leverage Ratio will accrue on the average daily amount of letter of credit exposure.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to us and our subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, dividends and other distributions. The Credit Agreement contains financial covenants that require us and our subsidiaries to not exceed a maximum consolidated total leverage ratio and maintain a minimum fixed charge coverage ratio. The Credit Agreement also includes financial covenants requiring us not to exceed a maximum consolidated total leverage ratio of 3.00:1 (subject to certain exceptions) and to maintain a minimum fixed charge coverage ratio of 1.50:1.

As of September 30, 2017, the outstanding balance from the facilities (before netting deferred issuance cost) was $197.5 million. We were in full compliance with all covenants.

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 assessment activities.

In accordance with the 2015 Avantec share purchase agreement, we agreed to make potential earn-out payments based on the achievement of bookings targets. Payments earned and paid during the year ended December 31, 2016 were $3.0 million and payments earned and paid to sellers for the period ended September 30, 2017 were $2.4 million.

Our stock repurchase programs have a total of $54.9 million remaining for future repurchases as of September 30, 2017, which may result in additional use of cash. See "Stock Repurchase Program" under Note 12. Employee Benefits and Share-Based Compensation, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

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 (as adjusted for adoption of ASU 2016-09):

	Nine months ended	
	September 30, 2017	September 30, 2016
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$20,648	$ 26,030
Investing activities	(24,101)	(293,343)
Financing activities	(42,065)	233,650
Effect of exchange rate changes on cash and cash equivalents	(1,504)	(1,267)
Net decrease in cash and cash equivalents	$(47,022)	$ (34,930)

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 $20.6 million for the nine months ended September 30, 2017, primarily as a result of the net loss of $3.7 million adjusted for non-cash items and changes in assets and liabilities. The non-cash items primarily consisted of depreciation and amortization expense of $38.5 million, and share-based compensation expense of $16.3 million, deferred income taxes of $11.1 million and $1.2 million of amortization of

debt financing fees. The net cash outflow which was contributed to changes in assets and liabilities include (i) an increase in accounts receivable of $21.7 million due to the timing of collections, (ii) an increase in inventories of $22.9 million for inventory buildup in support of

Table of Contents

forecasted sales, (iii) a decrease in deferred revenue of $7.4 million due to the timing of orders and revenue being recognized for installed product, and (iv) an increase in other current assets of $5.1 million. These outflows were partially offset by an increase in accounts payable of $23.7 million primarily due to the increase in inventory and timing of payments, a decrease in the investment in sales-type leases of $6.6 million, and an increase in other accrued liabilities of $4.0 million.

Net cash provided by operating activities was $26.0 million for the nine months ended September 30, 2016, primarily as a result of $0.4 million in net income adjusted for non-cash items and changes in assets and liabilities. The non-cash items primarily consisted of depreciation and amortization expense of $43.9 million, share-based compensation expense of $14.1 million and deferred income taxes of $4.8 million. The cash outflow attributed to changes in assets and liabilities includes (i) an increase in accounts receivable of $25.8 million due to increased product shipments late in the quarter, (ii) an increase in inventories of $7.7 million to support forecasted sales, (iii) increases in long-term investment in sales-type leases of $5.3 million due to two significant lease transactions entered into during the year, (iv) increases in prepaid expenses of $5.8 million mainly due to decrease in prepaid commissions and prepaid income taxes, (v) a decrease in accrued liabilities of $1.9 million due to timing of payments to employees related liabilities and (vi) a decrease in the other-long term liabilities of $2.3 million. These amounts were partially offset by an increase in the accounts payables of $5.6 million due to timing of payments, an increase in deferred revenue of $12.8 million due to timing of orders and revenue being recognized for installed product, and decreases in other long-term assets of $1.2 million.

Investing activities

Net cash used in investing activities was $24.1 million for the nine months ended September 30, 2017, which consisted of capital expenditures of $9.4 million for property and equipment, $10.3 million for costs of software development mainly related to the Performance Center offering and purchase of intangibles, and $4.4 million attributable to the acquisition of InPharmics.

Net cash used in investing activities was $293.3 million for the nine months ended September 30, 2016, $271.5 million of which was attributable to the acquisition of Aesynt. Capital expenditures related to purchases of property and equipment, software development costs for external use, and purchases of intangible assets contributed $10.0 million, $10.6 million, and $1.3 million, respectively.

