

---

---

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

**Form 10-Q**

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

**For the quarterly period ended March 31, 2017**

OR

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

**For the transition period from                    to**

Commission file number 001-37888

**Tabula Rasa HealthCare, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**228 Strawbridge Drive, Suite 100**  
**Moorestown, NJ 08057**  
(Address of Principal Executive Offices,  
including Zip Code)

**45-5726437**  
(I.R.S. Employer Identification No.)

**(866) 648 - 2767**  
(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  No

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

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

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

Emerging growth company

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

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

---

---

As of April 15, 2017, the Registrant had 17,218,168 shares of Common Stock outstanding.

---

---

**TABULA RASA HEALTHCARE, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the period ended March 31, 2017**

**TABLE OF CONTENTS**

	<u>Page</u> <u>Number</u>
<a href="#">PART I</a>	
<a href="#">Financial Information</a>	3
<a href="#">Item 1.</a>	
<a href="#">Financial Statements</a>	3
<a href="#">Unaudited Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016</a>	3
<a href="#">Unaudited Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016</a>	4
<a href="#">Unaudited Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2017</a>	5
<a href="#">Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016</a>	6
<a href="#">Notes to Unaudited Consolidated Financial Statements</a>	7
<a href="#">Item 2.</a>	
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	23
<a href="#">Item 3.</a>	
<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	38
<a href="#">Item 4.</a>	
<a href="#">Controls and Procedures</a>	39
<a href="#">PART II</a>	
<a href="#">Other Information</a>	40
<a href="#">Item 1.</a>	
<a href="#">Legal Proceedings</a>	40
<a href="#">Item 1A.</a>	
<a href="#">Risk Factors</a>	40
<a href="#">Item 2.</a>	
<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	40
<a href="#">Item 3.</a>	
<a href="#">Defaults Upon Senior Securities</a>	40
<a href="#">Item 4.</a>	
<a href="#">Mine Safety Disclosures</a>	40
<a href="#">Item 5.</a>	
<a href="#">Other Information.</a>	40
<a href="#">Item 6.</a>	
<a href="#">Exhibits</a>	40
<a href="#">Signatures</a>	41
<a href="#">Exhibit Index</a>	42

## PART I. – FINANCIAL INFORMATION

## Item 1. Financial Statements

TABULA RASA HEALTHCARE, INC.  
UNAUDITED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share amounts)

	March 31, 2017 (unaudited)	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash	\$ 2,805	\$ 4,345
Accounts receivable, net	8,589	6,646
Inventories	3,021	2,911
Rebates receivable	315	312
Prepaid expenses	883	869
Other current assets	757	581
Total current assets	16,370	15,664
Property and equipment, net	6,889	6,409
Software development costs, net	3,762	3,350
Goodwill	21,686	21,686
Intangible assets, net	24,347	25,297
Other assets	323	333
Total assets	\$ 73,377	\$ 72,739
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 696	\$ 674
Acquisition-related consideration payable	579	568
Acquisition-related contingent consideration	1,531	1,493
Accounts payable	5,940	6,115
Accrued expenses and other liabilities	5,337	2,159
Total current liabilities	14,083	11,009
Long-term debt	934	1,072
Long-term acquisition-related contingent consideration	—	1,515
Deferred income tax liability	927	832
Other long-term liabilities	2,307	2,205
Total liabilities	18,251	16,633
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2017 and December 31, 2016	—	—
Common stock, \$0.0001 par value; 100,000,000 shares authorized, 17,097,080 and 16,628,476 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	2	2
Additional paid-in capital	92,928	91,027
Accumulated deficit	(37,804)	(34,923)
Total stockholders' equity	55,126	56,106
Total liabilities and stockholders' equity	\$ 73,377	\$ 72,739

See accompanying notes to unaudited consolidated financial statements.

**TABULA RASA HEALTHCARE, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2017	2016
Revenue:		
Product revenue	\$ 22,696	\$ 17,785
Service revenue	4,993	2,372
Total revenue	<u>27,689</u>	<u>20,157</u>
Cost of revenue, exclusive of depreciation and amortization shown below:		
Product cost	17,405	12,982
Service cost	2,250	951
Total cost of revenue	<u>19,655</u>	<u>13,933</u>
Gross profit	<u>8,034</u>	<u>6,224</u>
Operating expenses:		
Research and development	1,219	889
Sales and marketing	1,230	770
General and administrative	6,509	1,893
Change in fair value of acquisition-related contingent consideration expense	21	54
Depreciation and amortization	1,765	1,004
Total operating expenses	<u>10,744</u>	<u>4,610</u>
(Loss) income from operations	<u>(2,710)</u>	<u>1,614</u>
Other (income) expense:		
Change in fair value of warrant liability	—	(134)
Interest expense	76	1,503
Total other expense	<u>76</u>	<u>1,369</u>
(Loss) income before income taxes	<u>(2,786)</u>	<u>245</u>
Income tax expense	95	36
Net (loss) income	<u>\$ (2,881)</u>	<u>\$ 209</u>
Net (loss) income attributable to common stockholders:		
Basic	<u>\$ (2,881)</u>	<u>\$ 293</u>
Diluted	<u>\$ (2,881)</u>	<u>\$ 94</u>
Net (loss) income per share attributable to common stockholders:		
Basic	<u>\$ (0.18)</u>	<u>\$ 0.06</u>
Diluted	<u>\$ (0.18)</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding:		
Basic	<u>16,238,761</u>	<u>4,671,097</u>
Diluted	<u>16,238,761</u>	<u>12,428,124</u>

See accompanying notes to unaudited consolidated financial statements.

**TABULA RASA HEALTHCARE, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands, except share amounts)

	Stockholders' Equity						Total Stockholders' Equity
	Preferred Stock		Common Stock		Additional Paid- in Capital	Accumulated Deficit	
	Shares	Amount	Shares	Amount			
Balance, January 1, 2017	—	\$ —	16,628,476	\$ 2	\$ 91,027	\$ (34,923)	\$ 56,106
Issuance of restricted stock	—	—	5,212	—	—	—	—
Shares surrendered by stockholder	—	—	(246)	—	—	—	—
Net exercise of stock options	—	—	446,835	—	(1,970)	—	(1,970)
Exercise of stock options	—	—	16,803	—	50	—	50
Stock-based compensation expense	—	—	—	—	3,821	—	3,821
Net loss	—	—	—	—	—	(2,881)	(2,881)
Balance, March 31, 2017	—	\$ —	17,097,080	\$ 2	\$ 92,928	\$ (37,804)	\$ 55,126

See accompanying notes to unaudited consolidated financial statements.

**TABULA RASA HEALTHCARE, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Three Months Ended	
	March 31,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (2,881)	\$ 209
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,765	1,004
Amortization of deferred financing costs and debt discount	22	580
Payment of imputed interest on debt	—	(316)
Deferred taxes	95	22
Stock-based compensation	3,821	127
Change in fair value of warrant liability	—	(134)
Change in fair value of acquisition-related contingent consideration	21	54
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,943)	175
Inventories	(110)	15
Rebates receivable	(3)	17
Prepaid expenses and other current assets	(207)	(162)
Other assets	(1)	(34)
Accounts payable	—	355
Accrued expenses and other liabilities	1,296	905
Other long-term liabilities	102	1,718
Net cash provided by operating activities	<u>1,977</u>	<u>4,535</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(865)	(2,412)
Software development costs	(800)	(248)
Change in restricted cash	—	200
Net cash used in investing activities	<u>(1,665)</u>	<u>(2,460)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	50	—
Payments for employee taxes for shares withheld	(88)	—
Payments for debt financing costs	(18)	—
Borrowings on line of credit	—	2,000
Payments of acquisition-related consideration	—	(180)
Payments of initial public offering costs	(132)	(401)
Payments of contingent consideration	(1,498)	(1,895)
Repayments of long-term debt	(166)	(1,338)
Net cash used in financing activities	<u>(1,852)</u>	<u>(1,814)</u>
Net (decrease) increase in cash	(1,540)	261
Cash, beginning of period	4,345	2,026
Cash, end of period	<u>\$ 2,805</u>	<u>\$ 2,287</u>
<b>Supplemental disclosure of cash flow information:</b>		
Acquisition of equipment under capital leases	\$ 50	\$ 318
Additions to property, equipment, and software development purchases included in accounts payable	\$ 330	\$ 82
Deferred offering costs included in accounts payable	\$ —	\$ 1,587
Cash paid for interest	\$ 51	\$ 771
Decretion of redeemable convertible preferred stock to redemption value	\$ —	\$ (403)
Employee payroll taxes on net exercise of stock options included in accrued expenses	\$ 1,970	\$ —

See accompanying notes to unaudited consolidated financial statements.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**1. Nature of Business**

Tabula Rasa HealthCare, Inc. (the “Company”) provides patient-specific, data-driven technology and solutions that enable healthcare organizations to optimize medication regimens to improve patient outcomes, reduce hospitalizations, lower healthcare costs and manage risk. The Company delivers its solutions through a comprehensive suite of technology-enabled products and services for medication risk management and risk adjustment. The Company serves healthcare organizations that focus on populations with complex healthcare needs and extensive medication requirements. The Company’s suite of cloud-based software solutions provides prescribers, pharmacists and healthcare organizations with sophisticated and innovative tools to better manage the medication-related needs of patients.

On October 4, 2016, the Company closed its initial public offering (the “IPO”) in which the Company issued and sold 4,300,000 shares of common stock, plus the exercise of the underwriters’ option to purchase an additional 645,000 shares of common stock, at an issuance price of \$12.00 per share. The Company received net proceeds of \$55,186 after deducting underwriting discounts and commissions of \$4,154 but before deducting other offering expenses. In addition, upon the closing of the IPO, all of the Company’s then outstanding Class A Non-Voting common stock and Class B Voting common stock, totaling 5,583,405 shares, were automatically redesignated into shares of common stock, and all of the Company’s then outstanding convertible preferred stock converted into an aggregate of 5,089,436 shares of common stock. In addition, 202,061 shares of common stock were issued upon the automatic net exercise of outstanding warrants to purchase common stock that would have otherwise terminated immediately prior to the closing of the IPO. Additionally, in connection with the closing of the IPO, outstanding warrants to purchase shares of preferred stock converted into warrants to purchase an aggregate of 463,589 shares of common stock.

Upon completion of the IPO on October 4, 2016, the Company filed an amended and restated certificate of incorporation to, among other things, state that the aggregate number of shares of stock that the Company is authorized to issue is 100,000,000 shares of common stock, par value \$0.0001 per share, and 10,000,000 shares of undesignated preferred stock, par value \$0.0001 per share.

**2. Summary of Significant Accounting Policies**

The Company’s significant accounting policies are disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2016, which are included in the Company’s annual report filed on Form 10-K on March 14, 2017. Since the date of those audited consolidated financial statements, there have been no changes to the Company’s significant accounting policies, including the status of recent accounting pronouncements, other than those detailed below.

**(a) Basis of Presentation**

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals and adjustments), necessary for the fair statement of the Company’s interim consolidated financial position for the periods indicated. The interim results for the three months ended March 31, 2017 are not necessarily indicative of results to be expected for the year ending December 31, 2017, any other interim periods, or any future year or period. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s annual report as filed on Form 10-K.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**(b) Liquidity**

The Company's unaudited consolidated financial statements have been prepared on the basis of continuity of operations, realization of assets and the satisfaction of liabilities in the ordinary course of business. Management believes that the Company's cash on hand of \$2,805 as of March 31, 2017, cash flows from operations and borrowing availability under the Amended 2015 Revolving Line (Note 10) are sufficient to fund the Company's planned operations through at least June 30, 2018.

