OMNICELL, Inc
Form 10-Q
November 02, 2018
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, 2018
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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	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, 2018, there were 39,626,231 shares of the registrant's common stock, $0.001 par value, outstanding.

Table of Contents

OMNICELL, INC.
TABLE OF CONTENTS

		Page
PART I	FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017	3
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and September 30, 2017	4
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2018 and September 30, 2017	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and September 30, 2017	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	41
Item 4.	Controls and Procedures	41
PART II	OTHER INFORMATION	43
Item 1.	Legal Proceedings	43
Item 1A.	Risk Factors	43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	59
Item 3.	Defaults Upon Senior Securities	59
Item 4.	Mine Safety Disclosures	59
Item 5.	Other Information	59
Item 6.	Exhibits	60
Signature		61

Table of Contents

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

	September 30, 2018	December 31, 2017
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$44,174	$32,424
Accounts receivable and unbilled receivables, net of allowances of $3,508 and $5,738, respectively	206,225	190,046
Inventories	99,231	96,137
Prepaid expenses	19,618	20,392
Other current assets	9,871	13,273
Total current assets	379,119	352,272
Property and equipment, net	50,484	42,595
Long-term investment in sales-type leases, net	17,448	15,435
Goodwill	336,517	337,751
Intangible assets, net	149,968	168,107
Long-term deferred tax assets	9,450	9,454
Prepaid commissions	40,441	41,432
Other long-term assets	68,948	49,316
Total assets	$1,052,375	$1,016,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$38,367	$48,290
Accrued compensation	32,953	27,241
Accrued liabilities	35,777	35,693
Long-term debt, current portion, net	17,708	15,208
Deferred revenues, net	87,777	78,774
Total current liabilities	212,582	205,206
Long-term deferred revenues	10,634	10,623
Long-term deferred tax liabilities	32,593	41,446
Other long-term liabilities	10,192	9,829
Long-term debt, net	167,135	194,917
Total liabilities	433,136	462,021
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; 48,760 and 47,577 shares issued; 39,615 and 38,432 shares outstanding, respectively	49	48
Treasury stock at cost, 9,145 shares outstanding	(185,074)	(185,074)
Additional paid-in capital	630,687	585,755
Retained earnings	182,661	159,725
Accumulated other comprehensive loss	(9,084)	(6,113)
Total stockholders' equity	619,239	554,341

Total liabilities and stockholders' equity	$1,052,375	$1,016,362

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

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Revenues:				
Product revenues	$149,709	$136,838	$415,004	$365,834
Services and other revenues	54,558	49,910	160,555	150,509
Total revenues	204,267	186,748	575,559	516,343
Cost of revenues:				
Cost of product revenues	79,149	79,725	229,642	225,051
Cost of services and other revenues	26,209	22,204	75,770	66,150
Total cost of revenues	105,358	101,929	305,412	291,201
Gross profit	98,909	84,819	270,147	225,142
Operating expenses:				
Research and development	15,805	16,414	47,854	50,128
Selling, general, and administrative	65,609	56,208	196,831	180,070
Total operating expenses	81,414	72,622	244,685	230,198
Income (loss) from operations	17,495	12,197	25,462	(5,056)
Interest and other income (expense), net	(2,837)	(2,732)	(6,462)	(4,992)
Income (loss) before provision for income taxes	14,658	9,465	19,000	(10,048)
Provision for (benefit from) income taxes	1,030	1,717	(3,936)	(9,341)
Net income (loss)	$13,628	$7,748	$22,936	$(707)
Net income (loss) per share:				
Basic	$0.35	$0.21	$0.59	$(0.02)
Diluted	$0.33	$0.20	$0.57	$(0.02)
Weighted-average shares outstanding:				
Basic	39,432	37,698	39,015	37,266
Diluted	40,860	38,973	40,237	37,266