Financing activities

Net cash used in financing activities was $42.1 million for the nine months ended September 30, 2017, primarily from the repayment of $100.0 million of the credit facilities and $3.1 million in employees' taxes paid related to restricted stock unit vesting, partially offset by $26.5 million in proceeds from employee stock option exercises and employee stock plan purchases, and $37.0 million proceeds from term loan and revolving credit facilities.

Net cash provided by financing activities was $233.7 million for the nine months ended September 30, 2016 as a result of proceeds from term loan and revolving credit facilities of $247.1 million, net of deferred issuance cost of $7.9 million, and $16.5 million in proceeds from employee stock option exercises and employee stock plan purchases. The increase in cash provided from financing activities was partially offset by repayment of $25.0 million of the credit facilities, payment of contingent consideration of $3.0 million related to the Avantec acquisition, and $1.9 million in employees' taxes paid related to restricted stock units

Contractual Obligations

There have been no significant changes during the nine months ended September 30, 2017 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, 2016.

We had $337.8 million in contractual commitments to third parties for non-cancelable operating leases, commitments to contract manufacturers and suppliers, other purchase commitments and term loan and revolving credit facility as of September 30, 2017 as follows:

Table of Contents

	Payments due by period				
	Total	Remainder of 2017	2018 and 2019	2020 and 2021	Thereafter
	(In thousands)				
Operating leases [1]	$80,376	$ 3,203	$24,717	$21,288	$ 31,168
Purchase obligations [2]	59,928	46,477	11,343	1,173	935
Term loan facility [3]	185,000	2,500	37,500	145,000	—
Revolving credit facility [3]	12,500	—	—	12,500	—
Total [4]	$337,804	$ 52,180	$73,560	$179,961	$ 32,103

(1) Commitments under operating leases relate primarily to leasehold property and office equipment.

(2) 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.

(3) Amounts shown for term loan and revolving credit facility are 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, of the Notes to the Condensed Consolidated Financial Statements included in this quarterly report.

(4) We have recorded $6.8 million for uncertain tax positions under long-term liabilities as of September 30, 2017 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 $6.8 million in uncertain tax position liabilities have not been included in the table above.

Off-Balance Sheet Arrangements

As of September 30, 2017, 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

Interest Rate Fluctuation Risk

We are exposed to interest rate risk through our borrowing activities. As of September 30, 2017, we had total debt under the Credit Agreement (before netting issuance costs) of $197.5 million. See Note 8, Debt, of the Notes to the 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 its 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. During 2016, we entered into an interest rate swap agreement with a combined notional amount of $100 million with one counter-party that became effective beginning on June 30, 2016 and matures on April 30, 2019. At September 30, 2017, the total debt under the credit facility exposed to interest rate fluctuation risk was $100.0 million. An immediate increase of 1% in interest rate would result in $1.0 million of interest expense per year.

Our financial investments consist of cash and, at times, money market funds. The primary objective of our investment activities is to preserve principal and ensure liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. When our investments include money market funds, we are somewhat exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do

not believe an immediate 1% change in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates. As of September 30, 2017, we did not have any investments in money market funds.

Table of Contents

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 is the British Pound. 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, 2017, we did not have any outstanding foreign exchange forward contracts.

There have been no significant changes in our market risk exposures during the nine months ended September 30, 2017 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, 2016.

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, 2017.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under "Legal Proceedings" in Note 10, Commitments and Contingencies, of the Notes to the 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 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, 2016, if any.

We may not be able to successfully integrate acquired businesses or technologies into our existing business, including those of Aesynt, Ateb and InPharmics, 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. For example, in April 2015, we acquired Mach4 and the entire remaining issued share capital of Avantec not previously owned by us, in January 2016, we acquired Aesynt, in December 2016, we acquired Ateb and in April 2017, we acquired InPharmics. 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 our management 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 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;
- 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.