**(c) Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates or assumptions.

**(d) Revenue Recognition**

The Company recognizes revenue from product sales or services rendered when (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) the price to its client is fixed or determinable and (iv) collectability is reasonably assured.

When the Company enters into arrangements with multiple deliverables, it applies the accounting guidance for revenue arrangements with multiple deliverables and evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a standalone basis, and (ii) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. Revenue is allocated to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on estimated selling prices ("ESP") as vendor specific objective evidence or third party evidence is not available. The Company establishes ESP for the elements of its arrangements based upon its pricing practices and class of customers. The stated prices for the various deliverables of the Company's contracts are consistent across classes of customers.

*Product Revenue*

The Company enters into multiple-element arrangements with healthcare organizations to provide software enabled medication risk management solutions. Under these contracts, revenue is generated through the components listed below.

*Prescription medication revenue*

The Company sells prescription medications directly to healthcare organizations through its prescription fulfillment pharmacies. Prescription medication fees are based upon the prices stated in customer contracts for the prescription and include a dispensing fee. Prescription medication revenue, including dispensing fees, is recognized when the product is shipped to the customer. Prescription medications are considered a separate unit of accounting.

*Per member per month fees — medication risk management services*

The Company receives a fixed monthly administrative fee for each member in the program contracted for medication risk management services. This fee, which is included in product revenue in the consolidated statement of operations, is recognized on a monthly basis as medication risk management services are provided. The services associated with the per member per month fees are considered a separate unit of accounting.



**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

*Service Revenue*

The Company enters into contracts with healthcare organizations to provide (i) risk adjustment and (ii) pharmacy cost management services, which include training client staff and providers about documentation and diagnosis coding, analyzing clients' data collection and submission processes, and delivering meaningful analytics for understanding reimbursement complexities. In the third quarter of 2016, the Company began providing medication risk management services utilizing the Medication Risk Mitigation Matrix ("MRM Matrix") technology alone, without the related fulfillment services, which are referred to as MRM Service Contracts.

Under the risk adjustment contracts and MRM Service Contracts, there are generally three revenue generating components:

*Set up fees:*

The Company's contracts with its risk adjustment and MRM Service Contract customers often require customers to pay non-refundable set up fees, which are deferred and recognized over the estimated term of the contract. These fees are charged at the beginning of the customer relationship as compensation for the Company's efforts to prepare the customer and configure its system for the data collection process. The set up activities do not represent a separate unit of accounting as they do not have value apart from the broader risk adjustment and MRM Service Contracts. Incremental direct costs associated with such set up activities are also deferred and amortized over the shorter of the estimated customer life or stated contract period.

*Per member per month fees*

The Company receives a fixed monthly fee for each member in the respective programs. These services represent a separate unit of accounting and are offered independently from any other services. Revenue for these services is recognized each month as the services are performed.

*Hourly consulting fees*

The Company sometimes contracts with customers to perform various other services. Such services are billed on a time and materials basis, at agreed hourly rates. Consulting services represent a separate unit of accounting and are offered independently from any other services. Revenue for these services is recognized as time is incurred on the project.

The Company's pharmacy cost management services include subscription revenue from customers and revenues from drug manufacturers for the sale of drug utilization data. Subscription revenue is recognized monthly as either a flat fee or as a percentage of monthly transactions incurred. Data and statistics fees from drug manufacturers are recognized as revenue when received due to the unpredictable nature of the payments and because fees are not fixed and determinable until received.

**(e) Cost of Product Revenue**

Cost of product revenue includes all costs directly related to the medication risk management offering, including costs relating to the Company's pharmacists' collaboration on a patient's medication management, clinical analysis of the results and, when necessary, offering guidance to the prescriber based upon the review of the medication risk mitigation matrix and the individual patient's medical history, as well as the fulfillment and distribution of prescription drugs. Costs consist primarily of the purchase price of the prescription drugs the Company dispenses, expenses to package, dispense and distribute prescription drugs, expenses associated with the Company's medication care plan support centers and prescription fulfillment centers, including employment costs and stock-based compensation, and expenses related to the hosting of the Company's technology platform. Such costs also include direct overhead expenses, as well as allocated miscellaneous overhead costs. The Company allocates miscellaneous overhead costs among functions based on employee headcount.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**(f) Cost of Service Revenue**

Cost of service revenue includes all labor costs, including stock-based compensation expense, directly related to the risk adjustment and pharmacy cost management services and expenses for claims processing, technology services and overhead costs. In addition, service costs include all costs directly related to servicing the Company's MRM Service Contracts which primarily consist of labor costs, consultant fees, technology services and overhead costs.

**(g) Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") and has subsequently issued a number of amendments to ASU 2014-09. ASU 2014-09, as amended, represents a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of promised goods or services to clients in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those goods or services. ASU 2014-09 sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed. For public companies, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016; however, the Company does not intend to early adopt the new standard. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09.

The Company intends to adopt the new standard effective January 1, 2018 but has not yet determined which transition method will be used. The Company is currently analyzing significant contracts with customers to determine the impact of the adoption of ASU 2014-09 on the Company's consolidated financial statements and disclosures. The Company will continue to assess all potential impacts of the standard on existing and new customer contracts during 2017, with a final evaluation of the impact of the adoption of the new standard expected to be completed by the end of 2017.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"), which simplifies the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company has adopted ASU 2015-11 effective January 1, 2017. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the potential impact of the adoption of this standard and anticipates that this standard will have a material impact on the Company's consolidated financial statements, as all long-term leases will be capitalized on the consolidated balance sheet.

In March 2016, the FASB issued ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). The amendments in this update simplify certain aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance requires excess tax benefits and tax deficiencies be recorded as an income tax benefit or expense in the statement of operations when the awards vest or are settled and as operating cash flows when realized. The excess tax benefits are recognized regardless of the whether the benefit reduces income taxes payable in the current period. It

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted ASU 2016-09 effective January 1, 2017 and the adoption of this new standard did not have a material impact on the Company's consolidated financial statements in the first quarter of 2017. The Company elected to record forfeitures as they occur. There was no impact of this election because prior to the adoption, the Company's historical forfeitures were de minimus. Excess tax benefits generated in the quarter ended March 31, 2017 totaled \$6,287 and unrecognized tax benefits were \$108 at December 31, 2016, however, there was no impact on the Company's consolidated financial statements because of a full valuation allowance against deferred tax assets.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 provides new guidance to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the potential impact of the adoption of ASU 2016-15 on the Company's consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations* ("ASU 2017-01"). ASU 2017-01 provides guidance for evaluating whether a set of transferred assets and activities (the "set") should be accounted for as an acquisition of a business or group of assets. The guidance provides a screen to determine when a set does not qualify to be a business. When substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in an identifiable asset or a group of similar assets, the set is not a business. Also to be considered a business, the set would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017. The Company is currently evaluating the potential impact of the adoption of ASU 2017-01 on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill to measure an impairment charge. Instead, entities will be required to record an impairment charge based on the excess of a reporting unit's carrying value over its fair value. ASU 2017-04 is effective for financial statements issued for fiscal years beginning after December 15, 2019. The Company is currently evaluating the potential impact of the adoption of ASU 2017-04 on the Company's consolidated financial statements.

### **3. Net (Loss) Income per Share**

Basic net (loss) income per share is computed by dividing net (loss) income attributable to common stockholders by the weighted average number of shares of common stock of the Company outstanding during the period. The Company computed net (loss) income per share of common stock using the treasury stock method for the three months ended March 31, 2017, and using the two-class method required for participating securities for the three months ended March 31, 2016. The Company considered its redeemable convertible preferred stock to be participating securities as the holders of the preferred stock were entitled to receive a dividend in the event that a dividend was paid on common stock. Diluted net (loss) income per share is computed by dividing net (loss) income attributable to common stockholders by the weighted average number of shares of common stock during the period plus the impact of dilutive

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

securities, to the extent that they are not anti-dilutive. The following table presents the calculation of basic and diluted net (loss) income per share for the Company's common stock:

	Three Months Ended March 31,	
	2017	2016
<b>Numerator:</b>		
Net (loss) income	\$ (2,881)	\$ 209
Decretion of redeemable convertible preferred stock	—	403
Undistributed income attributable to redeemable convertible preferred stockholders	—	(319)
Net (loss) income attributable to common stockholders, basic	<u>\$ (2,881)</u>	<u>\$ 293</u>
Decretion of redeemable convertible preferred stock	—	(403)
Revaluation of warrant liability, net of tax	—	(115)
Adjustment to undistributed income attributable to redeemable convertible preferred stockholders	—	319
Net (loss) income attributable to common stockholders, diluted	<u>\$ (2,881)</u>	<u>\$ 94</u>
<b>Denominator (basic):</b>		
Weighted average shares of common stock outstanding, basic	<u>16,238,761</u>	<u>4,671,097</u>
<b>Denominator (diluted):</b>		
Weighted average shares of common stock outstanding	16,238,761	4,671,097
<b>Effect of potential dilutive securities:</b>		
Weighted average dilutive effect of stock options	—	1,981,049
Weighted average dilutive effect of common shares from warrants	—	361,206
Dilutive effect from preferred stock and preferred stock warrants assuming conversion	—	5,414,772
Weighted average shares of common stock outstanding, diluted	<u>16,238,761</u>	<u>12,428,124</u>
Net (loss) income per share attributable to common stockholders, basic	<u>\$ (0.18)</u>	<u>\$ 0.06</u>
Net (loss) income per share attributable to common stockholders, diluted	<u>\$ (0.18)</u>	<u>\$ 0.01</u>

The following potential common shares, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net (loss) income per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

	Three Months Ended March 31,	
	2017	2016
Stock options to purchase common stock	3,219,862	25,110
Restricted stock	727,858	—
Common stock warrants	32,216	—
	<u>3,979,936</u>	<u>25,110</u>

On October 4, 2016, the Company closed its IPO in which the Company issued and sold 4,300,000 shares of common stock, plus the exercise of the underwriters' option to purchase an additional 645,000 shares, at an issuance price of \$12.00 per share. See Notes 1 and 13 for additional information.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

#### 4. Acquisition

On September 15, 2016, the Company acquired certain assets, consisting primarily of intellectual property and software assets of 9176-1916 Quebec Inc. (an entity indirectly controlled by our Chief Scientific Officer, Jacques Turgeon). The intellectual property and software assets were previously licensed by us and are integrated into the Company's Medication Risk Mitigation Matrix. The purchase price consisted of cash consideration of up to \$6,000, consisting of \$1,000 which was paid upon closing, \$4,400 paid during the fourth quarter of 2016, and \$600 following the 12-month anniversary of the closing date of the acquisition, which is contingent upon no claims for indemnification being made pursuant to the purchase agreement. In addition to the cash consideration, the purchase price included an aggregate of \$5,000 worth of common stock, which amounted to the issuance of 395,407 shares of common stock during the fourth quarter of 2016.

The deferred acquisition cash consideration of \$5,000 was recorded at its acquisition-date fair value of \$4,955, using an assumed cost of debt of 7.8%. The \$45 discount is being amortized to interest expense using the effective interest method through the consideration payment date. The Company amortized \$11 of the discount to interest expense for the three months ended March 31, 2017. These amounts are included in acquisition-related consideration payable in the consolidated balance sheets as of March 31, 2017. As of March 31, 2017, the acquisition-related consideration balance was \$579.

The unaudited pro forma results presented below include the results of the 9176-1916 Quebec Inc. acquisition as if it had been consummated as of January 1, 2016. The unaudited pro forma results include the amortization associated with acquired intangible assets. Material nonrecurring charges directly attributable to the transactions are excluded. In addition, the unaudited pro forma results do not include any expected benefits of the acquisitions. Accordingly, the unaudited pro forma results are not necessarily indicative of either future results of operations or results that might have been achieved had the acquisitions been consummated as of January 1, 2016.