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,	
	2018	2017	2018	2017
	(In thousands)			
Net income (loss)	$13,628	$7,748	$22,936	$(707)
Other comprehensive income (loss), net of reclassification adjustments:				
Unrealized losses on interest rate swap contracts	(234)	(74)	(122)	(45)
Foreign currency translation adjustments	(907)	1,389	(2,849)	3,388
Other comprehensive income (loss)	(1,141)	1,315	(2,971)	3,343
Comprehensive income	$12,487	$9,063	$19,965	$2,636

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,	
	2018	2017
	(In thousands)	
Operating Activities		
Net income (loss)	$22,936	$(707)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	37,490	38,542
Loss on disposal of fixed assets	136	128
Share-based compensation expense	20,851	16,315
Income tax benefits from employee stock plans	—	11
Deferred income taxes	(8,849)	(9,182)
Amortization of debt financing fees	1,718	1,192
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable and unbilled receivables	(16,179)	(22,735)
Inventories	(5,288)	(22,942)
Prepaid expenses	774	(972)
Other current assets	3,120	(5,133)
Investment in sales-type leases	(1,732)	6,643
Prepaid commissions	991	217
Other long-term assets	(6,188)	(750)
Accounts payable	(8,439)	23,717
Accrued compensation	5,712	658
Accrued liabilities	1,482	4,021
Deferred revenues	9,014	(9,240)
Other long-term liabilities	(1,035)	865
Net cash provided by operating activities	56,514	20,648
Investing Activities		
Purchases of intangible assets, intellectual property, and patents	—	(160)
Software development for external use	(22,213)	(10,121)
Purchases of property and equipment	(19,259)	(9,374)
Business acquisitions, net of cash acquired	—	(4,446)
Net cash used in investing activities	(41,472)	(24,101)
Financing Activities		
Proceeds from debt	—	37,000
Repayment of debt and revolving credit facility	(27,000)	(100,000)
Payment for contingent consideration	—	(2,400)
Proceeds from stock issuances under stock-based compensation plans	27,729	26,468
Employees' taxes paid related to restricted stock units	(3,648)	(3,133)
Net cash used in financing activities	(2,919)	(42,065)
Effect of exchange rate changes on cash and cash equivalents	(373)	(1,504)
Net increase (decrease) in cash and cash equivalents	11,750	(47,022)
Cash and cash equivalents at beginning of period	32,424	54,488
Cash and cash equivalents at end of period	$44,174	$7,466
Supplemental disclosure of non-cash activities		
Unpaid purchases of property and equipment	$388	$886
Inventory transferred to property and equipment	$2,194	$—

Effect of adoption of ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)"	$—	$ 1,582

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

6

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. The Company's major products are automated medication, supply control systems and medication adherence solutions which are sold in its principal market, which is the healthcare industry. The Company's market is primarily located in the United States and Europe. "Omnicell" or the "Company" collectively refer to Omnicell, Inc. and its subsidiaries.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of the Company as of September 30, 2018 and December 31, 2017, the results of operations and comprehensive income for the three and nine months ended September 30, 2018 and September 30, 2017, and cash flows for the nine months ended September 30, 2018 and September 30, 2017. 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, 2017 filed with the SEC on February 27, 2018, except as discussed in the section entitled "Revenue Recognition" below. The Company's results of operations and comprehensive income for the three and nine months ended September 30, 2018 and cash flows for the nine months ended September 30, 2018 are not necessarily indicative of results that may be expected for the year ending December 31, 2018, or for any future period.

Certain prior-year amounts have been adjusted to conform with the adoption of ASC 606, Revenue from Contracts with Customers ("ASC 606"), which became effective for the Company beginning on January 1, 2018. Refer to "Recently Adopted Authoritative Guidance" for the effects of adoption of ASC 606 and the section below for the updated revenue recognition policy.

