

OMNICELL, Inc  
Form 10-Q  
November 09, 2012  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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 000-33043

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Omnicell, Inc.

(Exact name of registrant as specified in its charter)

Delaware

94-3166458

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

1201 Charleston Road

Mountain View, CA 94043

(650) 251-6100

(Address, including zip code, of registrant's principal executive  
offices and registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of Registrant's common stock (par value \$0.001) outstanding as of November 1, 2012 was 33,179,043.

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Table of Contents

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Table of Contents  
OMNICELL, INC.

FORM 10-Q

Table of Contents

	Page number
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>4</u>
<u>Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2012 (unaudited) and</u>	<u>4</u>
<u>December 31, 2011</u>	
<u>Unaudited Condensed Consolidated Statements of Operations for the three months and</u>	<u>5</u>
<u>nine months ended September 30, 2012 and 2011</u>	
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three</u>	<u>3</u>
<u>months and nine months ended September 30, 2012 and 2011</u>	
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months</u>	<u>7</u>
<u>ended September 30, 2012 and 2011</u>	
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u>	<u>28</u>
<u>Management’s Discussion and Analysis of Financial Condition and Results of</u>	
<u>Operations</u>	
<u>Item 3.</u>	<u>36</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 4.</u>	<u>36</u>
<u>Controls and Procedures</u>	
<u>PART II—OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>37</u>
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	<u>37</u>
<u>Risk Factors</u>	
<u>Item 2.</u>	<u>48</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	<u>48</u>
<u>Defaults Upon Senior Securities</u>	
<u>Item 4.</u>	<u>48</u>
<u>Mine Safety Disclosures</u>	
<u>Item 5.</u>	<u>48</u>
<u>Other Information</u>	
<u>Item 6.</u>	<u>49</u>
<u>Exhibits</u>	
<u>SIGNATURES</u>	<u>50</u>
<u>INDEX TO EXHIBITS</u>	<u>51</u>

Table of Contents

## PART 1 — FINANCIAL INFORMATION

## Item 1. Financial Statements

## OMNICELL, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2012 (unaudited)	December 31, 2011 (1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$54,818	\$191,762
Short-term investments	—	8,107
Accounts receivable, net of allowances of \$417 and \$443 at September 30, 2012 and December 31, 2011, respectively	53,109	38,661
Inventories	26,400	18,107
Prepaid expenses	13,948	10,495
Deferred tax assets	11,197	10,352
Other current assets	7,046	6,107
Total current assets	166,518	283,591
Property and equipment, net	32,185	17,306
Non-current net investment in sales-type leases	10,628	8,785
Goodwill	112,683	28,543
Other intangible assets	86,234	4,231
Non-current deferred tax assets	—	11,677
Other assets	13,754	9,716
Total assets	\$422,002	\$363,849
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$18,635	\$11,000
Accrued compensation	8,130	7,328
Accrued liabilities	12,206	8,901
Deferred service revenue	19,994	19,191
Deferred gross profit	19,587	14,210
Total current liabilities	78,552	60,630
Non-current deferred service revenue	19,649	18,966
Non-current deferred tax liabilities	21,575	—
Other long-term liabilities	5,713	1,339
Total liabilities	125,489	80,935
Stockholders' equity:		
Total stockholders' equity	296,513	282,914
Total liabilities and stockholders' equity	\$422,002	\$363,849

(1) Information derived from our December 31, 2011 audited Consolidated Financial Statements.

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



Table of Contents

OMNICELL, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Product revenues	\$67,446	\$49,790	\$175,239	\$138,583
Services and other revenues	16,885	14,649	48,619	44,021
Total revenues	84,331	64,439	223,858	182,604
Cost of revenues:				
Cost of product revenues	30,636	22,429	79,532	59,995
Cost of services and other revenues	7,608	7,562	23,114	22,704
Total cost of revenues	38,244	29,991	102,646	82,699
Gross profit	46,087	34,448	121,212	99,905
Operating expenses:				
Research and development	5,545	6,019	17,538	16,139
Selling, general and administrative	29,316	23,635	86,382	73,713
Total operating expenses	34,861	29,654	103,920	89,852
Income from operations	11,226	4,794	17,292	10,053
Interest and other income (expense), net	34	(191	) 57	(66
Income before provision for income taxes	11,260	4,603	17,349	9,987
Provision for income taxes	4,340	1,609	6,703	3,736
Net income	\$6,920	\$2,994	\$10,646	\$6,251
Net income per share-basic	\$0.21	\$0.09	\$0.32	\$0.19
Net income per share-diluted	\$0.20	\$0.09	\$0.31	\$0.18
Weighted average shares outstanding:				
Basic	33,193	33,209	33,316	33,132
Diluted	34,068	34,219	34,241	34,100

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

Table of Contents

OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$6,920	\$2,994	\$10,646	\$6,251
Other comprehensive income, net of tax and reclassification adjustments:				
Unrealized loss on securities:				
Unrealized holding (losses) gains arising during the period	—	2	(1	) 2
Changes in fair value of foreign currency forward hedges	—	—	65	—
Foreign currency translation adjustment	70	—	54	—
Other comprehensive income	70	2	118	2
Comprehensive income	\$6,990	\$2,996	\$10,764	\$6,253

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



Table of Contents

OMNICELL, INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 10,646	\$ 6,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,247	5,820
Loss on disposal of fixed assets	28	—
Provision for (recovery of) receivable allowance	410	(527)
Share-based compensation expense	6,781	7,254
Income tax benefits from employee stock plans	1,638	3,208
Excess tax benefits from employee stock plans	(2,336)	(3,553)
Provision for excess and obsolete inventories	509	564
Foreign currency remeasurement loss	—	140
Deferred income taxes	(1,084)	(270)
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,103)	(3,286)
Inventories	2,924	(7,835)
Prepaid expenses	(3,453)	1,316
Other current assets	921	(953)
Net investment in sales-type leases	(1,493)	917
Other assets	(13)	759
Accounts payable	2,131	1,180
Accrued compensation	802	(669)
Accrued liabilities	(1,719)	308
Deferred service revenue	2,117	3,224
Deferred gross profit	5,377	442
Other long-term liabilities	1,147	339
Net cash provided by operating activities	27,477	14,629
Cash flows from investing activities:		
Purchases of short-term investments	—	(8,097)
Maturities of short-term investments	8,122	8,143
Acquisition of intangible assets and intellectual property	(303)	(136)
Software development for external use	(3,118)	(3,523)
Purchases of property and equipment	(9,560)	(6,808)
Business acquisition, net of cash acquired	(156,312)	—
Net cash used in investing activities	(161,171)	(10,421)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase and stock option plans	6,777	6,607
Stock repurchases	(12,363)	(10,560)
Excess tax benefits from employee stock plans	2,336	3,553
Net cash used in financing activities	(3,250)	(400)
Effect of exchange rate changes on cash and cash equivalents	—	(140)
Net (decrease) increase in cash and cash equivalents	(136,944)	3,668

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Cash and cash equivalents at beginning of period	191,762	175,635
Cash and cash equivalents at end of period	\$54,818	\$179,303
Supplemental disclosure of non-cash operating activity:		
Acquisition consideration accrued but not paid	\$(1,482	) \$—
Satisfaction of acquired legal contingency with indemnification asset	—	(1,200 )

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

7

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Table of Contents

OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Description of the Company. Omnicell, Inc. (“Omnicell,” “our,” “us,” “we,” or the “Company”) was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our major products are medication control systems together with related consumables and services, and medical/surgical supply control systems, with related services, which are sold in our principal market, the healthcare industry. Our market is located primarily in the United States.

On May 21, 2012, we completed our acquisition of MedPak Holdings, Inc. (“MedPak”). MedPak is the parent company of MTS Medication Technologies, Inc. (“MTS”), a worldwide provider of medication adherence packaging systems. This acquisition aligns us with the long-term trends of the healthcare market to manage the health of patients across the continuum of care. We can now serve both the acute care and non-acute markets. Omnicell and MTS bring capabilities to each other that strengthen the product lines and expand the medication management coverage of both companies. Please refer to Note 14, “Business Acquisition” for more information regarding the transaction.

Basis of presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of September 30, 2012, the results of their operations and comprehensive income for the three months and nine months ended September 30, 2012 and 2011 and their cash flows for the nine months ended September 30, 2012 and 2011. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Our results of operations, comprehensive income and cash flows for the three months and nine months ended September 30, 2012 are not necessarily indicative of results that may be expected for the year ending December 31, 2012, or for any future period.

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of consolidation. The condensed consolidated financial statements include the accounts of our wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Reclassifications. Certain reclassifications have been made to the prior year consolidated balance sheet to conform to the current period presentation, including reclassification of net receivable credit balances by customer from accounts receivable to customer advances. None of these reclassifications are material to the consolidated financial statements.

Foreign currency translation. We translate the assets and liabilities of our non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these

subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recorded as foreign currency translation adjustments and included in accumulated other comprehensive income in stockholders' equity.

Fair value of financial instruments. We value our financial assets and liabilities on a recurring basis using the fair value hierarchy established in Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures.

ASC 820 describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 inputs, which include quoted prices in active markets for identical assets or liabilities;

Level 2 inputs, which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets

## Table of Contents

or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and

Level 3 inputs, which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

At September 30, 2012 and December 31, 2011, our financial assets, measured at fair value on a recurring basis, utilizing Level 1 inputs included cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. At December 31, 2011, we had a short-term investment in California revenue anticipation notes, measured at fair value on a recurring basis, the valuation inputs of which were classified as Level 2. We do not currently have any material financial instruments, measured at fair value on a recurring basis, utilizing Level 3 inputs.

Classification of marketable securities. Securities held as investments for the indefinite future pending future spending requirements are classified as “Available-for-sale” and are carried at their fair value, with any unrealized gain or loss recorded to other comprehensive income until realized. At September 30, 2012 and December 31, 2011, we held \$31.9 million and \$177.3 million, respectively, of money market mutual funds classified as Available-for-sale cash equivalents. At December 31, 2011, we held \$8.1 million of non-U.S. Government securities classified as Available-for-sale short-term investments. We do not hold securities for purposes of trading. Marketable securities for which we have the intent and ability to hold to maturity are classified as “Held-to-maturity” and are carried at their amortized cost, including accrued interest. We had no Held-to-maturity securities at September 30, 2012 and December 31, 2011.