	<b>Three Months Ended March 31, 2016</b>
Revenue	\$ 20,183
Net loss	(144)
Net loss per share attributable to common stockholders, basic	(0.01)
Net loss per share attributable to common stockholders, diluted	(0.02)

#### 5. Property and Equipment

Depreciation and amortization expense on property and equipment for the three months ended March 31, 2017 and 2016 was \$415 and \$223, respectively.

#### 6. Software Development Costs

The Company capitalizes certain costs incurred in connection with obtaining or developing internal-use software, including external direct costs of material and services and payroll costs for employees directly involved with the software development. As of March 31, 2017 and December 31, 2016, gross capitalized software costs were \$7,313 and \$6,501 and accumulated amortization was \$3,551 and \$3,151, respectively. Amortization expense for the three months ended March 31, 2017 and 2016 was \$400 and \$205, respectively. As of March 31, 2017 and December 31, 2016, there was \$1,590 and \$911, respectively, of capitalized software costs that were not yet subject to amortization.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**7. Goodwill and Intangible Assets**

The Company's goodwill as of March 31, 2017 and December 31, 2016 was \$21,686. Goodwill is not amortized, but instead tested for impairment annually. The Company conducted its annual impairment test as of October 1, 2016 and determined that there were no indicators of impairment during 2016. The next annual impairment test will be conducted as of October 1, 2017, unless the Company identifies a triggering event in the interim. Management has not identified any triggering events during the three months ended March 31, 2017.

Intangible assets consisted of the following as of March 31, 2017 and December 31, 2016:

	<u>Weighted Average Amortization Period (in years)</u>	<u>Gross Value</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, net</u>
<b>March 31, 2017</b>				
Trade names	5.00	\$ 1,940	\$ (890)	\$ 1,050
Client relationships	10.02	14,684	(3,659)	11,025
Non-competition agreements	4.64	652	(360)	292
Developed technology	7.76	13,500	(1,547)	11,953
Domain name	10.00	29	(2)	27
Total intangible assets		<u>\$ 30,805</u>	<u>\$ (6,458)</u>	<u>\$ 24,347</u>

	<u>Weighted Average Amortization Period (in years)</u>	<u>Gross Value</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, net</u>
<b>December 31, 2016</b>				
Trade names	5.00	\$ 1,940	\$ (791)	\$ 1,149
Client relationships	10.02	14,684	(3,289)	11,395
Non-competition agreements	4.64	652	(326)	326
Developed technology	7.76	13,500	(1,101)	12,399
Domain name	10.00	29	(1)	28
Total intangible assets		<u>\$ 30,805</u>	<u>\$ (5,508)</u>	<u>\$ 25,297</u>

Amortization expense for intangible assets for the three months ended March 31, 2017 and 2016 was \$950 and \$576, respectively.

The estimated amortization expense for each of the next five years and thereafter is as follows:

Years Ending December 31,	
2017 (April 1 - December 31)	\$ 2,842
2018	3,755
2019	3,649
2020	3,309
2021	3,169
Thereafter	<u>7,623</u>
	<u>\$ 24,347</u>

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**8. Accrued Expenses and Other Liabilities**

At March 31, 2017 and December 31, 2016, accrued expenses and other liabilities consisted of the following:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Employee related expenses	\$ 4,320	\$ 1,174
Deferred revenue	751	851
Interest	19	16
Deferred rent	18	13
Other expenses	229	105
Total accrued expenses and other liabilities	<u>\$ 5,337</u>	<u>\$ 2,159</u>

Accrued employee related expenses as of March 31, 2017 includes \$1,970 of accrued payroll taxes that the Company will remit to taxing authorities on behalf of certain employees for shares withheld from the net exercise of stock options during the first quarter of 2017.

**9. Notes Payable Related to Acquisition**

In December 2014, the Company acquired all of the authorized, issued and outstanding equity interests of Medliance LLC ("Medliance"), which provides pharmacy cost management services through data analytics. As part of the acquisition-related consideration of the Medliance acquisition, the Company issued multiple subordinated convertible promissory notes (the "Medliance Notes") to the owners of Medliance for aggregate borrowings of \$16,385. Interest was 8% and compounded annually. On July 1, 2016, the Company repaid the Medliance Notes with the proceeds from a long-term credit facility. Interest expense was \$353 for the three months ended March 31, 2016.

The Company recorded the Medliance Notes at their aggregate acquisition date fair values of \$14,347 and the notes were accreted up to their face values of \$16,385 over the 18 month term using the effective-interest method. For the three months ended March 31, 2016, the Company amortized \$363 of the discount to interest expense.

**10. Lines of Credit and Long-Term Debt**

**(a) Lines of Credit**

On July 1, 2016, the Company entered into a Loan and Security Modification Agreement (the "Amended 2015 Revolving Line") with Western Alliance Bank, successor in interest to Bridge Bank, National Association ("Bridge Bank"), whereby the Company's revolving line of credit, entered into with Bridge Bank in 2015 was amended to increase the Company's borrowing availability to up to \$25,000 and extend the maturity date to July 1, 2018. The Company's ability to borrow under the Amended 2015 Revolving Line is based upon a specified borrowing base equal to the Company's trailing four months of monthly recurring revenue, as defined, from eligible recurring revenue contracts, as defined, through March 31, 2017 and based upon the Company's trailing three months of monthly recurring revenue, as defined, from eligible recurring revenue contracts, as defined, thereafter. Interest on the Amended 2015 Revolving Line was also amended to be calculated at a variable rate based upon Western Alliance Bank's prime rate plus 0.5%, with Western Alliance Bank's prime rate having a floor of 3.5%. Financial covenants under the Amended 2015 Revolving Line require that the Company (i) maintain an unrestricted cash and unused availability balance under the Amended 2015 Revolving Line of at least \$3,000 at all times (the liquidity covenant), (ii) maintain a minimum EBITDA, as defined, of \$2,500 for the quarter ending December 31, 2016 and thereafter, and (iii) maintain a minimum monthly recurring revenue retention rate of at least 90%, measured quarterly. As of March 31, 2017, the Company was in compliance with all of the financial covenants related to the Amended 2015 Revolving Line, and management expects that the Company will be able to maintain compliance with the financial covenants.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

In September 2015, the Company arranged for Bridge Bank to issue a \$500 letter of credit on its behalf in connection with the Company's lease agreement for the office space in Moorestown, NJ (see Note 16). The letter of credit renews annually and expires in September 2027 and reduces amounts available on the line of credit.

As of March 31, 2017, there were no aggregate borrowings outstanding under the Amended 2015 Revolving Line, and amounts available for borrowings under the Amended 2015 Revolving Line was \$24,500.

As of March 31, 2017, the interest rate on the Amended 2015 Revolving Line was 4.56% and no interest expense was incurred for the three months ended March 31, 2017 as there were no aggregate borrowings outstanding during the three months ended March 31, 2017. As of March 31, 2016, the interest rate on the Amended 2015 Revolving Line was 4.56% and interest expense was \$133 for the three months ended March 31, 2016. In connection with the 2015 Revolving Line and the Amended 2015 Revolving Line, the Company recorded deferred financing costs of \$159. The Company is amortizing the deferred financing costs to interest expense using the effective-interest method over the term of the Amended 2015 Revolving Line and amortized \$11 and \$13 to interest expense for the three months ended March 31, 2017 and 2016, respectively.

**(b) Capital Lease Obligations**

The following table represents the total capital lease obligations of the Company at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Capital leases	\$ 1,630	\$ 1,746
Less current portion, net	(696)	(674)
<b>Total capital leases, less current portion, net</b>	<b>\$ 934</b>	<b>\$ 1,072</b>

The Company has entered into leases for certain equipment and software, which are recorded as capital lease obligations. These leases have interest rates ranging from 7% to 22%. Interest expense related to the capital leases was \$57 and \$43 for the three months ended March 31, 2017 and 2016, respectively.

Amortization of assets held under capital leases is included in depreciation and amortization expense. The net book value of equipment and software acquired under capital lease was \$2,190 and \$2,364 as of March 31, 2017 and December 31, 2016, respectively, and are reflected in property and equipment on the consolidated balance sheets.

**(c) Long-Term Debt Maturities**

As of March 31, 2017, the Company's long-term debt consisted of capital lease obligations and is payable as follows:

	Total long-term debt
Remainder of 2017	\$ 665
2018	779
2019	439
2020	31
2021	4
	1,918
Less amount representing interest	(288)
Present value of payments	1,630
Less current portion	(696)
<b>Total long-term debt, net of current portion</b>	<b>\$ 934</b>



**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**(d) Other Financing**

In May 2016, the Company signed a prime vendor agreement with AmerisourceBergen Drug Corporation, which was effective March 2016 and requires a monthly minimum purchase obligation of approximately \$1,750. The Company fully expects to meet this requirement. This agreement was subsequently amended and restated effective May 1, 2016 with a three-year term expiring April 2019. As of March 31, 2017 and December 31, 2016, the Company had \$3,686 and \$3,327, respectively, due to AmerisourceBergen Drug Corporation as a result of prescription drug purchases. Pursuant to the terms of a security agreement entered into in connection with the prime vendor agreement, AmerisourceBergen also holds a subordinated security interest in all of the Company's assets.

**11. Income Taxes**

For the three months ended March 31, 2017, the Company recorded income tax expense of \$95 related to indefinite-lived deferred tax liabilities for goodwill amortization, which resulted in an effective tax rate of (3.4)% for the period. The Company has recorded a full valuation allowance against its deferred tax assets as of March 31, 2017 and December 31, 2016. Accordingly, the year to date tax benefit was limited to the amount of the benefit that can be recognized for the full year, and the Company used the actual effective tax rate for the year to date as its best estimate to determine the Company's tax expense for the three months ended March 31, 2017.

For the three months ended March 31, 2016, the Company recognized tax expense of \$36, which resulted in an effective tax rate of 14.7%. For the three months ended March 31, 2016, the Company calculated the tax provision based on its estimated annual effective tax rate expected for the full year which included current Federal alternative minimum tax, current state taxes and deferred tax expense associated with indefinite-lived deferred tax liabilities for goodwill amortization, in addition to a change in the valuation allowance related to deferred tax assets for income generated in the current period.

**12. Other Long-term Liabilities**

Other long term liabilities as of March 31, 2017 consisted of \$2,307, which represents the long-term portion of deferred rent primarily related to the Company's operating leases for office space in Moorestown, NJ.

**13. Stockholders' Equity**

**(a) Capitalization and Initial Public Offering**

On October 4, 2016, the Company closed its IPO in which the Company issued and sold 4,300,000 shares of common stock, plus the exercise of the underwriters' option to purchase an additional 645,000 shares of common stock, at an issuance price of \$12.00 per share. The Company received net proceeds of \$55,186 after deducting underwriting discounts and commissions of \$4,154 but before deducting other offering expenses. In addition, upon the closing of the IPO, all of the Company's then outstanding Class A Non-Voting common stock and Class B Voting common stock, totaling 5,583,405 shares, were automatically redesignated into shares of common stock, and all of the Company's then outstanding convertible preferred stock converted into an aggregate of 5,089,436 shares of common stock.

Upon completion of the IPO on October 4, 2016, the Company filed an amended and restated certificate of incorporation to, among other things, state that the aggregate number of shares of stock that the Company is authorized to issue is 100,000,000 shares of common stock, par value \$.0001 per share, and 10,000,000 shares of undesignated preferred stock, par value \$.0001 per share.