Certain prior-year amounts have been reclassified to conform with current-period presentation. These reclassifications include (i) reclassification of revenues from services and other revenues to product revenues of $0.2 million and $0.5 million for the three and nine months ended September 30, 2017, respectively, related to software term-license sales, (ii) a change in inventories presentation related to allocation of inventories obsolete reserve between finished goods, raw materials, and work in progress in the Notes to the Condensed Consolidated Financial Statements, and (iii) a change in intangible assets presentation related to presenting foreign currency impact separately in the Notes to the Condensed Consolidated Financial Statements. In addition, $0.6 million was reclassified from services and other revenues to product revenues for the nine months ended September 30, 2018 in order to conform with the presentation for the three months ended September 30, 2018. These changes were not deemed material and were included to conform with current-period classification and presentation.

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.

Revenue Recognition

The Company earns revenues from sales of its medication and medical and surgical supply automation systems, along with consumables and related services, which are sold in the healthcare industry, its principal market. The transaction price of each contract with a customer is allocated to the identified performance obligations based on the relative fair value of each obligation. The Company's customer arrangements typically include one or more of the following performance obligations:

Products. Software-enabled equipment that manages and regulates the storage and dispensing of pharmaceuticals, consumable blister cards and packaging equipment and other medical supplies.
Software. Additional software applications that enable incremental functionality of the Company’s equipment.
Installation. Installation of equipment as integrated systems at customer sites.

Table of Contents

Post-installation technical support. Phone support, on-site service, parts, and access to unspecified software updates and enhancements, if and when available.
Professional services. Other customer services, such as training and consulting.
Prior to recognizing revenue, the Company identifies the contract, performance obligations, and transaction price, and allocates the transaction price to the performance obligations. All identified contracts meet the following required criteria:
Parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations. A majority of the Company's contracts are evidenced by a non-cancelable written agreement. Contracts for consumable products are generally evidenced by an order placed via phone or a manual purchase order.
Entity can identify each party's rights regarding the goods or services to be transferred. Contract terms are documented within the written agreements. Where a written contract does not exist, such as for consumable products, the rights of each party are understood as following the Company's standard business process and terms.
The entity can identify the payment terms for the goods or services to be transferred. Payment terms are documented within the agreement and are generally net 30 days from shipment of tangible product or services performed. Where a written contract does not exist, the Company's standard payment terms are net 30 day terms.
The contract has commercial substance (that is the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract.) The Company's agreements are an exchange of cash for a combination of products and services which result in changes in the amount of the Company's future cash flows.
It is probable the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. The Company performs a credit check for all significant customers or transactions and where collectability is not probable, payment in full or a substantial down payment is typically required to help assure the full agreed upon contract price will be collected.
The Company often enters into change orders which modify the product to be received by the customer pursuant to certain contracts. Changes to any contract are accounted for as a modification of the existing contract to the extent the goods and services to be delivered as part of the contract are generally consistent with the nature and type of those to be provided under the terms of the original contract. Examples of such change orders include the addition or removal of units of equipment or changes to the configuration of the equipment where the overall nature of the contract remains intact. The Company's change orders generally result in the change being accounted for as modifications of existing contracts given the nature of the impacted orders.
Distinct goods or services are identified as performance obligations. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer are considered a single performance obligation. Where a good or service is determined not to be distinct, the Company combines the good or service with other promised goods or services until a bundle of goods or services that is distinct is identified. To identify its performance obligations, the Company considers all of the products or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. When performance obligations are included in separate contracts, the Company considers an entire customer arrangement to determine if separate contracts should be considered combined for the purposes of revenue recognition. Most of the Company's sales, other than renewals of support and maintenance, contain multiple performance obligations, with a combination of hardware systems, consumables and software products, support and maintenance, and professional services.
The transaction price of a contract is determined based on the fixed consideration, net of an estimate for variable consideration such as various discounts or rebates provided to customers. As a result of the Company's commercial selling practices, contract prices are generally fixed with minimal, if any, variable consideration.
The transaction price is allocated to separate performance obligations proportionally based on the standalone selling price of each performance obligation. Standalone selling price is best evidenced by the price the Company charges for the good or service when selling it separately in similar circumstances to similar customers. Other than for the renewal of annual support services contracts, the Company's products and services are not generally sold separately. The Company uses an expected cost plus a margin approach to identify the standalone selling price of goods where separate sales transactions do not exist. For software and services which do not have a specific identifiable product

cost, the Company uses an amount discounted from the list price as a best estimated selling price.