Accounting for derivatives and hedging activities. Commencing with our May 21, 2012 acquisition of MTS, we use derivative financial instruments to limit exposure to changes in foreign currency exchange rates. We account for derivatives pursuant to ASC 815, Derivatives and Hedging. The ASC 815 guidance establishes accounting and reporting standards for derivative instruments and requires that all derivatives be recorded at fair value on the balance sheet. Changes in the fair value of derivative financial instruments are either recognized in other comprehensive income (a component of shareholders’ equity) or net income depending on whether the derivative is being used to hedge changes in cash flows or fair value.

Segment information. Beginning with the May 21, 2012 acquisition of MTS, we manage our business on the basis of two operating segments: Acute Care, which primarily includes products and services sold to hospital customers, and Non-Acute Care, which primarily includes products and services sold to customers outside of hospital settings. The historical Omnicell results were reported as a single segment and reporting unit, primarily comprising the Acute Care segment. MTS primarily comprises the Non-Acute Care segment and reporting unit.

Revenue recognition. We earn revenues from sales of our medication control systems together with related consumables and services, and medical/surgical supply control systems with related services, which are sold in our principal market, which is the healthcare industry. Our customer arrangements typically include one or more of the following deliverables:

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

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

• Professional services — Other customer services, such as training and consulting.

We recognize revenue on our equipment when the earnings process is complete, based upon our evaluation of whether the following four criteria have been met:

• Persuasive evidence of an arrangement exists. We use signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, we use a signed services agreement and a statement of work to evidence an arrangement.

• Delivery has occurred. Equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter, providing evidence that we have delivered what a customer ordered. In instances of a customer self-installed installation, product delivery is deemed to have occurred upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on

Table of Contents

delivery of products to the customer, including transfer of title and risk of loss, assuming all other revenue criteria are met. We recognize revenue from sales of products to distributors upon delivery, assuming all other revenue criteria are met since we do not allow for rights of return or refund. Assuming all other revenue criteria are met, we recognize revenue for support services ratably over the related support services contract period. We recognize revenue on training and professional services as they are performed.

- Fee is fixed or determinable. We assess whether a fee is fixed or determinable at the outset of the arrangement based on the payment terms associated with the transaction. We have established a history of collecting under the original contract without providing concessions on payments, products or services.

- Collection is probable. We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history and its current creditworthiness. If, in our judgment, collection of a fee is not probable, we defer the revenue until the uncertainty is removed, which generally means revenue is recognized upon our receipt of cash payment assuming all other revenue criteria are met. Our historical experience has been that collection from our customers is generally probable.

In arrangements with multiple deliverables, assuming all other revenue criteria are met, we recognize revenue for individual delivered items if they have value to the customer on a standalone basis. Effective for new or modified arrangements entered into beginning on January 1, 2011, the date we adopted the revised revenue recognition guidance for arrangements with multiple deliverables on a prospective basis, we allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. This method requires us to determine the selling price at which each deliverable could be sold if it were sold regularly on a standalone basis. When available, we use vendor-specific objective evidence ("VSOE") of fair value as the selling price. VSOE represents the price charged for a deliverable when it is sold separately or for a deliverable not yet being sold separately, the price established by management with the relevant authority. We consider VSOE to exist when approximately 80% or more of our standalone sales of an item are priced within a reasonably narrow pricing range (plus or minus 15% of the median rates). We have established VSOE of fair value for our post-installation technical support services and professional services. When VSOE of fair value is not available, third-party evidence ("TPE") of fair value for similar products and services is acceptable; however, our offerings and market strategy differ from those of our competitors, such that we cannot obtain sufficient comparable information about third parties' prices. If neither VSOE nor TPE are available, we use our best estimates of selling prices ("BESP"). We determine BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. We regularly review and update our VSOE, TPE and BESP information and obtain formal approval by appropriate levels of management.

The relative selling price method allocates total arrangement consideration proportionally to each deliverable on the basis of its estimated selling price. In addition, the amount recognized for any delivered items cannot exceed that which is not contingent upon delivery of any remaining items in the arrangement.

We also use the residual method of allocating the arrangement consideration in certain circumstances. We use the residual method to allocate total arrangement consideration between delivered and undelivered items for any arrangements entered into prior to January 1, 2011 and not subsequently materially-modified. The use of the residual method is required by software revenue recognition rules that applied to sales of most of our products and services until the adoption of the new revenue recognition guidance. We also use the residual method to allocate revenue between the software products that enable incremental equipment functionality and thus are not deemed to deliver its essential functionality, and the related post-installation technical support, as these products and services continue to be accounted for under software revenue recognition rules. Under the residual method, the amount allocated to the undelivered elements equals VSOE of fair value of these elements. Any remaining amounts are attributed to the delivered items and are recognized when those items are delivered.

A portion of our sales are made through multi-year lease agreements. Under sales-type leases, we recognize revenue for our hardware and software products net of lease execution costs such as post-installation product maintenance and

technical support, at the net present value of the lease payment stream once our installation obligations have been met. We optimize cash flows by selling a majority of our non-U.S. government leases to third-party leasing finance companies on a non-recourse basis. We have no obligation to the leasing company once the lease has been sold. Some of our sales-type leases, mostly those relating to U.S. government hospitals, are retained in-house. Interest income in these leases is recognized in product revenue using the interest method.

We recognize revenue on the sale of consumable blister cards when title and risk of loss to the products shipped has transferred to the customer. Revenue related to these products is reported net of discounts provided to customers.

Accounts receivable and notes receivable (net investment in sales type leases). We actively manage our accounts receivable to minimize credit risk. We typically sell to customers for which there is a history of successful collection.  
New



Table of Contents

customers are subject to a credit review process, which evaluates that customer's financial position and ability to pay. We continually monitor and evaluate the collectability of our trade receivables based on a combination of factors. We record specific allowances for doubtful accounts when we become aware of a specific customer's impaired ability to meet its financial obligation to us, such as in the case of bankruptcy filings or deterioration of financial position.

Uncollectible amounts are charged off against trade receivables and the allowance for doubtful accounts when we make a final determination that there is no reasonable expectation of recovery. Estimates are used in determining our allowances for all other customers based on factors such as current trends, the length of time the receivables are past due and historical collection experience. While we believe that our allowance for doubtful accounts receivable is adequate and that the judgment applied is appropriate, such estimated amounts could differ materially from what will actually be uncollectible in the future.

The retained in-house leases discussed above are considered financing receivables. Our credit policies and evaluation of credit risk and write-off policies are applied alike to trade receivables and the net-investment in sales-type leases. For both, an account is generally past due after thirty days. The financing receivables also have customer-specific reserves for accounts identified for specific impairment and a non-specific reserve applied to the remaining population, based on factors such as current trends, the length of time the receivables are past due and historical collection experience. The retained in-house leases are not stratified by portfolio or class. Financing receivables which are reserved are generally transferred to cash-basis accounting so that revenue is recognized only as cash is received. However, the cash basis accounts continue to accrue interest.

Sales of accounts receivable. We record the sale of our accounts receivables as "true sales" in accordance with accounting guidance for transfers and servicing of financial assets. During the three months ended September 30, 2012 and 2011, we transferred non-recourse accounts receivable totaling \$14.6 million and \$9.0 million, respectively, which approximated fair value, to third-party leasing companies. During the nine months ended September 30, 2012 and 2011, we transferred non-recourse accounts receivable totaling \$42.5 million and \$32.2 million, respectively, which approximated fair value, to third-party leasing companies. At September 30, 2012 and December 31, 2011, accounts receivable included \$0.8 million and \$0.2 million, respectively, due from third-party leasing companies for transferred non-recourse accounts receivable.

Concentration in revenues and in accounts receivable. There were no customers accounting for 10% or more of revenues in the three months ended September 30, 2012 or 2011. Additionally, there were no customers accounting for 10% or more of revenues in the nine months ended September 30, 2012 or 2011. There were no customers accounting for 10% or more of accounts receivable at September 30, 2012 or at December 31, 2011.

Accounting policy for shipping costs. Outbound freight billed to customers is recorded as product revenue. The related shipping and handling cost is expensed as part of selling, general and administrative expense. Such shipping and handling expenses totaled \$1.2 million and \$0.7 million for the three months ended September 30, 2012 and 2011, respectively. Shipping and handling expenses totaled \$2.7 million and \$2.1 million for the nine months ended September 30, 2012 and 2011, respectively.

Dependence on suppliers. We have a supply agreement with one primary supplier for construction and supply of several sub-assemblies and inventory management of sub-assemblies used in our hardware products. There are no minimum purchase requirements. The contract may be terminated by either the supplier or by us without cause and at any time upon delivery of two months' notice. Purchases from this supplier for the three months ended September 30, 2012 and 2011 were approximately \$6.3 million and \$4.9 million, respectively. Purchases from this supplier for the nine months ended September 30, 2012 and 2011 were approximately \$17.8 million and \$16.1 million, respectively.

Income taxes. We record an income tax provision for the anticipated tax consequences of the reported results of operations. In accordance with GAAP, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply in the periods in which those tax assets and liabilities are expected to be realized. In the event that we determine all or part of the net deferred tax assets are not realizable in the future, we will record a valuation allowance that would be charged to earnings in the period such determination is made.

In accordance with ASC 740, Tax Provisions, we recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The calculation of tax liabilities

## Table of Contents

involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our financial condition and operating results.

We provide for income taxes for each interim period based on the estimated annual effective tax rate for the year, adjusting for discrete items in the quarter in which they arise. The annual effective tax rate before discrete items was 41.5% and 40.3% for the nine months ended September 30, 2012 and 2011, respectively. The 2012 annual effective tax rate differed from the statutory rate of 35% primarily due to the unfavorable impact of state income taxes, non-deductible equity charges, and other non-deductible expenditures, including non-deductible acquisition costs, all of which were partially offset by the domestic production activities deduction.

The 2011 annual effective tax rate differed from the statutory rate of 35%, primarily due to the unfavorable impact of state income taxes, non-deductible equity charges, and other non-deductible expenditures, which were partially offset by the federal research and development credit claimed and the domestic production activities deduction. Our projected effective tax rate for 2012, after discrete items recorded through September 30, 2012 and 2011, were approximately 39.6% and 38.4%, respectively.

As of September 30, 2012, we had total gross unrecognized tax benefits of approximately \$8.4 million, compared with approximately \$5.8 million on December 31, 2011, representing an increase of approximately \$2.6 million during the nine months ended September 30, 2012. Approximately \$1.0 million of the increase was attributable to unrecognized tax benefits recorded as part of the MTS acquisition. Of the total unrecognized tax benefits, \$7.1 million and \$4.6 million as of September 30, 2012 and December 31, 2011, respectively, if recognized would reduce our effective tax rate in the period of recognition. Gross interest and penalties related to unrecognized tax benefit accrued were immaterial as of September 30, 2012 and December 31, 2011.