**(b) Common Stock Warrants**

As of March 31, 2017, warrants to purchase 32,216 shares of common stock were outstanding. These warrants

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

have an exercise price of \$1.55 and expire in October 2022. On April 7, 2017, 28,431 shares of common stock were issued upon the net exercise of these warrants in full. During the three months ended March 31, 2016, the Company issued 210,817 shares of common stock upon the net exercise of warrants to purchase 232,787 shares of common stock.

**14. Stock-Based Compensation**

In September 2016, the Company adopted the 2016 Equity Compensation Plan (the “2016 Plan”) and merged the 2014 Equity Compensation Plan (the “2014 Plan”) into the 2016 Plan on September 28, 2016. No additional grants were made thereafter under the 2014 Plan. Outstanding grants under the 2014 Plan will continue in effect according to their terms as in effect before the merger with the 2016 Plan, and the shares with respect to outstanding grants under the 2014 Equity Plan will be issued or transferred under the 2016 Plan. The 2016 Plan authorizes the issuance or transfer of up to the sum of the following: (1) 800,000 new shares, plus (2) the number of shares of common stock subject to outstanding grants under the 2014 Equity Plan as of the effective date of the 2016 Plan; provided, however, that the aggregate number of shares of the Company’s common stock that may be issued or transferred under the 2016 Plan pursuant to incentive stock options may not exceed 800,000. During the term of the 2016 Plan, the share reserve will automatically increase on the first trading day in January of each calendar year, beginning in calendar year 2017, by an amount equal to the lesser of 5% of the total number of outstanding shares of common stock on the last trading day in December of the prior calendar year or such other number set by the Company’s Board of Directors (the “Board”). During 2017, the Board approved an increase of 831,423 shares to the share reserve. As of March 31, 2017, 498,429 shares were available for future grants under the 2016 Plan.

The option price per share cannot be less than the fair market value of a share on the date the option was granted, and in the case of incentive stock options granted to an employee owning more than 10% of the total combined voting power of all classes of stock of the Company, the option price shall not be less than 110% of the fair market value of Company stock on the date of grant. Stock option grants under the Plan generally expire 10 years from the date of grant, other than incentive stock option grants to 10% shareholders, which have a 5 year term, 90 days after termination, or one year after the date of death or termination due to disability. Stock options generally vest over a period of four years, with 25% of the options becoming exercisable on the one-year anniversary of the commencement date and the remaining shares vesting monthly thereafter for 36 months in equal installments of 2.08% per month.

On September 28, 2016, the Board granted 700,386 shares of restricted common stock to certain Company employees, including executive officers, under the 2014 Plan, prior to merging it with the 2016 Plan, pursuant to a special equity award pool previously approved by the Board which was made immediately prior to the effectiveness of the Company’s registration statement filed in connection with the Company’s IPO. All shares of restricted common stock will vest in full on May 31, 2017. The value of the grants is based on the IPO price of \$12.00 per share and the related non-cash compensation expense is being recognized ratably over the vesting period from the date of grant through May 31, 2017, when the shares underlying the grant fully vest. For the three months ended March 31, 2017, \$3,075 of expense was recognized related to this grant. As of March 31, 2017, there was unrecognized compensation expense of \$2,084 related to this grant.

On September 28, 2016, the Company granted 22,260 shares of restricted common stock under the 2016 Plan to our non-employee directors, which represents both the initial and annual grants to such directors. The initial grant will vest in three substantially equal annual installments over three years following the grant date and the annual grant will vest in full on the earlier of the next annual shareholder meeting or the one year anniversary of the grant date. The value of the grants is based on the IPO price of \$12.00. On March 8, 2017, the Company granted 5,212 shares of restricted common stock under the 2016 Plan to a newly appointed non-employee director, which represents such director’s initial grant and will vest in three substantially equal annual installments over three years following the grant date. The value of the grant is based on the grant date fair value of the Company’s common stock of \$13.68. For the three months ended March 31, 2017, \$56 of expense was recognized related to these grants. As of March 31, 2017, there was unrecognized compensation expense of \$244 related to these grants.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

The Company recorded \$690 and \$127 of stock-based compensation expense related to the vesting of employee and non-employee stock options for the three months ended March 31, 2017 and 2016, respectively.

The estimated fair value of options granted was calculated using a Black-Scholes option-pricing model. The computation of expected life for employees was determined based on the simplified method. The risk-free rate is based on the U.S. Treasury security with terms equal to the expected time of exercise as of the grant date. The Company's common stock had not been publicly traded until the IPO commenced on September 29, 2016; therefore, expected volatility is based on the historical volatilities of selected public companies whose services are comparable to that of the Company. The table below sets forth the weighted average assumptions for employee grants during the three months ended March 31, 2017 and 2016:

Valuation assumptions:	Three Months Ended	
	March 31,	
	2017	2016
Expected volatility	61.00 %	59.00 %
Expected term (years)	6.03	6.08
Risk-free interest rate	2.24 %	1.49 %
Dividend yield	—	—

The weighted average grant date fair value of employee options granted during the three months ended March 31, 2017 and 2016 was \$7.89 and \$7.29, respectively.

The following table summarizes stock option activity under the 2016 Plan for the three months ended March 31, 2017:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2016	3,059,690	\$ 5.14		
Granted	961,075	14.03		
Exercised	(793,225)	3.61		
Forfeited	(7,678)	11.31		
Outstanding at March 31, 2017	<u>3,219,862</u>	\$ 8.16	7.7	\$ 18,186
Options vested and expected to vest at March 31, 2017	<u>3,219,862</u>	\$ 8.16	7.7	\$ 18,186
Exercisable at March 31, 2017	<u>1,535,362</u>	\$ 3.02	5.6	\$ 16,065

Included within the above table are 188,893 non-employee options outstanding as of March 31, 2017, of which 1,241 are unvested as of March 31, 2017 and therefore subject to remeasurement.

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the Company's closing stock price or estimated fair value on the last trading day of the fiscal quarter for those stock options that had exercise prices lower than the fair value of the Company's common stock. This amount changes based on the fair market value of the Company's stock. The total intrinsic value of options exercised during the three months ended March 31, 2017 and 2016 was \$8,660 and \$832, respectively.

As of March 31, 2017, there was \$11,096 of total unrecognized compensation cost related to nonvested stock options granted under the 2016 Plan, which is expected to be recognized over a weighted average period of 3.1 years.

Cash received from option exercises for the three months ended March 31, 2017 was \$50. During 2017, 329,587 shares of common stock were delivered by option holders as payment for the exercise price and employee payroll taxes owed for the exercise of 776,422 stock options with a gross exercise value of \$2,816. During 2016, 7,930

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

shares of common stock were delivered by option holders as payment for the exercise of 71,150 stock options with a gross exercise value of \$104. No cash was received from the exercise of stock options for the three months ended March 31, 2016.

The Company recorded total stock-based compensation expense for the three months ended March 31, 2017 and 2016, in the following expense categories of its consolidated statement of operations:

	Three Months Ended March 31,	
	2017	2016
Cost of revenue - product	\$ 95	\$ 29
Cost of revenue - service	43	7
Research and development	104	11
Sales and marketing	117	22
General and administrative	3,462	58
	<u>\$ 3,821</u>	<u>\$ 127</u>

**15. Fair Value Measurements**

The Company's financial instruments consist of accounts receivable, accounts payable, accrued expenses, acquisition-related consideration payable, acquisition-related contingent consideration, and long-term debt. The carrying values of accounts receivable, accounts payable and accrued expenses are representative of their fair value due to the relatively short-term nature of those instruments. The carrying value of the Company's long-term debt approximates fair value based on the terms of the debt.

The Company has classified liabilities measured at fair value on a recurring basis at March 31, 2017 and December 31, 2016 as follows:

	Fair Value Measurement at Reporting Date Using			Balance as of March 31, 2017
	Level 1	Level 2	Level 3	
<b>Liabilities</b>				
Acquisition-related contingent consideration - short-term	—	—	1,531	1,531
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,531</u>	<u>\$ 1,531</u>

	Fair Value Measurement at Reporting Date Using			Balance as of December 31, 2016
	Level 1	Level 2	Level 3	
<b>Liabilities</b>				
Acquisition-related contingent consideration - short-term	\$ —	\$ —	\$ 1,493	\$ 1,493
Acquisition-related contingent consideration - long-term	—	—	1,515	1,515
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,008</u>	<u>\$ 3,008</u>

Acquisition-related contingent consideration is measured at fair value on a recurring basis using unobservable inputs, hence these instruments represent Level 3 measurements within the fair value hierarchy. The acquisition-related contingent consideration liability represents the estimated fair value of the additional cash consideration payable that is contingent upon the achievement of certain financial and performance milestones.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

The changes in fair value of the Company's acquisition-related contingent consideration for the three months ended March 31, 2017 was as follows:

Balance at December 31, 2016	3,008
Fair value of cash consideration paid	(1,498)
Adjustments to fair value measurement	21
Balance at March 31, 2017	<u>\$ 1,531</u>

**16. Commitments and Contingencies**

The Company is not currently involved in any significant claims or legal actions that, in the opinion of management, will have a material adverse impact on the Company.

As of March 31, 2017 and December 31, 2016, the Company was contingently liable for \$500 under an outstanding letter of credit related to the Company's lease agreement for the office space in Moorestown, NJ (see Note 10).

**17. Retirement Plan**

The Company has established a 401(k) plan that qualifies as a defined contribution plan under Section 401 of the Internal Revenue Code. The Company's contributions to this plan are based on a percentage of eligible employees' plan year earnings, as defined. The Company made contributions to participants' accounts totaling \$136 during the three months ended March 31, 2017. The Company did not make any contributions to participants' accounts during the three months ended March 31, 2016.

**18. Related-Party Transactions**

During 2016, there was a demand promissory note with a stockholder with a balance outstanding of \$250, which bears interest at 6% annually. The demand promissory note was repaid in full in October 2016 with the proceeds from the IPO. Total interest expense from these related-party borrowings was \$4 for the three months ended March 31, 2016.

**TABULA RASA HEALTHCARE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except share and per share data)**

**19. Subsequent Events**

On April 25, 2017, the Company entered into employment agreements with each of the Company's named executive officers. The employment agreements provide for, among other things, salary, incentive compensation, payments in the event of termination upon the occurrence of a change in control, and restrictive covenants pursuant to which the executives have agreed to refrain from competing with the Company or soliciting the Company's employees or customers for a period following the executive's termination of employment. Each employment agreement is effective as of April 1, 2017, has an initial three year term and will automatically renew each anniversary thereafter.

On April 25, 2017, the Company's Board also adopted the Annual Incentive Plan, effective as of January 1, 2017, which formalizes the Company's annual short-term incentive program and does not represent a new compensation program for the named executive officers. The Plan provides pay for performance incentive compensation to the Company's employees, including its named executive officers, rewarding them for their contributions to the Company with cash incentive compensation based on attainment of pre-determined corporate and individual performance goals, as applicable.

On April 25, 2017 the Board authorized the Company to repurchase up to \$5,000 of its common stock. The Company expects to fund repurchases of its common stock through a combination of cash on hand, cash generated by operations and borrowings under its line of credit. As of the date of this filing the Company has not repurchased any shares pursuant this authorization.