The Company recognizes revenue when the performance obligation has been satisfied by transferring a promised good or service to a customer. The good or service is transferred when or as the customer obtains control of the good or service. Determining when control transfers requires management to make judgments that affect the timing of revenues recognized.

Table of Contents

Generally, for products requiring a complex implementation, control passes when the product is installed and ready for use. For all other products, control generally passes when product has been shipped and title has passed. For maintenance contracts and certain other services provided on a subscription basis, control passes to the customer over time, generally ratably over the service term as the Company provides a stand-ready service to service the customer's equipment. Time and material services transfer control to the customer at the time the services are provided. The portion of the transaction price allocated to the Company's unsatisfied performance obligations recorded as deferred revenues at September 30, 2018 and December 31, 2017 were $98.4 million and $89.4 million, respectively, of which $87.8 million and $78.8 million, respectively, are expected to be completed within one year. Remaining performance obligations primarily relate to maintenance contracts and are recognized ratably over the remaining term of the contract, generally not more than five years.

Revenues, contract assets, and contract liabilities are recorded net of associated taxes.

The payment terms associated with the Company's contracts vary, however, payment terms for product revenues are generally based on milestones tied to contract signing, shipment of products, and/or customer acceptance. Payment terms associated with the service portion of agreements are generally periodic and can be billed on a monthly, quarterly, or annual basis. In certain circumstances multiple years are billed at one time. The portion of these contract liabilities not expected to be recognized as revenue within twelve months of the balance sheet date are considered long term.

In the normal course of business, the Company typically does not accept product returns unless the item is defective as manufactured or the configuration of the product is incorrect. The Company establishes provisions for estimated returns based on historical product returns. The allowance for sales returns is not material to the Condensed Consolidated Financial Statements for any periods presented.

A portion of the Company's sales are made through multi-year lease agreements. Under sales-type leases, the Company recognizes revenue for its hardware and software products net of lease execution costs, such as post-installation product maintenance and technical support, at the net present value of the lease payment stream once its installation obligations have been met. The Company optimizes cash flows by selling a majority of its non-U.S. government leases to third-party leasing finance companies on a non-recourse basis. The Company has no obligation to the leasing company once the lease has been sold. Some of the Company's sales-type leases, mostly those relating to U.S. government hospitals which comprise approximately 44% of the lease receivable balance, are retained in-house. Revenues from sales-type leases of $11.4 million and $5.9 million for the three months ended September 30, 2018 and 2017, respectively, and $28.8 million and $19.3 million for the nine months ended September 30, 2018 and 2017, respectively, are included in product revenues in the Condensed Consolidated Statements of Operations. Interest income in these leases is recognized in product revenues using the effective interest method.

A portion of the Company's sales are made to customers who are members of Group Purchasing Organizations ("GPOs"). GPOs are often owned fully or in part by the Company's customers, and the Company pays fees to the GPO on completed contracts. The Company considers these fees consideration paid to customers and records them as reductions to revenue. Fees to GPOs were $2.2 million and $2.1 million for the three months ended September 30, 2018 and 2017, respectively, and $6.2 million and $5.4 million for the nine months ended September 30, 2018 and 2017, respectively.

Contract Assets and Contract Liabilities

A contract asset is a right to consideration in exchange for goods or services that the Company has transferred to a customer when that right is conditional and is not just subject to the passage of time. A receivable will be recorded on the balance sheet when the Company has unconditional rights to consideration. A contract liability is an obligation to transfer goods or services for which the Company has received consideration, or for which an amount of consideration is due from the customer. Contract liabilities include customer deposits under non-cancelable contracts, and current and non-current deferred revenue balances. The Company's contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period.