Recently adopted accounting pronouncements. In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Fair Value Measurement, amending the fair value guidance in ASC 820, and thereby achieving substantially converged fair value measurement and disclosure requirements for GAAP and International Financial Reporting Standards ("IFRS"). The new guidance clarified some fair value measurement principles and expanded certain disclosure requirements. We adopted this guidance in the first quarter of 2012 without any impact to our financial position, operating results or cash flows.

Recently issued accounting pronouncement. In July 2012, FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-lived Intangible Assets for Impairment, which amends the guidance in ASC 350-30 on impairment testing of intangible assets with indefinite lives other than goodwill. This guidance gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived asset is impaired. An entity has the option to bypass the qualitative assessment and proceed directly to calculating the fair value of an intangible asset with an indefinite life. This update will be effective for us for interim and annual impairment tests performed beginning in the first quarter of fiscal 2013. We do not anticipate this update will have any significant impact on our financial position, operating results or cash flows, as this update does not change how we calculate impairment loss.

### Note 2. Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares, less shares subject to repurchase, plus, if dilutive, potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. Since their impact is anti-dilutive, the total number of shares excluded from the calculations of diluted net

income per share for the nine months ended September 30, 2012 and 2011 were 2,067,273 and 2,089,739, respectively.

The calculation of basic and diluted net income per share is as follows (in thousands, except per share amounts):

12

---

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic:				
Net income	\$6,920	\$2,994	\$10,646	\$6,251
Weighted average shares outstanding — basic	33,193	33,209	33,316	33,132
Net income per share — basic	\$0.21	\$0.09	\$0.32	\$0.19
Diluted:				
Net income	\$6,920	\$2,994	\$10,646	\$6,251
Weighted average shares outstanding — basic	33,193	33,209	33,316	33,132
Add: Dilutive effect of employee stock plans	875	1,010	925	968
Weighted average shares outstanding — diluted	34,068	34,219	34,241	34,100
Net income per share — diluted	\$0.20	\$0.09	\$0.31	\$0.18

## Note 3. Cash and Cash Equivalents, Short-term Investments and Fair Value of Financial Instruments

Cash and cash equivalents and short-term investments consist of the following significant investment asset classes, with disclosure of amortized cost, gross unrealized gains and losses, and fair value as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash / Cash Equivalents	Short-term Investments	Security Classification
Cash	\$22,911	\$—	\$—	\$22,911	\$22,911	\$—	N/A
Money market funds	31,907	—	—	31,907	31,907	—	Available for sale
Total cash, cash equivalents and short-term investments	\$54,818	\$—	\$—	\$54,818	\$54,818	\$—	
	December 31, 2011						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash / Cash Equivalents	Short-term Investments	Security Classification
Cash	\$14,452	\$—	\$—	\$14,452	\$14,452	\$—	N/A
Money market funds	177,310	—	—	177,310	177,310	—	Available for sale
Non-U.S. government securities	8,106	1	—	8,107	—	8,107	Available for sale
Total cash, cash equivalents and short-term investments	\$199,868	\$1	\$—	\$199,869	\$191,762	\$8,107	

The money market fund is a daily-traded cash equivalent with a price of \$1.00, making it a Level 1 asset class, and its carrying cost closely approximates fair value. As demand deposit (cash) balances vary with the timing of collections and payments, the money market fund can cover any surplus or deficit, and thus is considered Available-for-sale.

The short term investments purchased in September 2011 were comprised of California revenue anticipation notes, which matured in June 2012. As this is the initial investment in a broader portfolio strategy for yield management,

these are considered Available-for-sale. The notes were considered a Level 2 asset class, because their pricing is drawn from multiple market-related inputs, but in general not from same-day, same-security trades.

The following table displays the financial assets measured at fair value, on a recurring basis, with money market funds recorded within cash and cash equivalents and non-U.S Government securities in short-term investments (in thousands):

13

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Table of Contents

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
At September 30, 2012				
Money market funds	\$ 31,907	\$—	—	\$ 31,907
Total	\$ 31,907	\$—	—	\$ 31,907
At December 31, 2011				
Money market funds	\$ 177,310	—	—	\$ 177,310
Non U.S. Government securities	—	\$ 8,107	—	8,107
Total	\$ 177,310	\$ 8,107	—	\$ 185,417

Current assets and current liabilities are recorded at amortized cost, which approximates fair value due to the short-term maturities implied.

## Note 4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Raw materials	\$9,290	\$7,666
Work in process	526	14
Finished goods	16,584	10,427
Total	\$26,400	\$18,107

## Note 5. Property and Equipment

Property and equipment consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Equipment	\$32,373	\$25,101
Furniture and fixtures	2,262	1,811
Leasehold improvements	4,234	3,692
Purchased software	21,500	20,641
Capital in process	6,608	2,283
	66,977	53,528
Accumulated depreciation and amortization	(34,792	) (36,222
Property and equipment, net	\$ 32,185	\$ 17,306

Depreciation and amortization of property and equipment totaled approximately \$2.2 million and \$1.5 million for the three months ended September 30, 2012 and 2011, respectively. Depreciation and amortization of property and equipment totaled approximately \$5.7 million and \$4.3 million for the nine months ended September 30, 2012 and 2011, respectively.

## Note 6. Net Investment in Sales-Type Leases

Our sales-type leases are for terms generally ranging up to five years. Sales-type lease receivables are collateralized by the underlying equipment. The components of our net investment in sales-type leases are as follows (in thousands):





Table of Contents

	September 30, 2012	December 31, 2011
Net minimum lease payments to be received	\$ 16,395	\$ 15,063
Less unearned interest income portion	1,378	1,229
Net investment in sales-type leases	15,017	13,834
Less current portion(1)	4,389	5,049
Non-current net investment in sales-type leases(2)	\$ 10,628	\$ 8,785

(1) A component of other current assets. This amount is net of allowance for doubtful accounts of \$0.5 million as of September 30, 2012 and \$0.1 million as of December 31, 2011.

(2) Net of allowance for doubtful accounts of \$0.1 million as of September 30, 2012 and \$0.1 million as of December 31, 2011.

The minimum lease payments under sales-type leases as of September 30, 2012 were as follows (in thousands):

2012 (remaining three months)	\$ 1,087
2013	5,152
2014	4,028
2015	2,973
2016	1,927
2017	1,055
Thereafter	173
Total	\$ 16,395

The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest, as of September 30, 2012 and December 31, 2011 (in thousands):

	Allowance for Credit Losses	Recorded Investment in Sales-type Leases Gross	Recorded Investment in Sales-type Leases Net
Credit loss disclosure for September 30, 2012 :			
Accounts individually evaluated for impairment	\$ 518	\$ 518	\$—
Accounts collectively evaluated for impairment	119	15,136	15,017
Ending balances: September 30, 2012	\$ 637	\$ 15,654	\$ 15,017
Credit loss disclosure for December 31, 2011 :			
Accounts individually evaluated for impairment	\$ 178	\$ 178	\$—
Accounts collectively evaluated for impairment	106	13,940	13,834
Ending balances: December 31, 2011	\$ 284	\$ 14,118	\$ 13,834

The following table summarizes the activity for the allowance for credit losses for the investment in sales-type leases for the three months and nine months ended September 30, 2012 and 2011 (in thousands):

Three Months Ended September 30,		Nine Months Ended September 30,	
2012	2011	2012	2011

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Allowance for credit losses, beginning of period	\$659		\$353		\$284		\$411	
Current period provision (reversal)	4		(7	)	426		(16	)
Direct write-downs charged against the allowance	—		—		—		—	
Recoveries of amounts previously charged off	(26	)	(24	)	(73	)	(73	)
Allowance for credit losses, end of period	\$637		\$322		\$637		\$322	

15

---

Table of Contents

## Note 7. Goodwill and Other Intangible Assets

Under ASC 350, Intangibles - Goodwill and Other, goodwill and intangible assets with an indefinite life are not subject to amortization. Rather, we evaluate these assets for impairment at least annually or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable. Historically, there has been no cumulative impairment of goodwill.

Activity in Goodwill by reporting units, which are the same as our operating segments, for the nine months ended September 30, 2012 consists of the following (in thousands):

	Goodwill at December 31, 2011	Goodwill acquired	Goodwill at September 30, 2012
Reporting units:			
Acute Care	\$28,543	\$—	\$28,543
Non-Acute Care	—	84,140	84,140
Total	\$28,543	\$84,140	\$112,683

The goodwill acquired reflects the May 21, 2012 acquisition of MedPak by Omnicell. MedPak is the parent company of MTS, a worldwide provider of medication adherence packaging systems. The acquired goodwill was assigned to the new reporting unit called Non-Acute Care, created as a result of the MTS acquisition.

There were no indefinite-life intangibles at either September 30, 2012 or December 31, 2011. Finite-life intangible assets at these dates consist of the following (in thousands):

	September 30, 2012			December 31, 2011			Amortization Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Finite-lived intangibles:							
Customer relationships	\$54,330	\$2,539	\$51,791	\$4,230	\$1,591	\$2,639	5-30 years
Acquired technology	27,580	760	26,820	980	175	805	3-20 years
Patents	1,192	214	978	889	190	699	20 years
Trade name	6,890	265	6,625	90	37	53	3-12 years
Non-compete agreements	60	40	20	60	25	35	3 years
Total finite-lived intangibles	\$90,052	\$3,818	\$86,234	\$6,249	\$2,018	\$4,231	

Amortization expense totaled \$1.1 million and \$0.2 million for the three months ended September 30, 2012 and 2011, respectively. Amortization expense totaled \$1.8 million and \$0.5 million for the nine months ended September 30, 2012 and 2011, respectively. The amortization of acquired technology is included within product cost of sales; other acquired intangibles are usually amortized within selling, general and administrative expenses.