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

Table of Contents

In 2016 we acquired Aesynt and Ateb, and in April 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 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 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, 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 XT Series, or enhancements, will be late, will have technical problems, fail to meet customer or market specifications and will not be competitive with other products using alternative technologies that offer comparable performance and functionality. We may be unable to successfully develop additional next generation products, new products or product enhancements. Our next generation products, such as our XT Series, or any new products, such as our M5000 and VBM 200/F packaging equipment for multimedication blister cards, or product enhancements may not be accepted in new or existing markets. Our business will suffer if we fail to continue to develop and introduce new products or product enhancements in a timely manner or on a cost-effective basis.

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, by and among us, the lenders from time to time party thereto, 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 and a $200.0 million revolving credit facility. At the closing of the Aesynt Acquisition, we incurred $255.0 million in secured debt under the Credit Agreement, consisting of $200.0 million of term loans and $55.0 million of revolving loans. In December 2016, we withdrew an additional $40.0 million from the revolving credit facility. In April 2017 and July 2017, we withdrew an additional $10.0 million and $27.0 million, respectively. As of September 30, 2017, $134.5 million of the credit facilities has been paid off. The remaining loan balances at September 30, 2017 were $185.0 million of term loans and $12.5 million of revolving loans.

Our debt may:

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

- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;

Table of Contents

- 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, 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. These restrictive covenants include operating covenants restricting, among other things, our ability to incur additional indebtedness, effect certain acquisitions or make other fundamental changes. The Credit Agreement also includes financial covenants requiring us not to exceed a maximum consolidated total leverage ratio of 3.00:1 (subject to certain exceptions) and to maintain a minimum fixed charge coverage ratio of 1.50:1. Our failure to comply with any of the covenants that are included in the Credit Agreement could result in a default under the terms of the Credit Agreement, which could permit 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 loan 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 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, 2017, we had recorded approximately $507.1 million net, in goodwill and intangible assets in connection with past acquisitions. Under U.S. generally accepted accounting principles ("GAAP"), 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.

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.

42

Table of Contents

The medication management and supply chain solutions market is highly competitive 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 medication management and supply chain solutions market is 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/CareFusion Corporation, ARxIUM (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Talyst, Inc., Emerson Electronic Co. (through its acquisition of medDispense, L.P.), Swisslog Holding AG (which was acquired by KUKA), WaveMark Inc., ParExcellence Systems, Inc., Vanas N.V., Infor (formally Lawson Software, Inc.), Willach Pharmacy Solutions, DIH Technologies Co., Yuyama Co., Ltd, Robopharma B.V., Apostore GmbH, KlS Steuerungstechnik GmbH and Suzhou Iron Technology (China). Our current direct competitors in the medication packaging solutions market include Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of ARxIUM), Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. in the United States, and Jones Packaging Ltd., Synergy Medical Systems, Manrex Ltd, and WebsterCare outside the United States.

The competitive challenges we face in the medication management and supply chain solutions market 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, such as the acquisition of CareFusion Corporation by Becton Dickenson Corporation, 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 is currently experiencing 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;
- other established or emerging companies may enter the medication management and supply chain solutions 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.

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

Table of Contents

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. 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 reduce our revenues.

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

The medication management and supply chain solutions market is characterized by evolving technologies and industry standards, frequent new product introductions and dynamic customer requirements that may render existing products obsolete or less competitive. The medication management and supply chain solutions market 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 new XT Series solutions, and, while the initial customer response has been positive, we cannot guarantee that demand, particularly in the near term, will meet our expectations. In addition, our M5000 and VBM 200/F automated pharmacy solutions for multi-medication blister card packaging are also 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 financial constraints and consolidation that 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 Budget Control Act of 2011, and other health reform legislation, or the repeal 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.

Many healthcare providers have consolidated to create larger healthcare delivery organizations in order to achieve 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.

Table of Contents

Demand for our consumable medication packages is time-sensitive and if we are not able to supply the demand from our institutional and retail pharmacy customers on schedule and with quality packaging products, they may use alternative means to distribute medications to their customers.

Approximately 10% of our revenue is generated from the sale of consumable medication packages, which are produced in our St. Petersburg, Florida facilities on a continuous basis and shipped to our institutional pharmacy and retail pharmacy customers shortly before they are required by those customers. 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 revenue will decline. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages and would reduce our revenue.

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 China and 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, labor, import, export, environmental standards, tax, anti-bribery and employment laws and changes in tariff rates;
- 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.