Table of Contents

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

	September 30, 2018		December 31, 2017	
	(In thousands)			
Short-term unbilled receivables - included in accounts receivable and unbilled receivables	$	9,475	$	4,590
Long-term unbilled receivables - included in other long-term assets	15,573		9,475	
Total contract assets	$	25,048	$	14,065
Short-term deferred revenues	$	87,777	$	78,774
Long-term deferred revenues	10,634		10,623	
Total contract liabilities	$	98,411	$	89,397

Significant changes in the contract assets and the contract liabilities balances during the period are the result of the issuance of invoices and recognition of deferred revenues in the normal course of business. Unbilled contract assets which were invoiced during the three and nine months ended September 30, 2018 as a result of the right to invoice for the transaction consideration becoming unconditional were not material. The contract modifications entered into during the three and nine months ended September 30, 2018 did not have a significant impact on the Company's contract assets or deferred revenues. During the three and nine months ended September 30, 2018, the Company recognized revenues of $10.9 million and $78.9 million, respectively, that was included in the corresponding deferred revenue balance as of December 31, 2017.

Contract Costs

The Company has determined that the incentive portions of its sales commission plans require capitalization since these payments are directly related to sales achieved during a time period. These commissions are earned on the basis of the total purchase order value of new product bookings. Since there are not commensurate commissions earned on renewal of the service bookings, the Company concluded that the capitalized asset is related to services provided under both the initial contract and renewal periods. The Company applies a practical expedient to account for the incremental costs of obtaining a contract to a portfolio of contracts with similar characteristics as the Company expects the effect on the financial statements of applying the practical expedient would not differ materially from applying the accounting guidance to the individual contracts within the portfolio. A pool of contracts is defined as all contracts booked in a particular quarter. The amortization for the capitalized asset is an estimate of the pool's original contract term, generally one to five years, plus an estimate of future customer renewal periods resulting in a total amortization period of ten years. Costs to obtain a contract are allocated amongst performance obligations and recognized as sales and marketing expense consistent with the pattern of revenue recognition. Capitalized costs are periodically reviewed for impairment. A portion of the pool's capitalized asset is recorded as an expense after two quarters, which represents the estimated period during which the product revenue associated with the contract is recorded. The remaining contract cost is recorded as expense ratably over the ten year estimated initial and renewal service periods. The Company recognized contract cost expense of $5.3 million and $4.6 million during the three months ended September 30, 2018 and 2017, respectively, and $16.2 million and $13.3 million during the nine months ended September 30, 2018 and 2017, respectively. The portion of commission expenses paid as of the balance sheet date to be recognized in future periods is recorded in long term prepaid commissions on the Condensed

Consolidated Balance Sheets. There was no impairment loss recorded related to capitalized prepaid commissions as of and for the three and nine months ended September 30, 2018.

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.

Table of Contents

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 14, Segment and Geographical Information, for additional information on segment reporting.

Recently Adopted Authoritative Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASC 606, Revenue from Contracts with Customers, a new standard related to revenue recognition. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company adopted the standard using the full retrospective method effective beginning January 1, 2018.

Under the ASC 606 guidance, fees paid to GPOs are now presented as a reduction of product revenues, whereas these fees were considered a part of selling, general, and administrative costs under the previous guidance. The majority of the incremental costs incurred to obtain a contract, primarily commission expense, are recognized during the first year with the balance recognized ratably over a period of ten years. Additionally, revenue on term software licenses is recognized upon installation of the license rather than ratably over the life of the term license. Finally, the Company no longer defers the 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.