Estimated annual expected amortization expense of the finite-lived intangible assets at September 30, 2012 was as follows (in thousands):

2012 (remaining three months)	\$1,062
2013	4,235
2014	4,195
2015	4,172
2016	3,821
2017	3,786
Thereafter	64,963
Total	\$86,234

Note 8. Accrued Liabilities

16

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Table of Contents

Accrued liabilities consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Advance payments from customers	\$3,001	\$3,390
Accrued Group Purchasing Organization (GPO) fees	2,271	2,437
Acquisition consideration payable	1,482	—
Rebates and lease buyouts	2,175	1,748
Taxes payable	855	925
Other	2,422	401
Total	\$12,206	\$8,901

## Note 9. Deferred Gross Profit

Deferred gross profit consists of the following (in thousands):

	September 30, 2012	December 31, 2011
Sales of medication and supply dispensing systems and packaging equipment, which have been delivered and invoiced but not yet installed	\$28,984	\$24,181
Cost of revenues, excluding installation costs	(9,397	) (9,971
Deferred gross profit	\$19,587	\$14,210

## Note 10. Commitments

At September 30, 2012, the minimum payments under our operating leases for each of the five succeeding fiscal years were as follows (in thousands):

2012 (remaining three months)	\$1,518
2013	5,595
2014	5,367
2015	5,187
2016	4,908
2017	4,217
Thereafter	20,301
Total	\$47,093

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

In October 2011, we entered into a lease agreement for approximately 100,000 square feet of office space. Pursuant to the lease agreement, the landlord has constructed a single, three-story building of rentable space located at 590 Middlefield Road in Mountain View, California which we will lease and which will serve as our headquarters. The term of the lease agreement is for a period of 10 years, and will commence in November 2012, with a base lease commitment of approximately \$40.0 million. We have two options to extend the term of the lease agreement at market rates. Each extension is for an additional 60 month term.

In March 2012, we entered into a lease agreement for approximately 46,000 square feet of manufacturing, distribution and office space located at 735 Sycamore Drive in Milpitas, California which commenced in October 2012. The term of the lease agreement is for a period of 60 months, with a base lease commitment of approximately \$1.8 million and a single 60 month extension option.

Commencing with the acquisition of MTS, we assumed responsibility for its 132,500 square feet of manufacturing, warehousing and office space in St. Petersburg, Florida. The remaining term of the original 12 year lease agreement is through September 30, 2016 with a remaining base lease commitment of approximately \$3.7 million. We have two options to extend the term of the lease agreement at market rates. Each extension is for an additional 60 month term.

In Leeds, United Kingdom, we lease an office and distribution center. The remaining term of the original 10 year

17

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## Table of Contents

lease agreement is through June 8, 2021, with no extension options. The remaining base lease commitment, converted from British Pounds at the current conversion rate, is approximately \$1.2 million. We also have smaller rented offices in Strongsville, Ohio and Germany.

We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. Our near-term commitments to our contract manufacturers and suppliers totaled \$6.3 million as of September 30, 2012.

At September 30, 2012, we have recorded \$3.5 million for uncertain tax positions under long term liabilities, in accordance with GAAP, summarized under Note 1, "Organization and Summary of Significant Accounting Policies." As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, the current balance of the uncertain tax position liabilities has not been included in the table of commitments above. Note 11. Contingencies

## Legal Proceedings

We may from time to time become involved in certain legal proceedings in the ordinary course of business. We are not a party to any legal proceedings that management believes may have a material impact on Omnicell's financial position or results of operations.

## Guarantees

As permitted under Delaware law and our certificate of incorporation and bylaws, we have agreed to indemnify our directors and officers against certain losses that they may suffer by reason of the fact that such persons are, were or become our directors or officers. The term of the indemnification period is for the director's or officer's lifetime and there is no limit on the potential amount of future payments that we could be required to make under these indemnification agreements. We have purchased a directors' and officers' liability insurance policy that may enable us to recover a portion of any future payments that we may be required to make under these indemnification agreements. Assuming the applicability of coverage and the willingness of the insurer to assume coverage and subject to certain retention, loss limits and other policy provisions, we believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations. However, no assurances can be given that the insurers will not attempt to dispute the validity, applicability or amount of coverage without expensive and time-consuming litigation against the insurers.

Additionally, we undertake indemnification obligations in our ordinary course of business in connection with, among other things, the licensing of our products and the provision of our support services. In the ordinary course of our business, we have in the past and may in the future agree to indemnify another party, generally our business affiliates or customers, against certain losses suffered or incurred by the indemnified party in connection with various types of claims, which may include, without limitation, claims of intellectual property infringement, certain tax liabilities, our gross negligence or intentional acts in the performance of support services and violations of laws. The term of these indemnification obligations is generally perpetual. In general, we attempt to limit the maximum potential amount of future payments that we may be required to make under these indemnification obligations to the amounts paid to us by a customer, but in some cases the obligation may not be so limited. In addition, we have in the past and may in the future warrant to our customers that our products will conform to functional specifications for a limited period of time following the date of installation (generally not exceeding 30 days) or that our software media is free from material defects. Sales contracts for certain of our medication packaging systems often include limited warranties for up to six months, but the periodic activity and ending warranty balances we record have historically been immaterial.

From time to time, we may also warrant that our professional services will be performed in a good and workmanlike manner or in a professional manner consistent with industry standards. We generally seek to disclaim most warranties,

including any implied or statutory warranties such as warranties of merchantability, fitness for a particular purpose, title, quality and non-infringement, as well as any liability with respect to incidental, consequential, special, exemplary, punitive or similar damages. In some states, such disclaimers may not be enforceable. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. We have not been subject to any significant claims for such losses and have not incurred any material costs in defending or settling claims related to these indemnification obligations. Accordingly, we believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations or potential warranty claims and, therefore, no material liabilities have been recorded for such



Table of Contents

indemnification obligations as of September 30, 2012 or December 31, 2011.

## Note 12. Stockholders' Equity

## Treasury Stock

In February 2008, our Board of Directors authorized a stock repurchase program, the "2008 Repurchase Program", for the repurchase of up to \$90.0 million of our common stock. All repurchased shares were recorded as treasury stock and were accounted for under the cost method. None of the repurchased shares have been retired. The timing, price and volume of the repurchases have been based on market conditions, relevant securities laws and other factors. The stock repurchase program does not obligate us to repurchase any specific number of shares, and we may terminate or suspend the repurchase program at any time.

On August 1, 2012, our Board of Directors established a new stock repurchase program, the "2012 Repurchase Program", authorizing share repurchases of up to \$50.0 million of our common stock, with no termination date. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors. The stock repurchases may be made from time to time on the open market, in privately negotiated transactions or pursuant to a Rule 10b-18 plan. The stock repurchase program does not obligate Omnicell to repurchase any specific number of shares, and Omnicell may terminate or suspend the repurchase program at any time.

During the three months ended September 30, 2012, we repurchased 393,031 shares through the 2008 Repurchase Program at an average cost of \$13.49 per share, including commissions, compared to 505,137 shares repurchased in the three months ended June 30, 2012 at an average cost of \$13.98 per share, including commissions. For the nine months ended September 30, 2012, we repurchased 898,168 shares at an average cost of \$13.76 per share, including commissions. In the three months ended September 30, 2011, we repurchased 182,784 shares through the 2008 Repurchase Program at an average cost of \$14.01 per share, including commissions. For the nine months ended September 30, 2011, we repurchased 741,959 shares at an average cost of \$14.23, including commissions.

From the inception of the 2008 Repurchase Program in February 2008 through September 30, 2012, we have repurchased a total of 5,853,975 shares at an average cost of \$15.37 per share through open market purchases. As of September 30, 2012, we have completed the 2008 Repurchase Program having repurchased \$90.0 million of our common stock.

Through September 30, 2012, we have not repurchased any shares through the 2012 Repurchase Program and therefore had \$50.0 million of authorized funds to repurchase shares under the 2012 Repurchase Program.

## Note 13. Stock Option Plans and Share-Based Compensation

## Stock Option Plans

At September 30, 2012, a total of 1,817,936 shares of common stock were reserved for future issuance under our 2009 Equity Incentive Plan (the "2009 Plan"). At September 30, 2012, \$6.5 million of total unrecognized compensation cost related to non-vested stock options was expected to be recognized over a weighted average period of 2.7 years.

A summary of aggregate option activity for the nine months ended September 30, 2012 is presented below:

Options:	Number of Shares	Weighted-Average Exercise Price
	(in thousands)	
Outstanding at December 31, 2011	4,693	\$ 13.36

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Granted	473	\$ 15.15
Exercised	(362)	) \$ 8.61
Forfeited	(65)	) \$ 13.71
Expired	(100)	) \$ 21.58
Outstanding at September 30, 2012	4,639	\$ 13.73
Exercisable at September 30, 2012	3,513	\$ 13.60

19

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Table of Contents

## Restricted Stock and Time-based Restricted Stock Units

The non-employee members of our Board of Directors are granted restricted stock on the day of our annual meeting of stockholders and such shares of restricted stock vest on the date of the subsequent year's annual meeting of stockholders, provided such non-employee director remains a director on such date. Restricted stock units ("RSUs") are granted to certain of our employees and generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. The fair value of both restricted stock and RSUs granted pursuant to our stock option plans is the product of the number of shares granted and the grant date fair value of our common stock. Our unrecognized compensation cost related to non-vested restricted stock at September 30, 2012 was approximately \$0.6 million and is expected to be recognized over a weighted-average period of 0.6 years. Expected future compensation expense relating to RSUs outstanding on September 30, 2012 is \$4.9 million over a weighted-average period of 2.6 years.

A summary of activity of both restricted stock and RSUs for the nine months ended September 30, 2012 is presented below:

	Restricted Stock		Restricted Stock Units	
	Number of	Weighted -	Number of	Weighted -
	Shares	Average	Shares	Average
		Grant Date		Grant Date
		Fair Value Per		Fair Value Per
		Share		Share
	(in thousands)		(in thousands)	
Non-vested, December 31, 2011	68	\$ 14.71	287	\$ 13.03
Granted	67	\$ 14.19	218	\$ 14.80
Vested	(68	) \$ 14.71	(86	) \$ 12.76
Forfeited	—	—	(16	) \$ 14.46
Non-vested, September 30, 2012	67	\$ 14.19	403	\$ 13.98

## Performance-based Restricted Stock Units

In 2011, we began incorporating performance-based restricted stock units ("PSUs") as an element of our executive compensation plans. Our unrecognized compensation cost related to non-vested performance-based restricted stock units at September 30, 2012 was approximately \$1.0 million and is expected to be recognized over a weighted-average period of 1.4 years.

The accounting guidance for awards with market conditions differs from that for awards with service conditions only or service and performance conditions. Because the grant date fair value of an award containing market conditions is calculated as the expected value, averaging over all possible outcomes, the measured expense is amortized over the service period, regardless of whether the market condition is ever actually met. PSU expense of \$0.2 million and \$0.1 million was recognized for the three months ended September 30, 2012 and 2011, respectively. PSU expense of \$0.8 million and \$0.4 million was recognized for the nine months ended September 30, 2012 and 2011, respectively.