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

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 entail 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 new 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 the sale of our medication and supply dispensing 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 our medication and supply dispensing 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. The introduction of our XT Series and our ability to manufacture sufficient

Table of Contents

quantities, to meet our customers' installation schedules, has increased these forecasting difficulties. Because we recognize revenue 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 revenue for that system.

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 FDA, or the Drug Enforcement Administration ("DEA"). Through our acquisition of Aesynt, we have both a Class I and a Class 2, 510(k) exempt medical device 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 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 requirements 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 ("ARRA"), we are now also 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.

Following the theft in November 2012 of Omnicell electronic device containing customer medical dispensing cabinets log files, we were subject to a putative class action complaint. The complaint was subsequently dismissed without

prejudice and plaintiff failed to file an appeal within the requisite deadlines. There is no guarantee that, if we are involved in any similar litigation in the future, such an outcome will result. Any similar unauthorized disclosure of personal health information could cause us to experience contractual indemnification obligations under business associate agreements with certain customers, litigation against us, reputational harm and a reduction in demand from our customers. To the extent that this disclosure is deemed to be a violation of HIPAA or other privacy or security laws, we may be subject to significant 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

Table of Contents

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.

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 revenue while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If our revenue increases or decreases rapidly, we may not be able to manage these changes effectively. Future growth is dependent on the continued demand for our products, 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.

Regarding our expenses, our ability to control expense 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 R&D 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 not to exceed a maximum consolidated total leverage ratio of 3.00:1 (subject to certain exceptions) and 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

Table of Contents

qualified personnel. Competition for qualified technical, engineering, managerial, sales, marketing, financial reporting and other personnel can be intense and 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 2015 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals in the future. Any failure to receive approval for current or 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.

If we experience a significant disruption in our information technology systems or breaches of data security, 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. Our information technology systems 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, 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.

In addition, our information technology systems are potentially vulnerable to 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, 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 revenue.

While we have implemented a number of protective measures, including firewalls, antivirus and malware detection tools, patches, log monitors, routine back-ups, system audits, routine password modifications and disaster recovery procedures, 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. If we are unable to prevent such security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties 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.

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 their existing 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 HITECH Act, Meaningful Use Stages, and HIPAA Omnibus Rules, and may evolve their interoperability functionality accordingly. We expect

Table of Contents

to comply with the mandatory standards and certifications that enable us to continuously interoperate with partner information system, 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 management 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 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 HITECH Act Meaningful Use Stage 3 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.

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 execute the manufacturing ramp up and installations of our new XT Series;
- the impact of the reduction in our workforce and closure of our Nashville, Tennessee and Slovenia facilities;
- our ability to continue cost reduction efforts;
- our ability to implement development and manufacturing Centers of Excellence;
- 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;
- 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;
- 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 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 and availability of credit markets; 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.

Table of Contents

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 Intalere (f.k.a. Amerinet, Inc.), Vizient Inc, Premier Inc., Cardinal Health, AmerisourceBergen, and HealthTrust Purchasing Group 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 unable to maintain our relationships with major institutional pharmacies, we may experience a decline in the sales of blister cards and other consumables sold to these customers.*

The institutional pharmacy market consists of significant national suppliers of medications to non-acute care facilities, smaller regional suppliers, and very small local suppliers. Although none of these customers comprised more than 10% of our total revenues for the year ended December 31, 2016, the three largest institutional pharmacies have comprised 15% and 16% of our Medication Adherence segment revenues during the nine months ended September 30, 2017 and 2016, respectively. If these larger national suppliers were to purchase consumable blister card components from alternative sources, or if alternatives to blister cards were used for medication control, our revenues would decline.

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 have 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 risk 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, operating results 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.

Our 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 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 $31.85 and $52.70 per share during the nine months ended September 30, 2017. 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:

- changes in our operating results;
- developments in our relationships with corporate customers;

Table of Contents

- developments with respect to the Aesynt and Ateb Acquisitions;
- changes in the ratings of our common stock by securities analysts;
- 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
- 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 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 March 19, 2015, a putative class action lawsuit was filed against Omnicell and two of our executive officers in the U.S. District Court for the Northern District of California purporting to assert claims on behalf of a class of purchasers of Omnicell stock between May 2, 2014 and March 2, 2015. The complaint alleged that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by purportedly making false and misleading statements regarding the existence of a "side letter" arrangement and the adequacy of internal controls that allegedly resulted in false and misleading financial statements. The Company and the individual defendants were not served with the complaint and on May 20, 2015, the plaintiff filed a notice of voluntary dismissal of the lawsuit without prejudice.