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

*The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited consolidated financial statements and related notes and other financial information included in Part 1, Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes thereto for the year ended December 31, 2016, included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 14, 2017.*

### **Forward-Looking Statements**

*This discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are identified by words such as "believe," "will," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "could," "potentially" or the negative of these terms or similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other "forward-looking" information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed elsewhere in this report, as well as in our Annual Report on Form 10-K for the year ended December 31, 2016. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. These statements, like all statements in this report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.*

### **Overview**

We are a healthcare technology company disrupting the field of medication safety. For over thirty years, traditional pharmacy software systems have offered clinicians a binary view of drug-to-drug interactions, presenting an assessment of one single drug against one single drug. These legacy systems may be adequate to assess the safety of a medication regimen consisting of only one or two medications. However, the elderly, the chronically ill and those with behavioral health challenges, who are more often times more likely to be subject to a medication profile of more than two medications, are typically at high risk of an adverse drug effect, or ADE. In these cases, the average patient often takes over 10 different medications a day and the current technologies are inadequate to optimize safety and minimize risk. Our novel and proprietary Medication Risk Mitigation Matrix, or MRM Matrix, delivers a simultaneous, multi-drug review which identifies medication-related risks across a variety of safety factors and presents meaningful opportunities to mitigate such risks. We partner with health plans and provider groups in comprehensive medication management and care transitions programs to identify and substantially mitigate the risks associated with ADEs. By working with us, health plans and provider groups have reduced their pharmacy spend and admissions rates.

We are a leader in providing patient-specific, data-driven technology and solutions that enable healthcare organizations to optimize medication regimens to improve patient outcomes, reduce hospitalizations, lower healthcare costs and manage risk. We deliver our solutions through a comprehensive suite of technology-enabled products and services for medication risk management, which includes bundled prescription fulfillment and reminder packaging services for client populations with complex prescription needs. We also provide risk adjustment services and pharmacy cost management services, which help our clients to properly characterize a patient's acuity, or severity of health condition, and optimize the associated payments for care.

Our suite of cloud-based software solutions provides prescribers, pharmacists and healthcare organizations with sophisticated and innovative tools to better manage the medication-related needs of their patients. We believe we offer the first prospective clinical approach to medication risk management, which is designed to increase patient safety and promote adherence to a patient's personalized medication regimen. Furthermore, our medication risk management technology helps healthcare organizations lower costs by reducing ADEs, enhancing quality of care and avoiding preventable hospital admissions. Our products and services are built around our novel and proprietary MRM Matrix, which enables optimization of a patient's medication regimen, involving personalizing medication selection, dosage levels, time-of-day administration and reducing the total medication burden by eliminating unnecessary prescriptions.

## [Table of Contents](#)

The MRM Matrix analyzes a combination of clinical and pharmacology data, population-based algorithms and extensive patient-specific data, including medical history, lab results, medication lists and individual genomic data, to deliver "precision medicine." We provide software-enabled solutions that can be bundled with prescription fulfillment and reminder packaging services, which are informed by a patient's personalized MRM Matrix to increase adherence to a patient's optimized regimen, through our three prescription fulfillment pharmacies. Our prescription fulfillment pharmacies are strategically located to efficiently distribute medications nationwide for our clients and medications are packaged to promote adherence to their patients' personalized regimens and dosing schedules. Our team of clinical pharmacists is available to support prescribers at the point of care through our proprietary technology platform, including real-time secure messaging, with more than 169,000 messages exchanged during March 2017.

Our technology-driven approach to medication risk management represents an evolution from prevailing non-personalized approaches that primarily rely on single drug-to-drug interaction analysis. At the end of 2016 we were serving 133 healthcare organizations and, as of March 31, 2017, this number has grown to 139 healthcare organizations that focus on populations with complex healthcare needs and extensive medication requirements.

Our total revenues for the three months ended March 31, 2017 were \$27.7 million compared to \$20.2 million for the three months ended March 31, 2016. We incurred a net loss of \$2.9 million for the three months ended March 31, 2017 and recognized net income of \$0.2 million for the three months ended March 31, 2016. Our adjusted EBITDA for the three months ended March 31, 2017 was \$3.0 million compared to \$2.8 million for the three months ended March 31, 2016. See "Non-GAAP Financial Measures — Adjusted EBITDA" for our definition of Adjusted EBITDA, why we present Adjusted EBITDA and a reconciliation of net loss to Adjusted EBITDA.

We face a variety of challenges and risks, which we will need to address and manage as we pursue our growth strategy. In particular, we will need to continue to innovate in the face of a rapidly changing healthcare landscape if we are to remain competitive. We will also need to effectively manage our growth, especially related to our expansion beyond the PACE and post-acute markets to other at-risk providers and payors. Our senior management continuously focuses on these and other challenges, and we believe that our culture of innovation and our history of growth and expansion will contribute to the success of our business. We cannot, however, assure you that we will be successful in addressing and managing the many challenges and risks that we face.

We manage our operations and allocate resources as a single reportable segment. All of our revenue is recognized in the United States and all of our assets are located in the United States.

Unless the context requires otherwise, the terms the "Company," "Tabula Rasa HealthCare, Inc.," "we," "us" and "our" mean Tabula Rasa HealthCare, Inc., a Delaware Corporation, and its consolidated subsidiaries.

### Key Business Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate and manage our business and that are useful in evaluating our operating performance compared to that of other companies in our industry.

	Three Months Ended		Change	
	March 31, 2017	March 31, 2016	\$	%
	(Dollars in thousands)			
Revenues	\$ 27,689	\$ 20,157	\$ 7,532	37 %
Net (loss) income	(2,881)	209	(3,090)	nm
Adjusted EBITDA	2,980	2,799	181	6

nm = not meaningful

We monitor the key metrics set forth in the preceding table to help us evaluate trends, establish budgets, measure the effectiveness and efficiency of our operations and gauge our cash generation. We discuss Adjusted EBITDA in more detail in "Non-GAAP Financial Measures — Adjusted EBITDA." We also monitor revenue retention rate and client retention rate described as follows.



### ***Revenue retention rate***

We believe that our ability to retain revenue associated with new or existing client relationships is an indicator of the stability of our revenue base and the long-term value we provide to our clients. We assess our performance in this area using a metric we refer to as our revenue retention rate. We calculate our revenue retention rate at the end of each calendar year by dividing total revenue in the year from client contracts that have not renewed or have been terminated during the year by our total revenue for that year, and subtracting this quotient from 100%. Our annual revenue retention rate was 98% for 2016.

### ***Client retention rate***

We monitor our client retention rate as a measure for our overall business performance. We believe that our ability to retain clients is an indicator of the stability of our revenue base and the long-term value of our client relationships. We assess our performance in this area using a metric we refer to as our client retention rate. We calculate this rate by dividing the number of client terminations and client non-renewals during a calendar year by the total number of clients serviced during that year, and subtracting this quotient from 100%. Our annual client retention rate was 93% for 2016.

## **Factors Affecting our Future Performance**

We believe that our future success will be dependent on many factors, including our ability to maintain and grow our relationships with existing clients, expand our client base, continue to enter new markets and expand our offerings to meet evolving market needs. While these areas present significant opportunity, they also present risks that we must manage to ensure successful results. See the section entitled "Risk Factors" for a discussion of certain risks and uncertainties that may impact our future success.

## **Recent Developments**

### ***Initial Public Offering***

On October 4, 2016, we completed the IPO of our common stock pursuant to which we issued 4,300,000 shares of our common stock, plus the exercise of the underwriters' option to purchase an additional 645,000 shares of common stock, at an issuance price of \$12.00 per share. We received net proceeds of \$55.2 million after deducting underwriting discounts and commissions of \$4.2 million, but before deducting other offering expenses. Immediately prior to the completion of the IPO, all of the Company's then outstanding Class A Non-Voting common stock and Class B Voting common stock, totaling 5,583,405 shares, were redesignated into shares of common stock, par value \$0.0001 per share, and all of the Company's then outstanding convertible preferred stock converted into an aggregate of 5,089,436 shares of common stock, par value \$0.0001 per share. Our common stock is listed on the NASDAQ Global Market under the symbol "TRHC."

### ***Acquisitions***

In September 2016, we acquired certain assets, consisting primarily of intellectual property and software assets of 9176-1916 Quebec Inc. (an entity indirectly controlled by our Chief Scientific Officer, Jacques Turgeon). The intellectual property and software assets were previously licensed by us and are integrated into the MRM Matrix. The acquisition consideration consisted of cash consideration of up to \$6.0 million, consisting of \$1.0 million which was paid upon closing, \$4.4 million paid during the fourth quarter of 2016, and \$600 thousand following the 12-month anniversary of the closing date of the acquisition, which is contingent upon no claims for indemnification being made pursuant to the purchase agreement. In addition to the cash consideration, the purchase price included \$5.0 million worth of common stock which amounted to the issuance of 395,407 shares of common stock during the fourth quarter of 2016. The stock consideration issued in 2016 was calculated based on the arithmetic average of the daily volume-weighted average price of the Company's common stock for the 30 business days ending on, and including, the 30th and 60th business day, respectively, following the completion of the IPO.

We account for acquisitions using the purchase method of accounting. We allocated the purchase price to the assets acquired, including intangible assets and liabilities assumed, based on estimated fair values at the date of the acquisition. The results of operations from the acquisition are included in our consolidated financial statements from the acquisition date.

### ***Financing***

On July 1, 2016 we amended our revolving line of credit, or the 2015 Line of Credit, which was entered into on April 29, 2015 with a lender pursuant to the terms of a loan and security agreement. The 2015 Line of Credit provides for borrowings in an aggregate amount up to \$25.0 million to be used for general corporate purposes, including repayment of a prior line of credit. We initially borrowed \$10.0 million under the 2015 Line of Credit. As of March 31, 2017, no amounts were outstanding under the 2015 Line of Credit. See "Liquidity and Capital Resources — Revolving Credit Facility" below for additional information with respect to the 2015 Line of Credit.

### ***Enhanced Medication Therapy Management Program Development Opportunity***

We have been selected to participate with a large, regional Medicare Part D Prescription Drug Plan, or Regional PDP, to develop and deliver an Enhanced Medication Therapy Management, or EMTM, program. We believe this EMTM program will address the requirements of the Part D Enhanced Medication Therapy Management Model test, which the Centers for Medicare and Medicaid Innovation, or CMMI, proposed in September 2015 and recently approved.

The Part D EMTM model created by the Centers for Medicare & Medicaid Services, or CMS, is designed to test strategies to improve medication use among Medicare beneficiaries enrolled in Part D and to assess whether providing selected Regional PDPs with additional incentives and increased flexibility to design and implement innovative programs will better achieve the overall goals for EMTM programs.

We launched the EMTM program on January 1, 2017. To execute this EMTM program, we are using our MRM Matrix and certain other services to perform medication risk stratification and reviews and safety assessments of complex medication regimens, providing an innovative, alternative approach to pharmacotherapy to the 240,000 members of this Regional PDP, representing less than one percent of the entire eligible Part D market. In 2016, the number of individuals covered through Medicare Part D programs was nearly 41 million. We believe if we are successful in developing and delivering an EMTM program to the Regional PDP, we will be able to expand into a greater portion of the Part D market. There can be no assurances that our EMTM program will be successful or we will actually be able to expand this program as currently contemplated.

## **Components of Our Results of Operations**

### ***Revenue***

Our revenue is derived from our product sales and service activities. For the three months ended March 31, 2017 and 2016, product sales represented 82% and 88% of our total revenue, respectively, and service revenue represented 18% and 12% of our total revenue, respectively.

### ***Product Revenue***

Our product revenue is primarily generated through our medication risk management contracts with healthcare organizations. Under these contracts, we provide a group of services including the use of our MRM Matrix technology that enables our pharmacists to prospectively optimize personalized medication regimens for each patient, prescription fulfillment, and reminder packing services. Historically, substantially all of our medication risk management clients have contracted for a bundled offering of our software-enabled solutions, prescription fulfillment and reminder packaging services. In the third quarter of 2016, we began providing medication risk management services utilizing our MRM Matrix technology alone, without the related fulfillment services, which we refer to as MRM Service Contracts. Revenue generated from MRM Service Contracts without prescription fulfillment and reminder packaging services is included as a component of our service revenue.