The fair value of a PSU award is the average of trial-specific values of the award over each of one million Monte Carlo trials. Each trial-specific value is the market value of the award at the end of the one-year performance period discounted back to the grant date. The market value of the award for each trial at the end of the performance period is the product of (a) the per share value of Omnicell stock at the end of the performance period and (b) the number of shares that vest. The number of shares that vest at the end of the performance period depends on the percentile ranking of the total shareholder return for Omnicell stock over the performance period relative to the total shareholder return

of each of the other companies in the NASDAQ Healthcare Index (the “Index”) as shown in the tables below.

Vesting for the PSU awards is based on the percentile placement of our total shareholder return among the companies listed in the Index and time-based vesting. We calculate total stockholder return based on the one year annualized rates of return reflecting price appreciation plus reinvestment of dividends. Stock price appreciation is calculated based on the average closing prices of the applicable company’s common stock for the 20 trading days ending on the last trading day of the year prior to the date of grant as compared to the average closing prices for the 20 trading days ended on the last trading day of the year of grant.

Table of Contents

The following table shows the percent of PSUs granted in 2011 eligible for further time-based vesting based on our percentile placement:

Percentile Placement of Our Total Shareholder Return	% of PSUs Eligible for Time-Based Vesting
Below the 35th percentile	—%
At least the 35th percentile, but below the 50th percentile	50%
At least the 50th percentile, but below the 65th percentile	100%
At least the 65th percentile, but below the 75th percentile (1)	110% to 119%
At or above the 75th percentile	120%

(1) The actual percentage of PSUs eligible for further time-based vesting is based on straight-line interpolation, where, for example, if the ranking is the 70th percentile, then the vesting percentage is 115%. On January 17, 2012, the Compensation Committee of our Board of Directors confirmed 76.3% as the percentile rank of Omnicell's 2011 total stockholder return. This resulted in 120% of the 2011 PSU awards, or 120,000 shares, becoming eligible for further time-based vesting. The eligible PSU awards will vest as follows: 25% of the eligible awards for the first year vested immediately on January 17, 2012 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent 36 month period beginning on June 15th and December 15th of the year after the date of grant and each subsequent year. Vesting is contingent upon continued service.

The following table shows the percent of PSUs granted in 2012 eligible for further time-based vesting based on our percentile placement:

Percentile Placement of Our Total Shareholder Return	% of PSUs Eligible for Time-Based Vesting
Below the 35th percentile	—%
At least the 35th percentile, but below the 50th percentile	50%
At least the 50th percentile	100%

After the last trading day of 2012, the Compensation Committee of our Board of Directors will determine the percentile rank of Omnicell's total stockholder return and the number of performance-based restricted stock unit awards eligible for further time-based vesting. The eligible performance-based restricted stock unit awards will vest as follows: 25% of the shares on the date of the Compensation Committee of our Board of Directors meeting in 2013 when the Committee reviews the performance-based metrics and determines if they were met or not, with the remaining shares vesting on a semi-annual basis over a period of 36 months commencing on June 15, 2013 if Omnicell meets certain stock performance objectives compared to the Index. The actual number of shares that vest may be 0% to 100% of the numbers reflected above, depending upon Omnicell's performance. Vesting is contingent upon continued service.

During the nine months ended September 30, 2012, in addition to the 125,000 PSUs granted in 2012, an additional 7,500 PSUs vested as a result of Omnicell's 2011 total stockholder return which caused 120% of the 2011 PSUs to become eligible for further time-based vesting.

A summary of activity of the PSUs for the nine months ended September 30, 2012 is presented below:

Table of Contents

	Number of Shares (in thousands)	Weighted - Average Grant Date Fair Value Per Share
Performance-based Stock Units		
Non-vested, December 31, 2011	100	\$ 11.15
Granted	133	\$ 10.94
Vested	(45	) \$ 11.15
Forfeited	—	—
Non-vested, September 30, 2012	188	\$ 11.00

## Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (“ESPP”), under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of \$25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of September 30, 2012, 3,782,844 shares had been issued under the ESPP. As of September 30, 2012 there were a total of 1,548,711 shares reserved for future issuance under the ESPP. For the three months and nine months ended September 30, 2012, 180,018 shares and 377,849 shares, respectively, of common stock were purchased under the ESPP.

## Share-based Compensation

We account for share-based awards granted to employees and directors, including employee stock option awards, restricted stock, PSUs and RSUs issued pursuant to the 2009 Plan and employee stock purchases made under our ESPP using the estimated grant date fair value method of accounting in accordance with ASC 718, Stock Compensation. We value options and ESPP shares using the Black-Scholes-Merton option-pricing model. Restricted stock and time-based RSUs are valued at the grant date fair value of the underlying common shares. The PSUs are valued via Monte Carlo simulation, as described above.

The impact on our results for share-based compensation for the three months and nine months ended September 30, 2012 and 2011 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of product and service revenues	\$275	\$358	\$776	\$1,108
Research and development expenses	232	333	686	1,005
Selling, general and administrative expenses	1,854	1,720	5,319	5,141
Total share-based compensation expenses	\$2,361	\$2,411	\$6,781	\$7,254

## Note 14. Business Acquisition

On May 21, 2012, we completed our merger with MedPak Holdings, Inc. (“MedPak”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) under which Mercury Acquisition Corp, a newly formed Omnicell subsidiary, was merged with and into MedPak, with MedPak surviving the merger as a wholly-owned subsidiary of Omnicell. MedPak is the parent company of MTS.

Pursuant to the terms of the Merger Agreement, we paid approximately \$158.3 million in cash after adjustments provided for in the Merger Agreement, of which approximately \$13.5 million was placed in an escrow fund, which will be distributed to MedPak's stockholders (subject to claims that we may make against the escrow fund for indemnification and other claims following the closing). We had accrued a \$1.8 million liability against this escrow fund as of June 30, 2012, based on additional estimated working capital adjustments as provided under the Merger Agreement.

As of September 30, 2012, the working capital adjustment has been finalized with a resulting reduction in goodwill of \$0.3 million and a corresponding reduction in accrued liabilities, leaving a balance of \$1.5 million. In October 2012, the

22

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Table of Contents

portion of the escrow fund set aside for the working capital adjustment was disbursed with Omnicell receiving \$0.3 million and Medpak's former stockholders receiving the remainder.

The MTS acquisition primarily was to align Omnicell with the long term trends of the healthcare market to manage the health of patients across the continuum of care. We can now better serve both the acute care and non-acute care markets. Omnicell and MTS bring capabilities to each other that strengthen the product lines and expand the medication management coverage of both companies.

We are accounting for the transaction under the acquisition method of accounting in accordance with the provisions of FASB ASC Topic 805, Business Combinations. Under the acquisition method, the estimated fair value of the consideration transferred to purchase the acquired company is allocated to the assets acquired and the liabilities assumed based on their fair values. We have made significant estimates and assumptions in determining the allocation of the acquisition consideration. The revised acquisition consideration of \$159.8 million is comprised of \$158.3 million in cash at closing plus an estimated \$1.5 million net working capital adjustment recorded in accrued liabilities, subject to review by the seller and possible adjustment.

The total consideration, and the allocation of consideration to the individual net assets is considered preliminary, as there are remaining uncertainties to be resolved, including the settlement of the final net working capital adjustment and the completion of an analysis of potential contingent payroll tax withholding obligations.

The total revised acquisition price was approximately \$159.8 million and the preliminary acquisition price allocation is comprised of the following (in thousands):

	Fair value acquired	
Cash including restricted cash	\$2,000	
Accounts receivable	7,403	
Inventory	11,726	
Deferred tax assets and other current assets	2,864	
Total current assets	23,993	
Property and equipment	11,088	
Intangibles	83,500	
Goodwill	84,140	
Other non-current assets	244	
Total assets	202,965	
Current liabilities	(8,046	)
Non-current deferred tax liabilities	(33,898	)
Other non-current liabilities	(1,227	)
Net assets acquired	\$159,794	
Cash consideration, fair value	\$159,794	

Accounts receivable is presented at its fair value, comprised of total contractual obligations due of \$7.6 million, of which \$0.2 million is not expected to be collected. Based on an acquisition date valuation, the estimated fair values of acquired inventory and property and equipment exceeded their historical carrying values.

Identifiable intangible assets. Acquired technology relates to MTS' products across all of its product lines that have reached technological feasibility, primarily the OnDemand technology. Trade name is primarily related to the MTS and OnDemand brand names. Customer relationships represent existing contracted relationships with pharmacies, institutional care facilities and others. Acquired technology, customer relationships, and trade names will be amortized on a straight-line basis over their estimated useful lives, which range from 12 to 30 years.



The estimated fair values of the acquired technology, trade names and customer relationships were primarily determined using either the relief-from-royalty or excess earnings methods. The interest rates utilized to discount net cash flows to their present values were determined after consideration of the overall enterprise rate of return and the relative risk and importance of the assets to the generation of future cash flows.

For income tax purposes, the historical tax bases of the acquired assets and assumed liabilities, along with the tax

Table of Contents

attributes of the MTS companies, will carryover. Because the transaction was a cash-for-stock transaction, there is no tax basis in the newly acquired intangible assets. Accordingly, the acquisition accounting includes the establishment of net deferred tax liabilities of \$33.9 million, resulting from book tax basis differences related to the intangible assets acquired, as well as to the step up in the value of fixed assets and inventory to their estimated fair values at the time of acquisition.

Goodwill. Approximately \$84.1 million has been allocated to goodwill. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the underlying net tangible and identifiable intangible assets on the acquisition date. In accordance with ASC Topic 350, Intangibles - Goodwill and Other, goodwill will not be amortized, but instead will be tested for impairment at least annually or more frequently if certain indicators are present. In the event our management determines that the value of goodwill has become impaired, we will incur an accounting charge for the amount of impairment during the quarter in which the determination is made. We believe the MTS acquisition enhances our offerings and diversifies our revenue mix, providing a more robust product and service solution to its current customers while expanding Omnicell's international presence. We consider these factors as supporting the amount of goodwill recorded.