Adoption of the standard related to revenue recognition impacted the Company's reported results as follows:

	Three months ended September 30, 2017		
	As reported	Adjustment	As adjusted
	(In thousands)		
Revenues			
Automation and Analytics	$154,651	$ (34)	$154,617
Medication Adherence	32,131	—	32,131
Gross profit			
Automation and Analytics	74,911	(34)	74,877
Medication Adherence	9,942	—	9,942
Selling, general, and administrative expenses	58,725	(2,517)	56,208
Provision for income taxes	751	966	1,717
Net income	$6,231	$ 1,517	$7,748
Net income per share - basic	$0.17	$ 0.04	$0.21
Net income per share - diluted	$0.16	$ 0.04	$0.20

Table of Contents

	Nine months ended September 30, 2017		
	As reported	Adjustment	As adjusted
	(In thousands)		
Revenues			
Automation and Analytics	$427,249	$ (1,878)	$425,371
Medication Adherence	90,972	—	90,972
Gross profit			
Automation and Analytics	198,032	(1,878)	196,154
Medication Adherence	28,988	—	28,988
Selling, general, and administrative expenses	186,818	(6,748)	180,070
Provision for (benefit from) income taxes	(11,232)	1,891	(9,341)
Net income (loss)	$(3,686)	$ 2,979	$(707)
Net income (loss) per share - basic	$(0.10)	$ 0.08	$(0.02)
Net income (loss) per share - diluted	$(0.10)	$ 0.08	$(0.02)

	December 31, 2017		
	As reported	Adjustment	As adjusted
	(In thousands)		
Accounts receivable and unbilled receivables, net	$189,227	$ 819	$190,046
Prepaid expenses	36,060	(15,668)	20,392
Prepaid commissions	—	41,432	41,432
Other long-term assets	39,841	9,475	49,316
Deferred revenues, net	86,104	(7,330)	78,774
Long-term, deferred revenues	17,244	(6,621)	10,623
Long-term, deferred tax liabilities	28,579	12,867	41,446
Stockholders’ equity	517,199	37,142	554,341

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for the Company beginning January 1, 2020, with early adoption permitted. The Company early adopted this guidance effective beginning July 1, 2018. The application of this guidance did not have a material effect on the Company’s consolidated financial statements.

Recently Issued Authoritative Guidance

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The FASB amended lease accounting requirements to begin recording assets and liabilities arising from most leases on the balance sheet. The new guidance will also require significant additional disclosures about the amount and timing of cash flows from leases. This new guidance will be effective for the Company beginning January 1, 2019. In July 2018, the FASB issued amendments in ASU No. 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the year of adoption and to recognize the effects of applying the new standard as a cumulative-effect adjustment to the opening balance of retained earnings. The Company expects to elect this transition approach and recognize the cumulative impact of adoption in the opening balance of retained earnings as of January 1, 2019. The Company is in the process of completing a qualitative and quantitative assessment of the lease portfolio, implementing a new lease accounting system and implementing new processes and controls to account for leases in accordance with the new standard. The Company believes the most significant changes to the financial statements will relate to the recognition of right-of-use assets and offsetting lease liabilities in the consolidated balance sheet for operating leases. The actual impact on the consolidated balance sheet will be contingent upon the Company's population of operating leases at adoption, however the Company does not expect the standard to have a material impact on cash flows or results of

operations.

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

Table of Contents

referred to as “stranded tax effects.” ASU 2018-02 will be effective for the Company beginning January 1, 2019. The Company does not expect application of this guidance to have a material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 will be effective for the Company beginning January 1, 2020. The Company is currently evaluating the impact ASU 2018-15 will have on its consolidated financial statements.

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

Note 2. Business Acquisitions

2017 Acquisitions

On April 12, 2017, the Company completed the acquisition of all of the membership interests of Dixie Drawl, LLC d/b/a InPharmics (“InPharmics”). 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 acquired of $0.3 million, and includes $0.5 million holdback for potential settlement of performance obligations. At September 30, 2018, this amount has been presented as a short-term liability.

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 preliminarily allocated to intangible assets in the amount of $1.9 million, which included developed technology and customer contracts, with the remainder allocated to