Under our bundled medication risk management contracts, revenue is generated through the following components:

## [Table of Contents](#)

*Prescription medication revenue.* We sell prescription medications directly to healthcare organizations through our prescription fulfillment pharmacies. Prescription medication fees are based upon the prices stated in client contracts for the prescription and include a dispensing fee. For the periods presented, substantially all of our product revenue has consisted of prescription medication revenue.

*Per member per month, or PMPM, fees.* We also receive a fixed monthly administrative fee for each member in the program contracted for medication risk management services.

Our revenue from prescription medication sales varies based on the number and mix of medications dispensed; however, based on our historical experience, patient populations at our clients do not generally decline over time, the number of medications per patient have been consistent following an initial onboarding period and the overall mix of medications dispensed is generally predictable. In addition, our dispensing fees vary directly with the volume of prescription medication sales each period. Our PMPM fees vary directly with the number of members serviced by our clients each month. Although revenue is generated from various sources, pricing and other key contractual terms are negotiated on a bundled basis.

### *Service Revenue*

Our service revenue is generated by the risk adjustment and pharmacy cost management services that we provide to healthcare organizations. Our client contracts for these services generally include a PMPM fee for selected services, monthly subscription fees, initial set up fees and hourly consulting charges. PMPM fees vary directly with the number of members serviced by our clients each month under our risk adjustment contracts. Additionally, service revenue includes data and statistics fees we receive from medication manufacturers for the sale of medication utilization data we collect through our pharmacy cost management engagements, which is recognized when we receive such amounts due to the variable nature of payment amounts. Beginning in the third quarter of 2016, we began to generate service revenue related to our MRM Service Contracts. On January 1, 2017, we launched our EMTM program to perform medication risk stratification and reviews and safety assessments of complex medication regimens, and as a result, we began generating PMPM fees under our MRM Service Contracts. PMPM fees earned with respect to our MRM Service Contracts are included in service revenue. As noted above, PMPM fees associated with our bundled medication risk management services are currently included in product revenue.

### **Cost of Revenue**

#### *Product Cost*

Cost of product revenue includes all costs directly related to the bundled medication risk management offering, including costs relating to our pharmacists' collaboration on a patient's medication management, medication risk analysis and offering guidance to the prescriber based upon the assessment of the MRM Matrix and the individual patient's medical history, as well as the fulfillment and distribution of prescription medications. Costs consist primarily of the purchase price of the prescription medications we dispense. For the three months March 31, 2017 and 2016, prescription medication costs represented 75% and 75% of our total product costs, respectively. In addition to costs incurred for the prescription medications we dispense, other costs include expenses to package, dispense and distribute prescription medications, expenses associated with our clinical pharmacist support centers and prescription fulfillment centers, including employment costs and stock-based compensation, and expenses related to the hosting of our technology platform. Such costs also include direct overhead expenses, as well as allocated miscellaneous overhead costs. We allocate miscellaneous overhead costs among functions based on employee headcount.

#### *Service Cost*

Cost of service revenue includes all labor costs, including stock-based compensation expense, directly related to the risk adjustment and pharmacy cost management services and expenses for claims processing, technology services and overhead costs. In addition, service costs include all costs directly related to servicing our MRM Service Contracts which primarily consist of labor costs, consultant fees, and expenses related to supporting our technology platform. Cost of service revenue also includes direct overhead expenses, as well as allocated miscellaneous overhead costs. We allocate miscellaneous overhead costs among functions based on employee headcount.

### ***Research and Development Expenses***

Our research and development expenses consist primarily of salaries and related costs, including stock-based compensation expense, for personnel in our research and development functions, which include software developers, project managers and other employees engaged in the development and enhancement of our service offerings. Research and development expenses also include costs for design and development of new software and technology and new service offerings, as well as enhancement of existing software and technology and service offerings, including fees paid to third-party consultants, costs related to quality assurance and testing, and other allocated facility-related overhead and expenses.

We continue to focus our research and development efforts on adding new features and applications, increasing the functionality and enhancing the ease of use of our existing suite of software solutions.

We capitalize certain costs incurred in connection with obtaining or developing internal-use software, including external direct costs of material and services and payroll costs for employees directly involved with the software development. Capitalized software costs are amortized beginning when the software project is substantially complete and the asset is ready for its intended use. Costs incurred during the preliminary project stage and post-implementation stage, as well as maintenance and training costs, are expensed as incurred as part of research and development expenses.

We expect our research and development expenses will increase in absolute dollars as we increase our research and development headcount to further strengthen and enhance our software solutions and service offerings, but will decrease as a percentage of revenue in the long term as we expect our revenue to increase at a greater rate than such expenses.

### ***Sales and Marketing Expenses***

Sales and marketing expenses consist principally of salaries, commissions, bonuses, stock-based compensation and employee benefits for sales and marketing personnel, as well as travel costs related to sales, marketing and client service activities. Marketing costs also include costs of communication and branding materials, trade shows and public relations, as well as allocated overhead.

We expect our sales and marketing expenses to increase in absolute dollars as we strategically invest to grow our marketing operations and expand into new products and markets, but decrease as a percentage of revenue in the long term. We expect to hire additional sales personnel and related account management and sales support personnel as we continue to grow.

### ***General and Administrative Expenses***

General and administrative expenses consist principally of salaries and related costs for executives, administrative personnel and consultants, including stock-based compensation and travel expenses. Other general and administrative expenses include professional fees for legal, consulting and accounting services. General and administrative expenses are expensed when incurred.

We expect that our general and administrative expenses will increase as we expand our infrastructure and transition to a public company. These increases will likely include increased costs for director and officer liability insurance, costs related to the hiring of additional personnel and increased fees for directors, outside consultants, lawyers and investor relations. We also expect to incur significant costs to comply with corporate governance, internal controls and similar requirements applicable to public companies.

### ***Remeasurement of Acquisition-related Contingent Consideration***

We classify our acquisition-related contingent consideration as a liability. Acquisition-related contingent consideration is subject to remeasurement at each balance sheet date. Any change in the fair value of such acquisition-related contingent consideration is reflected in our consolidated statements of operations as a change in fair value of the liability. We will continue to adjust the carrying value of the acquisition-related contingent consideration until the contingency is finally determined.

***Depreciation and Amortization Expenses***

Depreciation and amortization expenses are primarily attributable to our capital investment in equipment and our capitalized software and acquisition-related intangibles.

***Change in Fair Value of Warrant Liability***

Historically, warrants to purchase shares of our preferred stock were classified as warrant liabilities and recorded at fair value. This warrant liability was subject to remeasurement at each balance sheet date and we recognized any change in fair value in our consolidated statements of operations as a change in fair value of the warrant liability. Upon the completion of the IPO in October 2016, these warrants automatically converted into warrants to purchase shares of our common stock. At that time, the liabilities were reclassified to additional paid-in capital, a component of stockholders' equity.

***Interest Expense***

Interest expense is primarily attributable to interest expense associated with our revolving credit facility, capital lease obligations and acquisition-related notes. It also includes the amortization of discounts on debt and amortization of deferred financing costs related to these various debt arrangements.

***Accretion (Decretion) of Redeemable Convertible Preferred Stock***

The carrying values of Series A and Series A-1 redeemable convertible preferred stock were being accreted to their respective redemption values at each reporting period, from the date of issuance to the earliest date the holders can demand redemption. The carrying value of Series B redeemable convertible preferred stock was being accreted (decreted) to redemption value at each reporting period at the greater of (i) the original issuance price plus unpaid accrued dividends or (ii) the fair value of the redeemable convertible preferred stock. Upon the completion of the IPO in October 2016, our preferred stock automatically converted into shares of our common stock.

### Results of Operations

The following table summarizes our results of operations for the three months ended March 31, 2017 and 2016:

	March 31,		Change	
	2017	2016	\$	%
(Dollars in thousands)				
<b>Revenue:</b>				
Product revenue	\$ 22,696	\$ 17,785	\$ 4,911	28 %
Service revenue	4,993	2,372	2,621	110
Total revenue	27,689	20,157	7,532	37
<b>Cost of revenue, exclusive of depreciation and amortization shown below:</b>				
Product cost	17,405	12,982	4,423	34
Service cost	2,250	951	1,299	137
Total cost of revenue	19,655	13,933	5,722	41
Gross profit	8,034	6,224	1,810	29
<b>Operating expenses:</b>				
Research and development	1,219	889	330	37
Sales and marketing	1,230	770	460	60
General and administrative	6,509	1,893	4,616	244
Change in fair value of acquisition-related contingent consideration expense	21	54	(33)	(61)
Depreciation and amortization	1,765	1,004	761	76
Total operating expenses	10,744	4,610	6,134	133
(Loss) income from operations	(2,710)	1,614	(4,324)	(268)
<b>Other (income) expense:</b>				
Change in fair value of warrant liability	—	(134)	134	100
Interest expense	76	1,503	(1,427)	(95)
Total other expense	76	1,369	(1,293)	(94)
(Loss) income before income taxes	(2,786)	245	(3,031)	nm
Income tax expense	95	36	59	164
Net (loss) income	\$ (2,881)	\$ 209	\$ (3,090)	nm

nm = not meaningful

#### Comparison of the Three Months Ended March 31, 2017 and 2016

##### Product Revenue

Product revenue increased \$4.9 million, or 28%, from \$17.8 million for the three months ended March 31, 2016 to \$22.7 million for the comparable period in 2017. The increase was primarily driven by organic growth in medication risk management, which represented approximately \$4.2 million of the increase. Of that \$4.2 million increase, \$1.2 million was attributable to new customers acquired period over period, while the remaining \$3.0 million was attributable to increased prescription fulfillment volume from existing customers. Medication mix of prescriptions filled and payor mix contributed to an additional \$700 thousand of the overall increase in product revenue.

##### Service Revenue

Service revenue increased \$2.6 million, or 110%, from \$2.4 million for the three months ended March 31, 2016 to \$5.0 million for the three months ended March 31, 2017. The increase was primarily the result of the launch of our EMTM program on January 1, 2017, which resulted in \$2.4 million of revenue related to PMPM fees that we began generating under our MRM Service Contracts with our EMTM partner. In addition, there was a \$298 thousand increase in revenue related to our risk adjustment services. Of this total increase, \$154 thousand was related to revenue generated from new risk adjustment clients and \$144 thousand was attributable to organic growth with existing clients. These increases were partially offset by a \$111 thousand decrease related to our pharmacy cost management services as a result

of the loss of certain customers as well as a reduction in manufacturer fees related to the sale of medication utilization data.

For the three months ended March 31, 2017, \$3.8 million of service revenue related to PMPM fees generated under our MRM Service Contracts and risk adjustment contracts, as well as subscription revenue related to our pharmacy cost management contracts. The remaining \$1.2 million represented hourly consulting charges, setup fees and data and statistics revenue from our pharmacy cost management and risk adjustment services. For the three months ended March 31, 2016, service revenue generated from our PMPM fees and subscription revenue was \$1.2 million and the remaining \$1.2 million represented hourly consulting charges, setup fees and data and statistics revenue generated from our pharmacy cost management and risk adjustment services.

#### *Cost of Product Revenue*

Cost of product revenue increased \$4.4 million, or 34%, from \$13.0 million for the three months ended March 31, 2016 to \$17.4 million for the comparable period in 2017. This increase was largely driven by increased volume of revenue, which contributed \$2.3 million to the change. Manufacturer price increases and medication mix of prescriptions filled for our clients' patients contributed an additional \$1.0 million to the overall increase in the cost of product revenue. In addition, labor costs increased \$523 thousand, which was primarily due to added pharmacy headcount, including additional pharmacists, technicians and support staff, to support our growth. Distribution charges also increased \$276 thousand related to higher shipping volume for the medications we fulfilled for our clients' patients. In addition, rent and utilities expenses increased \$123 thousand as a result of the new location for our headquarters and pharmacy.