Details of acquired intangibles are as follows (in thousands, except for years):

	Fair value acquired	Useful Life (years)	First year amortization expense
Trade name	\$6,800	12	\$567
Customer relationships	50,100	28 to 30	1,693
Acquired technology	26,600	20	1,330
Intangibles acquired	\$83,500		\$3,590
Weighted avg. life of intangibles		25.11	

For the nine months ended September 30, 2012, we incurred approximately \$3.2 million in acquisition-related costs in connection with the MTS acquisition. These costs are included in selling, general and administrative expenses on our Condensed Consolidated Statement of Operations.

During the three months ended September 30, 2012, the acquired MTS operations (consolidated since the May 21, 2012 acquisition date) generated revenue of approximately \$18.3 million and net income of \$1.9 million.

The following represents unaudited pro forma revenue and net income as if MTS had been included in our consolidated results from January 1, 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$84,331	\$82,468	\$252,601	\$239,715
Net income	\$6,920	\$3,785	\$13,515	\$9,841

The pro forma unaudited condensed consolidated operating results presented above were calculated after applying Omnicell's accounting policies and by adding together the historical operating statements of MTS and Omnicell, with certain adjustments, assuming an acquisition date of January 1, 2011. The adjustments include replacement of MTS historical depreciation and amortization expense with acquisition-accounting depreciation and amortization expense, based on the estimated fair values and useful lives determined from the allocation of total MTS acquisition

consideration. Also reflected is the interest expense elimination effect of MTS on its debt (since it would have been paid off at acquisition) and the elimination of certain management fees to an affiliated party, offset in part by interest income foregone by Omnicell, by no longer having the acquisition consideration available as interest-bearing cash, cash equivalents and short-term investments.

The pro forma operating results do not include actual acquisition-related expenses by MTS and Omnicell as such amounts are considered nonrecurring. The total of all adjustments were tax effected using an estimated federal and state effective income tax rate.

The pro forma operating results do not include any assumption of operating synergies for the combined companies. These pro forma results are provided as required disclosures and should not be considered as a forecast for any future period, nor as representing what the actual operating results would have been if the acquisition, in fact, had occurred on January 1,

Table of Contents

2011.

Note 15. Segments

Beginning with the acquisition of MTS, we have organized our business into two operating business segments: Acute Care, which primarily includes products and services sold to hospital customers and Non-Acute Care, which primarily includes products and services sold to customers outside of hospital settings.

The Acute Care segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems. The Non-Acute Care segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services, but also includes medication dispensing systems sold to non-acute care pharmacies and facilities. We report segment information based on the management approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker (“CODM”), for making decisions and assessing performance as the source of our operating segments. The CODM is our Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment, using information about its revenues, gross profit and income (loss) from operations.

Since 1992, Omnicell has provided automation and business information solutions to acute care hospitals. We have developed product solutions that help optimize various workflows utilized in hospitals. We have also developed sophisticated sales, installation, and service capabilities to serve the specific and special needs of the acute care environment in hospitals. As the acute care market evolves, we see opportunities to provide medication adherence solutions, which were added to our product line through the acquisition of MTS, to the acute care market as well. A portion of our organization structure and management processes will continue to be structured to optimize sales and service of solutions to the acute care market.

Since 1984, MTS has provided medication adherence solutions to the non-acute care market. These solutions provide automated and semi-automated equipment to assist institutional and retail pharmacists in filling medication orders into blister cards, the primary method of medication control in non-acute care settings. Completing the product solution are the consumables used by institutional and retail pharmacists to make the medication adherence package. MTS has developed process manufacturing capabilities as well as sales capabilities to market medication adherence solutions to institutional and retail pharmacies. A portion of our organization structure and management processes will continue to be structured to optimize the product, sales, and service of solutions to the non-acute care market.

During the three months ended September 30, 2012, we realigned our management reporting structure to report sales of Omnicell's dispensing systems and other related business transactions into long-term care pharmacies and facilities. Accordingly, the operations of this portion of our activities is now being reflected as a part of the Non-Acute Care segment for the three months and nine months ended September 30, 2012. The impact of this reporting structure change on the three months and nine months ended September 30, 2011 was immaterial to our overall reported results. We believe that legislative changes and economic pressures to manage costs will cause healthcare organizations to manage the health of patients across the continuum of care regardless of the setting in which the care is provided. We believe we have the capabilities and market position to provide the tools needed by our customers to manage medications across the continuum of care. But we also believe that the inherent differences between medication management workflows in acute care settings and non-acute care settings will cause our product solutions and marketing strategies to be managed separately for these two customer segments.

For the three months and nine months ended September 30, 2012 and 2011, the contributions of our segments to net revenues and income from operations, and the reconciliation to total net income, were as follows (amounts in thousands):



Table of Contents

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Acute Care	Non-Acute Care (1)	Total	Acute Care	Total	
Net revenues from external customers	\$64,394	\$19,937	\$84,331	\$64,439	\$64,439	
Cost of revenues	26,920	11,324	38,244	29,991	29,991	
Gross profit	\$37,474	\$8,613	\$46,087	\$34,448	\$34,448	
Gross margin %	58.2	% 43.2	% 54.7	% 53.5	% 53.5	%
Operating expenses	29,070	5,791	34,861	29,654	29,654	
Income from operations	\$8,404	\$2,822	\$11,226	\$4,794	\$4,794	
Operating margin %	13.1	% 14.2	% 13.3	% 7.4	% 7.4	%
Interest and other income (expense), net			34		(191)	)
Income before provision for income taxes			11,260		4,603	
Provision for income taxes			4,340		1,609	
Net income			\$6,920		\$2,994	
	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Acute Care	Non-Acute Care (1)	Total	Acute Care	Total	
Net revenues from external customers	\$191,294	\$32,564	\$223,858	\$182,604	\$182,604	
Cost of revenues	82,858	19,788	102,646	82,699	82,699	
Gross profit	\$108,436	\$12,776	\$121,212	\$99,905	\$99,905	
Gross margin %	56.7	% 39.2	% 54.1	% 54.7	% 54.7	%
Operating expenses	94,167	9,753	103,920	89,852	89,852	
Income from operations	\$14,269	\$3,023	\$17,292	\$10,053	\$10,053	
Operating margin %	7.5	% 9.3	% 7.7	% 5.5	% 5.5	%
Interest and other income (expense), net			57		(66)	)
Income before provision for income taxes			17,349		9,987	
Provision for income taxes			6,703		3,736	
Net income			\$10,646		\$6,251	

(1) Non-Acute Care segment includes MTS results from May 21, 2012, the date of acquisition.

For the nine months ended September 30, 2012, the Non-Acute Care cost of revenues included \$1.7 million of acquisition-related charges primarily associated with the step-up to the estimated fair value of inventory acquired from

MTS and consumed in the normal manufacturing cycle of our business. The Non-Acute Care operating expenses included \$0.9 million of acquisition-related charges primarily associated with severance expenses. For the nine months ended September 30, 2012, the Acute Care operating expenses included \$2.3 million of acquisition-related charges for transaction costs, required to be expensed under ASC 805 Business Combinations. As of September 30, 2012, we have not assigned assets to our operating segments.

Table of Contents

Note 16. Risk Management and Derivatives

We are exposed to global market risks, including the effect of changes in foreign currency exchange rates. We use derivatives to manage financial exposures that occur in the normal course of business but do not hold or issue derivatives for trading purposes.

Currency Forward Contracts

From time to time we enter into foreign currency forward contracts to protect our business from the risk that the eventual cash flows resulting from intercompany transactions between Omnicell and our foreign subsidiaries. These transactions primarily arise as a result of products manufactured in the U.S. and sold to foreign subsidiaries in U.S. dollars rather than the subsidiaries' functional currencies.

These forward contracts are considered to be financial derivative instruments and are recorded at fair value in the balance sheet. Changes in fair values of these financial derivative instruments are either recognized in other comprehensive income (a component of stockholders' equity) or net income depending on whether the derivative has been designated and qualifies as a hedging instrument. As of September 30, 2012, we had no foreign currency forward contracts outstanding.

Note 17. Subsequent Events

Investment in United Kingdom Distributor

On September 28, 2012, we entered into an agreement with our distributor in the United Kingdom to purchase 15% of the outstanding equity in the company for approximately \$0.9 million in cash. In connection with the investment, Omnicell has the right, under certain circumstances, to appoint a member to our United Kingdom distributor's board of directors as well as certain other voting rights. As a result of these and other factors, we anticipate that we will be accounting for this investment using the equity method.



Table of Contents

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. The forward looking statements are contained principally in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- the extent and timing of future revenues, including the amounts of our current backlog, which represent firm orders that have not completed installation and therefore have not been recognized as revenue;
- our ability to conduct acquisitions for strategic value and successfully integrate each one into our operations, including our acquisition of MTS;
- the size and/or growth of our market or market-share;
- the opportunity presented by new products or emerging markets;
- our expectations regarding our future backlog levels;
- the operating margins or earnings per share goals we may set;
- our ability to align our cost structure and headcount with our current business expectations;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others; and
- our ability to generate cash from operations and our estimates regarding the sufficiency of our cash resources.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "will," "would" and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions, and are subject to risks and uncertainties. We discuss many of these risks in this Quarterly Report on Form 10-Q in greater detail in Part II — Section 1A. "Risk Factors" below. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should also read our Annual Report on Form 10-K and the documents that we reference in the Annual Report on Form 10-K and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to "Omnicell, Inc.," "Omnicell," "our," "us," "we" or the "Company" collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Overview

We were incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. We are a leading provider of automated solutions for medication and supply management in healthcare. Our automation and analytics solutions are designed to enable healthcare facilities to acquire, manage, dispense and administer medications and medical-surgical supplies and are intended to enhance patient safety, reduce medication errors, reduce operating costs, improve workflow and increase operational efficiency. Approximately 2,700 hospitals utilize one or more of our products, of which more than 1,700 hospitals in the United States have installed our automated hardware/software solutions for controlling, dispensing, acquiring,

verifying, tracking and analyzing medications and medical and surgical supplies. Approximately 6,000 institutional and retail pharmacies utilize our medication adherence packaging solutions.

We sell our medication control systems together with related consumables and services, and medical/surgical supply control systems and generate the majority of our revenue in the United States. However, we expect our revenue from our international operations to increase in future periods as we continue to grow our international business. Our sales force is organized by geographic region in the United States and Canada, and for a portion of our products in the United Kingdom and Germany. We also sell through distributors in Asia, Australia, Europe, the Middle East and South America. We have not sold in the past, and have no future plans to sell our products either directly or indirectly to customers located in countries that are

## Table of Contents

identified as state sponsors of terrorism by the U.S. Department of State, and are subject to economic sanctions and export controls.