Circumstances may arise that could prevent the timely reporting of our financial information, which could harm our stock price and quotation on the NASDAQ Global Select Market.

On March 17, 2015, we announced that we were delaying the filing of our Annual Report on Form 10-K for the year ended December 31, 2014 (the "Annual Report") beyond the automatic 15-day extension period permitted under the rules of the Securities and Exchange Commission because of the internal investigation that we commenced following receipt of a notice from an Omnicell employee on February 27, 2015 alleging, among other matters, the existence of a "side letter" arrangement with an Omnicell customer for certain discounts and Omnicell products that were to be provided at no cost, but which were not reflected in the final invoices paid by such customer.

Because we were unable to timely file the Annual Report, on March 18, 2015, we received an expected written notification (the "Notice") from the NASDAQ OMX Group, Inc. ("Nasdaq") indicating that Omnicell was not in compliance with Nasdaq Listing Rule 5250(c)(1) for continued listing, due to the delay in filing the Annual Report beyond the extended filing due date. Under the Nasdaq continued listing rules, we had 60 calendar days from the date of the letter to either file the Annual Report or submit a plan to regain compliance.

During the period between the date the Annual Report was due and the date of its filing, our stock price experienced some volatility. We have concluded the investigation causing the delay of the filing of the Annual Report. Even though the results of the investigation led the Company to determine that effective internal control over financial reporting was maintained in all material respects and that there are no changes required to be made to the Company's Consolidated Financial Statements, we cannot assure you that similar circumstances will not arise in the future that will cause us to delay the filing of our periodic financial reports, which could harm our stock price and, if such delay were to continue for a period of time, impact our continued listing on the NASDAQ Global Select Market.

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 revenue 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 $9.4 million as of September 30, 2017.

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

Table of Contents

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. 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 200/F, 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 2015, we replaced legacy Enterprise Requirements Planning systems used in the acquired Surgichem business with systems currently in use in other parts of Omnicell. In 2016, we replaced the legacy Enterprise Requirements Planning systems used in Mach4 with systems currently in use in other parts of

Table of Contents

Omnicell, and we intend to do the same at Aesynt. 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 revenues, leases and other 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 record certain business transactions timely. 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 3.0 million shares of our common stock, at a weighted-average exercise price of $29.06 per share as of September 30, 2017. 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.

Changes in our tax rates, the adoption of new tax legislation or exposure to additional tax liabilities could affect our future results.

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, or changes in tax laws or their interpretation. 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.

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.

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 held a referendum on June 23, 2016 in which a majority voted for the United Kingdom’s (the "UK") withdrawal from the European Union (the "EU"). On March 29, 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”. As a result, negotiations have commenced 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. 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. 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.

Table of Contents

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, 2017, we did not repurchase any shares of our common stock under our stock repurchase programs. Please refer to Note 12, Employee Benefits and Share-Based Compensation, and to the Notes to the 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.

ITEM 6. EXHIBITS

The information required by this Item is set forth in the Exhibit Index that follows the signature page of this Report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OMNICELL, INC.

Date: November 3, 2017 By: /s/ Peter J. Kuipers
Peter J. Kuipers,
Executive Vice President & Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated By Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Omnicell, Inc.	S-1	333-57024	3.1	3/14/2001
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.	10-Q	000-33043	3.2	8/9/2010
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock	10-K	000-33043	3.2	3/28/2003
3.4	Bylaws of Omnicell, Inc., as amended	10-Q	000-33043	3.3	8/9/2007
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4				
4.2	Form of Common Stock Certificate	S-1/A	333-57024	4.1	7/24/2001
10.1*	2017 Executive Officers Annualized Base Salary	8-K	000-33043	10.1	7/25/17
31.1+	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
31.2+	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
32.1+	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) (1)				
101.INS+	XBRL Instance Document				
101.SCH+	XBRL Taxonomy Extension Schema Document				
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document				

+ Filed herewith.

* Indicates management contract or compensatory plan.

(1) 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.