#### *Cost of Service Revenue*

Cost of service revenue increased \$1.3 million, or 137%, from \$951 thousand for the three months ended March 31, 2016 to \$2.3 million for the three months ended March 31, 2017. The increase was primarily attributable to \$801 thousand of additional labor costs as a result of increased headcount as well as standard increases in salary and benefits to existing employees. The increase in labor costs was primarily due to \$648 thousand related to added headcount to support our MRM Service Contracts, a \$64 thousand increase in pharmacy cost management personnel costs, a \$46 thousand increase in risk adjustment personnel costs, and a \$43 thousand increase in internal labor allocations related to other services. Cost of service revenue also increased due to a \$498 thousand increase primarily due to added professional services, information technology costs, and rent and utilities expense to support our MRM Service Contracts.

#### *Research and Development Expenses*

Research and development expenses increased \$330 thousand, or 37%, from \$889 thousand for the three months ended March 31, 2016 to \$1.2 million for the comparable period in 2017. The increase was primarily due to a \$247 thousand increase in payroll and payroll-related costs for additional headcount as well as increases in salary and benefits for existing employees related to market adjustments and performance based increases. The remaining \$83 thousand increase was primarily due to an increase in rent and utilities expenses as a result of the new location for our headquarters, and increased professional services and conference expenses to support scientific education research and development activities.

#### *Sales and Marketing Expenses*

Sales and marketing expenses increased \$460 thousand, or 60%, from \$770 thousand for the three months ended March 31, 2016 to \$1.2 million for the comparable period in 2017. The increase in sales and marketing expense was primarily due to a \$390 thousand increase in personnel costs related to added headcount and increases in salaries and benefits related to market adjustments and performance-based increases for our existing employees. The remaining increase in sales and marketing expense was attributable to a \$84 thousand increase in consulting and public relations costs, which was partially offset by a slight decrease in travel and entertainment expenses.

#### *General and Administrative Expenses*

General and administrative expenses increased \$4.6 million, or 244%, from \$1.9 million for the three months ended March 31, 2016 to \$6.5 million for the comparable period in 2017. The increase was primarily attributable to a

## [Table of Contents](#)

\$3.5 million increase in stock-based compensation costs primarily related to shares of restricted stock that were granted to certain employees in September 2016, and an increase in stock option expense as a result of stock options granted to employees during the fourth quarter of 2016 and the first quarter of 2017. Personnel costs, including salaries and benefits primarily related to an increase in headcount to support the overall growth of our operations, also increased by \$450 thousand. In addition, we incurred approximately \$371 thousand of incremental general and administrative expenses related to supporting our operations as a public company. These incremental expenses primarily related to legal expenses, increased directors and officers liability insurance, professional services for investor relations, and fees for directors.

### *Acquisition-related Contingent Consideration Expense*

During the three months ended March 31, 2017 and 2016, there was a \$21 thousand and a \$54 thousand charge incurred, respectively, related to the accretion of the contingent consideration associated with our Medliance acquisition.

### *Depreciation and Amortization Expenses*

Depreciation and amortization expenses increased \$761 thousand, or 76%, from \$1.0 million for the three months ended March 31, 2016 to \$1.8 million for the comparable period in 2017. This increase was due to a \$569 thousand increase in amortization expense, which included a \$195 thousand increase in amortization of capitalized software related to new software functionality placed into service after March 31, 2016, and a \$374 thousand increase in amortization expense of intangible assets, primarily related to intangible assets acquired from 9176-1916 Quebec Inc. in September 2016. An additional \$192 thousand increase in depreciation and amortization expense was attributable to purchases of property and equipment and leasehold improvements primarily related to our new location for our headquarters.

### *Change in Fair Value of Warrant Liability*

During the three months ended March 31, 2016, we recognized a \$134 thousand gain for the change in fair value of warrant liability due to a slight decrease in the estimated fair value of our Series A-1 and Series B redeemable convertible preferred stock. Upon the completion of the IPO in October 2016, these warrants automatically converted into warrants to purchase shares of our common stock and the warrant liabilities were reclassified to additional paid-in capital, a component of stockholders' equity.

### *Interest Expense*

Interest expense decreased \$1.4 million, or 95%, from \$1.5 million for the three months ended March 31, 2016 to \$76 thousand for the three months ended March 31, 2017. The decrease in interest expense was primarily due to the repayment of the Medliance Notes, as well as the April 2014 Eastward Loan and the December 2014 Eastward Loan, in July 2016. In addition, there were no amounts outstanding under the 2015 Line of Credit as of March 31, 2017 compared to an outstanding balance of \$12 million as of March 31, 2016.

### *Income Taxes*

For the three months ended March 31, 2017, we recorded tax expense of \$95 thousand related to indefinite-lived deferred tax liabilities for goodwill amortization, which resulted in an effective tax rate of (3.4)% for the period. We recorded a full valuation allowance against our deferred tax assets as of March 31, 2017 and December 31, 2016. Accordingly, the year to date tax benefit was limited to the amount of the benefit that can be recognized for the full year, and we used the actual effective tax rate for the year to date as our best estimate to determine our tax expense for the three months ended March 31, 2017.

For the three months ended March 31, 2016, we recognized tax expense of \$36 thousand, which resulted in an effective tax rate of 14.7%. We calculated the tax provision based on its estimated annual effective tax rate expected for the full year which included Federal alternative minimum tax, current state taxes and deferred tax expense associated with indefinite-lived deferred tax liabilities for goodwill amortization, in addition to a change in the valuation allowance related to deferred tax assets for income generated in the current period.



## NON-GAAP FINANCIAL MEASURES

### Adjusted EBITDA

To provide investors with additional information about our financial results, we disclose Adjusted EBITDA, a non-GAAP financial measure. Adjusted EBITDA consists of net (loss) income plus certain other expenses, which includes interest expense, provision (benefit) for income tax, depreciation and amortization, change in fair value of acquisition-related contingent consideration (income) expense, change in fair value of warrant liability, payroll tax expense related to stock option exercises, and stock-based compensation expense. We present Adjusted EBITDA because it is one of the measures used by our management and board of directors to understand and evaluate our core operating performance, and we consider it an important supplemental measure of performance. We believe this metric is commonly used by the financial community, and we present it to enhance investors' understanding of our operating performance and cash flows. We believe Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations.

Our management uses Adjusted EBITDA:

- as a measure of operating performance to assist in comparing performance from period to period on a consistent basis;
- to prepare and approve our annual budget; and
- to develop short- and long-term operational plans

Adjusted EBITDA is not in accordance with, or an alternative to, measures prepared in accordance with GAAP. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles. As a non-GAAP measure, Adjusted EBITDA has limitations in that it does not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. In particular:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect cash interest income or expense;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the potentially dilutive impact of stock-based compensation;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA alongside other GAAP-based financial performance measures, including various cash flow metrics, net (loss) income and our other GAAP financial results and not in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. You should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in the presentation, and we do not intend to imply that our future results will be unaffected by unusual or non-recurring items.

[Table of Contents](#)

The following is a reconciliation of Adjusted EBITDA to our net (loss) income for the periods presented:

	Three Months Ended March 31,	
	2017	2016
<b>Reconciliation of net (loss) income to Adjusted EBITDA</b>		
Net (loss) income	\$ (2,881)	\$ 209
Add:		
Change in fair value of warrant liability	—	(134)
Interest expense	76	1,503
Income tax expense	95	36
Depreciation and amortization	1,765	1,004
Change in fair value of acquisition-related contingent consideration expense	21	54
Payroll tax expense related to stock option exercises	83	—
Stock-based compensation expense	3,821	127
Adjusted EBITDA	<u>\$ 2,980</u>	<u>\$ 2,799</u>

**Adjusted Diluted Net Income Per Share Attributable to Common Stockholders, or Adjusted Diluted EPS**

Adjusted Diluted EPS excludes the impact of certain items and, therefore, has not been calculated in accordance with GAAP. We believe the exclusion of these items assists in providing a more complete understanding of our underlying operations results and trends and allows for comparability with our peer company index and industry and to be more consistent with our expected capital structure on a going forward basis. Our management uses this measure along with corresponding GAAP financial measures to manage our business and to evaluate our performance compared to prior periods and the marketplace. We define Adjusted Diluted EPS as net (loss) income attributable to common stockholders before accretion of redeemable convertible preferred stock, fair value adjustments related to the remeasurement of warrant liabilities, fair value adjustments for acquisition-related contingent consideration, payroll tax expense related to stock option exercises, stock-based compensation expense, and the tax impact of those items expressed on a per share basis using weighted average diluted shares outstanding.

Adjusted Diluted EPS is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. In the future, we may incur expenses that are the same as or similar to some of the adjustments in the presentation, and we do not intend to imply that our future results will be unaffected by unusual or non-recurring items.

[Table of Contents](#)

The following table reconciles net (loss) income per share attributable to common stockholders on a diluted basis, the most directly comparable GAAP measure, to Adjusted Diluted EPS:

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>(In thousands except per share amounts)</b>			
<b>Reconciliation of diluted net (loss) income per share attributable to common shareholders to Adjusted Diluted EPS</b>				
Net (loss) income	\$ (2,881)		\$ 209	
Decretion of redeemable convertible preferred stock	—		403	
Undistributed income attributable to redeemable convertible preferred stockholders	—		(319)	
Net (loss) income attributable to common stockholders, basic, and net (loss) income per share attributable to common stockholders, basic	<u>\$ (2,881)</u>	<u>\$ (0.18)</u>	<u>\$ 293</u>	<u>\$ 0.06</u>
Decretion of redeemable convertible preferred stock	—		(403)	
Revaluation of warrant liability	—		(115)	
Adjustment to undistributed income attributable to redeemable convertible preferred stockholders	—		319	
GAAP net (loss) income attributable to common stockholders, diluted, and net (loss) income per share attributable to common stockholders, diluted	<u>\$ (2,881)</u>	<u>\$ (0.18)</u>	<u>\$ 94</u>	<u>\$ 0.01</u>
Adjustments:				
Change in fair value of acquisition-related contingent consideration expense	21		54	
Payroll tax expense on stock option exercises	83		—	
Stock-based compensation expense	3,821		127	
Impact to income taxes <sup>(1)</sup>	(340)		(93)	
Adjusted net income attributable to common stockholders and Adjusted Diluted EPS	<u>\$ 704</u>	<u>\$ 0.04</u>	<u>\$ 182</u>	<u>\$ 0.01</u>

(1) The impact to taxes was calculated using a normalized statutory tax rate applied to pre-tax income (loss) adjusted for the respective items above and then subtracting the tax provision as determined for GAAP purposes.

The following table reconciles the diluted weighted average shares of common stock outstanding used to calculate net (loss) income per share attributable to common stockholders on a diluted basis for GAAP purposes to the diluted weighted average shares of common stock outstanding used to calculate Adjusted Diluted EPS:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Weighted average shares of common stock outstanding	16,238,761	4,671,097
Effect of potential dilutive securities:		
Weighted average dilutive effect of stock options	—	1,981,049
Weighted average dilutive effect of common shares from warrants	—	361,206
Dilutive effect from preferred stock and preferred stock warrants assuming conversion at beginning of the year	—	5,414,772
Weighted average shares of common stock outstanding, diluted for GAAP	<u>16,238,761</u>	<u>12,428,124</u>
Adjustments:		
Weighted average dilutive effect of stock options	1,498,560	—
Weighted average dilutive effect of common shares from stock warrants	28,773	—
Weighted average dilutive effect of restricted stock	461,470	—
Weighted average shares of common stock outstanding, diluted for Adjusted Diluted EPS	<u>18,227,564</u>	<u>12,428,124</u>

### Liquidity and Capital Resources

Historically, we have incurred net losses from our operations. We incurred a net loss of \$2.9 million and recognized net income of \$0.2 million for the three months ended March 31, 2017 and 2016, respectively. Our primary liquidity and capital requirements are for research and development, sales and marketing, general and administrative expenses, debt service obligations and strategic business acquisitions. We have funded our operations, working capital needs and investments with cash generated through operations, issuance of preferred stock and borrowings under our credit facilities. At March 31, 2017, we had cash of \$2.8 million.