### Business Acquisition

On May 21, 2012, we completed our acquisition of MedPak pursuant to the Merger Agreement for \$158.3 million in cash, subject to certain adjustments, and including \$13.5 million in cash that was placed in an escrow fund at the closing of the transaction, of which approximately \$0.3 million was released to Omnicell and approximately \$2.0 million was released to the former MedPak stockholders pursuant to a final working capital adjustment recorded during the third quarter of 2012. Under the terms of the Merger Agreement, Mercury Acquisition Corp, a newly formed Omnicell subsidiary, was merged with and into MedPak, with MedPak surviving the merger as a wholly-owned subsidiary of Omnicell. MedPak is the parent company of MTS, a worldwide provider of medication adherence packaging systems and solutions. MTS primarily manufactures and sells consumable medication blister cards, packaging equipment and ancillary products throughout the United States, Canada, Europe and Australia. Its customers are predominantly institutional pharmacies that supply nursing homes, assisted living and correctional facilities with prescription medications for their patients. MTS manufactures its proprietary consumable blister cards and most of its packaging equipment in its own facilities. This manufacturing process uses integrated equipment for manufacturing the consumable medication blister cards. In addition, MTS utilizes the services of outside contract manufacturers for some of its packaging equipment. The consumable medication blister cards and packaging equipment are designed to provide a cost-effective method for pharmacies to dispense medications. MTS' medication dispensing systems and products provide innovative methods for dispensing medications in disposable packages. MTS Medication Technologies Limited distributes products for MTS primarily in the United Kingdom. MTS Medication Technologies GmbH distributes products for MTS in Germany. MTS currently serves more than 6,000 institutional pharmacies in the long-term care and correctional markets, both domestically and internationally.

With the acquisition of MTS, we organized our business into two operating business segments: Acute Care and Non-Acute Care. The Acute Care segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems. The Non-Acute Care segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products. We report segment information based on the management approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker ("CODM"), for making decisions and assessing performance as the source of our operating segments. The CODM is our Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment, using information about its revenues, gross profit and income (loss) from operations.

### Operations During the Three Months and Nine Months Ended September 30, 2012

The consolidated results presented for the three months and nine months ended September 30, 2012 reflect the impact of the acquisition of MTS since May 21, 2012 as a part of the Non-Acute Care segment.

Revenues grew year-over-year for both product and services, with overall revenue growth of 30.9%, comparing \$84.3 million for the third quarter of 2012 with \$64.4 million for the third quarter of 2011. Overall revenue growth was 22.6% for the nine months ended September 30, 2012, comparing \$223.9 million with \$182.6 million for the same period in 2011. As a result of the acquisition of MTS, the Non-Acute Care segment contributed \$19.9 million and \$32.6 million in the three months and nine months ended September 30, 2012, respectively.

The Non-Acute Care segment for the third quarter of 2012 contributed \$18.7 million and \$1.2 million to the overall product and service revenue growth, respectively. The Acute Care segment contributed revenues of \$64.4 million which were unchanged for the three months ended September 30, 2012 as compared to the same period in 2011.

Overall product and service margins increased by \$11.6 million, or 33.8% for the three months ended September 30, 2012 as compared to the same period in 2011. Product and service margins increased by \$21.3 million, or 21.3% for the nine months ended September 30, 2012 as compared to the same period in 2011.

During the third quarter of 2012, we achieved 11.9% growth in total revenues from the second quarter of 2012, inclusive of a full quarter of Non-Acute Care growth of \$19.9 million. Product revenue increased by \$8.2 million, or 13.8%, while service revenue increased by \$0.8 million, or 4.8%. Overall gross margins for the third quarter of 2012 increased to 54.7% from 52.2% in the second quarter of 2012. Product gross margins increased to 54.6% on revenue of \$67.4 million as compared to 51.7% on revenue of \$59.3 million in the second quarter of 2012. Service gross margins increased to 54.9% on revenue of \$16.9 million as compared to 54.0% on revenue of \$16.1 million in the second quarter of 2012. The overall increase in gross margins is primarily attributable to a favorable product mix in the Acute Care segment.

## Table of Contents

We believe our solutions are attractive relative to our competition. In particular:

- We have continued to differentiate ourselves through a strategy intended to create the best customer experience in healthcare;
- We have delivered industry-leading products with differentiated product features that are designed to appeal to nurses and pharmacists, such as our G4 platform, the Savvy™ Mobile Medication System, SinglePointe™, Anywhere RN™ and the OnDemand product line;
- Through acquisitions, we have broadened our medication control product line to address the growing need for medication management across the continuum of care beyond hospitals; and
- The market environment of increased patient safety awareness and increased regulatory control has driven our solutions to be a high priority in customers' capital budgets.

We maintain a development staff with expertise in hospital logistics, pharmacy operations and computerized automated solutions, which allows us to deliver new innovations to the market. Our ability to grow revenue and maintain positive cash flow is dependent on our ability to obtain orders from customers, our ability to manufacture consumables to meet customer demand, the volume of installations we are able to complete, our ability to meet customers' needs while providing a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

Cash, cash equivalents and short-term investments increased by \$0.7 million during the three months ended September 30, 2012, to \$54.8 million from \$54.1 million at June 30, 2012. The change in cash, cash equivalents and short-term investments for the quarter was relatively unchanged from the prior quarter, with the increase in net income being offset by financing activities which included stock repurchases and shares issued under our stock option and employee stock purchase plans. Cash, cash equivalents and short-term investments decreased by \$145.1 million during the nine months ended September 30, 2012, to \$54.8 million from \$199.9 million at December 31, 2011. Contributing to this decrease in cash, cash equivalents and short-term investments was \$159.8 million used for the acquisition of MTS, including related transaction costs incurred during the quarter ended June 30, 2012 and year-to-date stock repurchase activity of \$12.4 million to repurchase 898,168 shares of our common stock through our stock repurchase program. These expenditures were partially offset by \$27.5 million in quarterly operating cash flow, reflecting improved net income and a decline in Acute Care inventories.

## Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We regularly review our estimates and assumptions, which are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions. We believe that the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

- Revenue recognition;
- Provision for allowances;
- Valuation and impairment of goodwill, other intangible assets and other long lived assets;
- Inventory;
- Valuation of share-based awards; and

- Accounting for income taxes.

During the nine months ended September 30, 2012, there were no significant changes in our critical accounting policies and estimates.

Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2011 for a more complete discussion of our other critical accounting policies and estimates.

Recently Adopted Accounting Pronouncements

30

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Table of Contents

In May 2011, FASB issued ASU 2011-04, Fair Value Measurement, amending the fair value guidance in ASC 820, and thereby achieving substantially converged fair value measurement and disclosure requirements for GAAP and IFRS. The new guidance clarified some fair value measurement principles and expanded certain disclosure requirements. We adopted this guidance in the first quarter of 2012, without any impact to our financial position, operating results or cash flows.

## Recently Issued Accounting Pronouncements

In July 2012, FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-lived Intangible Assets for Impairment, which amends the guidance in ASC 350-30 on impairment testing of intangible assets with indefinite lives other than goodwill. This guidance gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived asset is impaired. An entity has the option to bypass the qualitative assessment and proceed directly to calculating the fair value of an intangible asset with an indefinite life. This update will be effective for us for interim and annual impairment tests performed beginning in the first quarter of fiscal 2013. We do not anticipate this update will have any significant impact on our financial position, operating results or cash flows, as this update does not change how we calculate impairment loss.

## Results of Operations

The table below shows the components of our results of operations as percentages of total revenues for the three months and nine months ended September 30, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2012		2011		2012		2011		
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	
Revenues:									
Product revenue	\$67,446	80.0	% \$49,790	77.3	% \$175,239	78.3	% \$138,583	75.9	%
Service and other revenues	16,885	20.0	% 14,649	22.7	% 48,619	21.7	% 44,021	24.1	%
Total revenues	84,331	100.0	% 64,439	100.0	% 223,858	100.0	% 182,604	100.0	%
Cost of revenues:									
Cost of product revenues	30,636	36.3	% 22,429	34.8	% 79,532	35.5	% 59,995	32.9	%
Cost of service and other revenues	7,608	9.0	% 7,562	11.8	% 23,114	10.3	% 22,704	12.4	%
Total cost of revenues	38,244	45.3	% 29,991	46.6	% 102,646	45.8	% 82,699	45.3	%
Gross profit	46,087	54.7	% 34,448	53.4	% 121,212	54.2	% 99,905	54.7	%
Operating expenses:									
Research and development	5,545	6.6	% 6,019	9.3	% 17,538	7.8	% 16,139	8.8	%
Selling, general and administrative	29,316	34.8	% 23,635	36.7	% 86,382	38.6	% 73,713	40.4	%
Total operating expenses	34,861	41.4	% 29,654	46.0	% 103,920	46.4	% 89,852	49.2	%
Income from operations	11,226	13.3	% 4,794	7.4	% 17,292	7.8	% 10,053	5.5	%
	34	—	% (191	) (0.3	)% 57	—	(66	) —	%

Interest and other income (expense), net										
Income before provision for income taxes	11,260	13.3	% 4,603	7.1	% 17,349	7.8	% 9,987	5.5	%	
Provision for income taxes	4,340	5.1	% 1,609	2.5	% 6,703	3.0	% 3,736	2.1	%	
Net income	\$6,920	8.2	% \$2,994	4.6	% \$10,646	4.8	% \$6,251	3.4	%	

The table above and the ensuing financial information and discussions presented include Non-Acute Care results since the May 21, 2012 acquisition of MTS.

Product Revenues, Cost of Product Revenues and Gross Profit

31

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Table of Contents

The table below shows our product revenues, cost of product revenues and gross profit for the three months and nine months ended September 30, 2012 and 2011 and the percentage changes between those periods (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Product revenues	\$67,446	\$49,790	35.5 %	\$175,239	\$138,583	26.5 %
Cost of product revenues	30,636	22,429	36.6 %	79,532	59,995	32.6 %
Gross profit	\$36,810	\$27,361	34.5 %	\$95,707	\$78,588	21.8 %
Gross margin	54.6	% 55.0	%	54.6	% 56.7	%

Product revenues increased by \$17.7 million, or 35.5%, in the three months ended September 30, 2012 as compared to the same period in 2011. Product revenues increased by \$36.7 million, or 26.5%, in the nine months ended September 30, 2012 as compared to the same period in 2011. The overall increase in product revenues was driven by the contribution of our Non-Acute Care segment of \$18.7 million and \$30.2 million for the three months and nine months ended September 30, 2012, respectively, while the Acute Care segment was flat as compared to the same period in 2011. We anticipate our revenues will continue to increase in 2012 as we fulfill our existing orders and as we experience an anticipated continued high volume of lease renewals. Additionally, year over year revenue growth for the remainder of 2012 will continue to be affected by the results from the Non-Acute Care segment that we established in May 2012. Our ability to grow revenue is dependent on our ability to continue to obtain orders from customers, our ability to produce consumables to fulfill customer demand, the volume of installations we are able to complete, our ability to meet customer needs by providing a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues for equipment is primarily dependent on when our customers' schedules allow for installations.