### Summary of Cash Flows

The following table shows a summary of our cash flows for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31,	
	2017	2016
Net cash provided by operating activities	\$ 1,977	\$ 4,535
Net cash used in investing activities	(1,665)	(2,460)
Net cash used in financing activities	(1,852)	(1,814)
Net (decrease) increase in cash	\$ (1,540)	\$ 261

#### Operating Activities

Net cash provided by operating activities was \$2.0 million for the three months ended March 31, 2017 and consisted primarily of our net loss of \$2.9 million offset by the addition of noncash items of \$5.7 million and by changes in our operating assets and liabilities totaling \$866 thousand. The noncash items primarily included \$1.8 million of depreciation and amortization expenses related to leasehold improvements, capital equipment, capitalized internal-use software development costs, and acquisition related intangibles, and \$3.8 million of stock-based compensation expense, which was primarily related to shares of restricted common stock that were granted to certain employees in 2016 and stock options granted to employees. The significant factors that contributed to the change in operating assets and liabilities included an increase in accounts receivable primarily due to new revenues generated from our MRM Service Contracts, and an increase in accrued expenses and other liabilities as a result of higher employee compensation and benefits accruals as of March 31, 2017.

Net cash provided by operating activities was \$4.5 million for the three months ended March 31, 2016 and consisted primarily of our net income of \$209 thousand, changes in our operating assets and liabilities totaling \$3.0 million and noncash items of \$1.3 million. The significant factors that contributed to the change in operating assets and liabilities primarily included the increase in accrued expenses and other long-term liabilities for the cash allowance we received from our landlord for leasehold improvements related to our new office location as well as an increase in accrued expenses related to accrued interest on the Medliance Notes. The noncash items primarily included depreciation and amortization expenses related to leasehold improvements, capital equipment and capitalized internal-use software development costs of \$1.0 million, amortization of deferred financing fees and debt discounts of \$580 thousand, stock-based compensation expenses of \$127 thousand, an expense of \$54 thousand for the revaluation of acquisition contingent consideration and an expense of \$22 thousand for deferred income tax, partially offset by income of \$134 thousand as a result of a fair value adjustment for the warrant liability and payments of \$316 thousand for imputed interest on debt.

#### Investing Activities

Net cash used in investing activities was \$1.7 million for the three months ended March 31, 2017 and \$2.5 million for the three months ended March 31, 2016. Net cash used in investing activities for the three months ended March 31, 2017 reflected \$865 thousand in purchases of property, equipment and leasehold improvements, primarily related to our office space and headquarters in Moorestown, NJ and new space in South San Francisco dedicated to pharmacy dispensing, which we began to occupy in February 2017. Net cash used in investing activities also consisted of \$800 thousand in software development costs.

Investing activities for the three months ended March 31, 2016 reflects \$2.4 million in purchases of property, equipment and leasehold improvements as part of our preparation to move corporate headquarters to the new office location and \$248 thousand in software development costs, offset by a decrease of \$200 thousand in restricted cash from the release of funds for the final acquisition consideration payment related to the St. Mary's Prescription Pharmacy, or SMPP, acquisition.

#### Financing Activities

Net cash used in financing activities was \$1.9 million for the three months ended March 31, 2017 compared to cash used in financing activities of \$1.8 million for the three months ended March 31, 2016. Financing activities for the three months ended March 31, 2017 primarily reflected a \$1.5 million payment of contingent purchase price

## [Table of Contents](#)

consideration related to our Medliance acquisition, \$166 thousand in payments of long-term debt, and \$132 thousand in payments for costs associated with the IPO, which was completed in October 2016.

Financing activities for the three months ended March 31, 2016 are primarily attributable to borrowings of \$2.0 million under the 2015 Line of Credit offset by \$401 thousand in deferred costs associated with this offering, \$2.1 million in payments of deferred and contingent purchase price consideration related to our SMPP and Medliance acquisitions and \$1.3 million in payments of long-term debt.

### ***Funding Requirements***

Historically, we have incurred net losses since our inception and we had an accumulated deficit of \$37.8 million as of March 31, 2017. As a result of the IPO, which closed on October 4, 2016, we are a publicly traded company and will incur significant legal, accounting and other expenses that we were not required to incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules adopted by the SEC and NASDAQ Stock Market, require public companies to implement specified corporate governance practices that were not applicable to us as a private company. We expect these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

We believe that our cash of \$2.8 million as of March 31, 2017, borrowing capacity under our 2015 Line of Credit and cash flows from continuing operations, will be sufficient to fund our planned operations through at least June 30, 2018. Our ability to maintain successful operations will depend on, among other things, new business, the retention of clients and the effectiveness of sales and marketing initiatives.

We may seek additional funding through public or private debt or equity financings. We may not be able to obtain financing on acceptable terms, or at all. The terms of any financing may adversely affect our stockholders. If we are unable to obtain funding, we could be forced to delay, reduce or eliminate our research and development programs, product portfolio expansion or commercialization efforts, which could adversely affect our business prospects. There is no assurance that we will be successful in obtaining sufficient funding on terms acceptable to us to fund continuing operations, if at all.

### ***Revolving Credit Facility***

In April 2015, we entered into the 2015 Line of Credit with Western Alliance, which was amended in July 2016, pursuant to which we can request up to \$25.0 million in revolving advances. Amounts outstanding under the 2015 Line of Credit bear interest at a variable rate based upon Western Alliance's prime rate plus 0.5%, with Western Alliance's prime rate having a floor of 3.5%. Interest is payable monthly. The 2015 Line of Credit has a maturity date of July 1, 2018, and is secured by all of our personal property, whether presently existing or created or acquired in the future, as well as our intellectual property. As of March 31, 2017, we had no amounts outstanding under the 2015 Line of Credit.

The 2015 Line of Credit contains financial covenants, including covenants requiring us to maintain a minimum unrestricted cash and unused availability balance under the 2015 Line of Credit, a minimum monthly recurring revenue retention rate, measured quarterly, and a minimum EBITDA, measured quarterly. The 2015 Line of Credit also contains operating covenants, including covenants restricting our ability to effect a sale of any part of our business, merge with or acquire another company, incur additional indebtedness, encumber or assign any right to or interest in our property, pay dividends or other distributions, make certain investments, transact with affiliates outside of the ordinary course of business and incur annual capital expenditures in excess of \$2.5 million. The 2015 Line of Credit contains customary events of default, including upon the occurrence of a payment default, a covenant default, a material adverse change, our insolvency and judgments against us in excess of \$250 thousand that remain unsatisfied for 30 days or longer. The 2015 Line of Credit provides for a ten day cure period for a covenant breach, which may be extended to up to 30 days in certain circumstances. As of March 31, 2017, we were in compliance with all of the financial covenants related to the 2015 Line of Credit and expect to remain in compliance with such covenants.

### ***Contractual Obligations and Commitments***

During the three months ended March 31, 2017, there were no material changes to our contractual obligations and commitments as compared to those described under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations and Commitments*” in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

During the periods presented, we did not have any off-balance sheet arrangements, as defined by applicable SEC rules and regulations.

### **Critical Accounting Policies and Significant Judgments and Estimates**

Our management’s discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes in our critical accounting policies during the three months ended March 31, 2017, as compared to those disclosed in the “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Significant Judgments and Estimates*” in our Annual Report on Form 10-K for the year ended December 31, 2016.

### **Recent Accounting Pronouncements**

See Note 2 in this Quarterly Report on Form 10-Q and Note 2 in the Annual Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of new accounting pronouncements.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risks are principally limited to interest rate fluctuations.

As of March 31, 2017 no amounts were outstanding under our 2015 Line of Credit and no borrowings were made on the 2015 Line of Credit during 2017. We entered into the 2015 Line of Credit to refinance outstanding indebtedness and to fund acquisition-related activities. Interest on the loan is based on the lender’s prime rate plus 0.5%, with the lender’s prime rate having a floor of 3.5%, which exposes us to market risk due to changes in interest rates. This means that a change in the prevailing interest rates may cause our periodic interest payment obligations to fluctuate if we had borrowings on the 2015 Line of Credit during the three months ended March 31, 2017.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) and Rule 15d-15(b) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### ***Inherent Limitations on Effectiveness of Controls and Procedures***

Internal control over financial reporting may not prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met.

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

There have not been any changes in our internal controls over financial reporting during the quarter ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not currently party to any material legal proceedings. From time to time, however, we may be a party to litigation and subject to claims in the ordinary course of business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

**Item 1A. Risk Factors**

Stockholders and potential investors in our securities should carefully consider the risk factors set forth in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 14, 2017. We have identified these risk factors as important factors that could cause our actual results to differ materially from those contained in any written or oral forward-looking statements made by us or on our behalf. There have been no material changes to such risk factors previously disclosed in our Annual Report.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits**

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this Form 10-Q, and is incorporated herein by reference.



Signatures

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

TABULA RASA HEALTHCARE, INC.

Date: May 2, 2017

By: /s/ DR. CALVIN H. KNOWLTON  
Name: Dr. Calvin H. Knowlton  
Title: Chief Executive Officer  
*(Principal Executive Officer)*

Date: May 2, 2017

By: /s/ BRIAN W. ADAMS  
Name: Brian W. Adams  
Title: Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

**EXHIBIT INDEX**

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Filing Date	Exhibit Number	
3.1	Amended and Restated Certificate of Incorporation of Tabula Rasa HealthCare, Inc.	8-K	8/4/2016	3.1	
3.2	Amended and Restated Bylaws of Tabula Rasa HealthCare, Inc.	8-K	8/4/2016	3.2	
4.1	Investor Rights Agreement, dated as of June 30, 2014	S-1	1/4/2016	4.1	
4.2	Stockholders Agreement (as amended)	S-1/A	7/21/2016	4.2	
4.3	Amended and Restated Preferred Series A-1 Convertible Stock Warrant, dated as of April 21, 2016, issued to the New Jersey Economic Development Authority	S-1/A	7/21/2016	4.8	
31.1	Certification of Chief Executive Officer (Principal Executive Officer) required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Chief Financial Officer (Principal Financial Officer) required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification of Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal 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), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X

\* This certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Tabula Rasa HealthCare, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Form 10-Q), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Calvin H. Knowlton, certify that:

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

Date: May 2, 2017

/s/ DR. CALVIN H. KNOWLTON

Dr. Calvin H. Knowlton  
Chief Executive Officer  
Principal Executive Officer

---

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brian W. Adams, certify that:

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

Date May 2, 2017

/s/ BRIAN W. ADAMS

Brian W. Adams  
Chief Financial Officer  
Principal Financial and Accounting Officer

---

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

In connection with the Quarterly Report of Tabula Rasa HealthCare, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Calvin H. Knowlton, Chief Executive Officer of the Company, and I, Brian W. Adams, Chief Financial Officer of the Company, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 2, 2017

By: /s/ DR. CALVIN H. KNOWLTON  
Name: **Dr. Calvin H. Knowlton**  
Title: **Chief Executive Officer  
(Principal Executive Officer)**

Date: May 2, 2017

By: /s/ BRIAN W. ADAMS  
Name: **Brian W. Adams**  
Title: **Chief Financial Officer  
(Principal Financial and Accounting Officer)**

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

---