Cost of product revenues increased by \$8.2 million, or 36.6%, in the three months ended September 30, 2012 as compared to the same period in 2011. Cost of product revenues increased by \$19.5 million, or 32.6%, in the nine months ended September 30, 2012 as compared to the same period in 2011. This increase was primarily a result of Non-Acute Care product costs of \$19.1 million, which includes \$1.7 million of transaction and integration expenses related to the MTS acquisition. The \$1.7 million is comprised of a \$1.6 million write off of the inventory fair value step up recorded on the opening balance sheet, and \$0.1 million for severance expenses related to staff realignment. Acute Care product costs for the nine months ended September 30, 2012 increased by \$0.4 million, which is a function of increased revenues, and product mix.

Gross profit on product revenue increased by \$9.4 million, or 34.5%, in the three months ended September 30, 2012 as compared to the same period in 2011. Gross profit on product revenue increased by \$17.1 million, or 21.8%, in the nine months ended September 30, 2012 as compared to the same period in 2011. These increases were primarily a result of the aforementioned contribution from our Non-Acute Care market, as well as increased gross profits in our Acute Care segment of \$1.6 million and \$6.0 million for the three months and nine months ended September 30, 2012, respectively, which were driven primarily by product mix.

#### Service and Other Revenues, Cost of Service and Other Revenues and Gross Profit

The table below shows our service and other revenues, cost of service and other revenues and gross profit for the three months and nine months ended September 30, 2012 and 2011 and the percentage change between those periods (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change

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Service and other revenues	\$ 16,885	\$ 14,649	15.3	%	\$ 48,619	\$ 44,021	10.4	%
Cost of service and other revenues	7,608	7,562	0.6	%	23,114	22,704	1.8	%
Gross profit	\$ 9,277	\$ 7,087	30.9	%	\$ 25,505	\$ 21,317	19.6	%
Gross margin	54.9	% 48.4	%		52.5	% 48.4	%	

Service and other revenues include revenues from service and maintenance contracts, rentals of automation systems, training and professional services. Service and other revenues increased by \$2.2 million, or 15.3%, in the three months ended September 30, 2012 as compared to the same period in 2011. Service and other revenues increased by \$4.6 million, or 10.4%, in the nine months ended September 30, 2012 as compared to the same period in 2011. The increase in service and other

Table of Contents

revenues was primarily the result of an expansion in our installed base of automation systems and continued growth in analytical software business resulting in an increase in the number of support service contracts, higher training revenues and service revenues attributable to our Non-Acute Care segment of \$1.2 million and \$2.3 million for the three months and nine months ended September 30, 2012, respectively.

Cost of service and other revenues were flat in the three months ended September 30, 2012 as compared to the same period in 2011 and increased by \$0.4 million, or 1.8%, in the nine months ended September 30, 2012 as compared to the same period in 2011. This increase was primarily due to costs attributable to our Non-Acute Care segment.

Gross profit on service and other revenues increased by \$2.2 million, or 30.9%, in the three months ended September 30, 2012 as compared to the same period in 2011. Gross profit on service and other revenues increased by \$4.2 million, or 19.6%, in the nine months ended September 30, 2012 as compared to the same period in 2011. The increase in gross profit on service and other revenues was primarily due to increased revenues from an expanded installed base with nominal growth in service cost attributable to our Acute Care segment as a result of service cost reduction efforts throughout the periods. The contribution to gross profit on service and other revenues from our Non-Acute Care segment was \$0.7 million and \$1.7 million three months and nine months ended September 30, 2012, respectively.

We expect our service and other revenues and associated gross profit to vary in the future. We expect increases in the installed base and the addition of Non-Acute Care service revenue and gross profit to be partially or fully offset by an increased propensity for customers to contract for service on a time and material basis, variations in the quantity and cost of spare parts used to service our installed base, and increases in staffing to accommodate an increased number of customers.

## Operating Expenses

The table below shows our operating expenses for the three months and nine months ended September 30, 2012 and 2011 and the percentage changes between those periods (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	2012	2011	% Change
Research and development	\$5,545	\$6,019	(7.9)%	\$17,538	\$16,139	8.7%
Selling, general and administrative	29,316	23,635	24.0%	86,382	73,713	17.2%
Total operating expenses	\$34,861	\$29,654	17.6%	\$103,920	\$89,852	15.7%

Research and Development. Research and development expenses decreased by \$0.5 million, or 7.9%, in the three months ended September 30, 2012 as compared to the same period in 2011 and represented 6.6% and 9.3% of total revenues in the three months ended September 30, 2012 and 2011, respectively. The overall decrease in research and development expenses reflects a \$0.9 million increase in the amount of software development capitalized and a \$0.3 million decrease in compensation, benefits and other expenses during the three months ended September 30, 2012 as compared with the year-ago period, offset by an overall increase of \$0.7 million in research and development expenses attributable to the Non-Acute Care segment. The decrease as a percentage of revenue is primarily a reflection of the overall growth in revenue without a corresponding increase in research and development expenditures. Research and development expenses increased by \$1.4 million, or 8.7%, in the nine months ended September 30, 2012 as compared to the same period in 2011 and represented 7.8% and 8.8% of total revenues in the nine months ended September 30, 2012 and 2011, respectively. The increase in research and development expenses during the nine month period ended September 30, 2012 as compared with the year-ago period was primarily due to \$0.8 million in research and development expenses attributable to the Non-Acute Care segment and a \$1.0 million decrease in software development capitalized, partially offset by lower vacation and other compensation related expenses. The amount of research and development expense can fluctuate based on the amount of prototype expenses

for hardware and/or the amount of capitalized software development costs in any given quarter.

We expect research and development expenses to remain relatively flat as a percentage of our revenue on an annual basis and grow in absolute dollars in the future as our revenue grows to improve and enhance our existing technologies and to create new technologies in health care automation.

**Selling, General and Administrative.** Selling, general and administrative expenses increased by \$5.7 million, or 24.0%, in the three months ended September 30, 2012 as compared to the same period in 2011. Selling, general and administrative expenses represented 34.8% and 36.7% of total revenues in the three months ended September 30, 2012 and 2011, respectively. The increase was primarily due to the addition of Non-Acute Care selling, general and administrative expenses of \$5.1 million and a \$0.9 million increase in compensation costs related to increased sales and marketing staffing,

Table of Contents

offset by lower commissions of \$0.3 million.

Selling, general and administrative expenses increased by \$12.7 million, or 17.2%, in the nine months ended September 30, 2012 as compared to the same period in 2011. Selling, general and administrative expenses represented 38.6% and 40.4% of total revenues in the nine months ended September 30, 2012 and 2011, respectively. The increase was primarily due to the addition of Non-Acute Care selling, general and administrative expenses of \$8.8 million, a \$3.8 million increase in costs associated with compensation and related benefits, \$2.3 million in transaction and integration expenses related to the acquisition of MTS and an increase of \$0.9 million in bad debt, offset by a \$1.1 million decrease in legal expenses related to the settlement of litigation in 2011, a \$1.1 million decrease in consulting expenses and a \$0.6 million decrease in promotional and other expenses.

We expect selling, general and administrative expenses to grow at a nominal rate in order to support our anticipated growth as well as international expansion efforts, but anticipate that increased efficiencies will result in a lower selling, general and administrative expense relative to total revenue growth in 2012.

Share-based Compensation. The effect of share-based compensation on functional expenses within our operating results for the three months and nine months ended September 30, 2012 and 2011 is presented in Note 13, "Stock Option Plans and Share-Based Compensation."

#### Provision for Income Taxes

The annual effective tax rate before discrete items was 41.5% and 40.3% for the nine months ended September 30, 2012 and 2011, respectively. The increase in the estimated 2012 annual effective tax rate recorded in the nine months ended September 30, 2012 as compared to the same period in 2011 was primarily due to the expiration of the federal research and development credit after 2011 and non-deductible acquisition costs and equity charges, partially offset by an increase in domestic production activity deduction.

#### Liquidity and Capital Resources

We had cash and cash equivalents of \$54.8 million at September 30, 2012, as compared to \$191.8 million in cash and cash equivalents and \$8.1 million of short term investments at December 31, 2011. All of our cash is in low risk short term money market funds or demand deposits. The \$8.1 million of short term investments held at December 31, 2011 consisted of California revenue anticipation notes which matured on June 26, 2012. We had no long term investments as of September 30, 2012. While in the future we may need to seek additional financing to meet our working capital needs and to finance capital expenditures, as well as to fund operations or potential acquisitions, we believe our current cash and cash equivalent balances and cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. Our cash and cash equivalents of \$54.8 million reflects use of \$156.3 million of cash expended to acquire MTS on May 21, 2012, net of cash acquired, as described in Note 14, "Business Acquisition."

Cash flows for the nine months ended September 30, 2012 and 2011 consisted of the following (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Net cash provided by operating activities	\$27,477	\$14,629
Net cash used in investing activities	(161,171	) (10,421
Net cash used in financing activities	(3,250	) (400
Effect of exchange rate changes on cash and cash equivalents	—	(140
Net (decrease) increase in cash and cash equivalents	\$ (136,944	) \$3,668

Operating activities provided \$27.5 million of cash during the nine months ended September 30, 2012 as compared to \$14.6 million for the nine months ended September 30, 2011. The main drivers for the \$12.8 million increase in cash generated from operations were a \$4.4 million increase in net income, a \$10.8 million increase from the change in inventories primarily the result of a non-recurring increase in 2011 in anticipation of new product introductions, a \$0.8 million increase in other long term liabilities, a \$1.9 million increase from other current assets, a \$1.5 million cash increase from accrued compensation, and a \$1.2 million cash increase from the excess tax benefits from employee stock plans. These amounts were partially offset by a \$4.8 million cash decrease in prepaid expenses, a \$3.8 million decrease in accounts receivable, a \$2.0 million decrease in accrued liabilities, a \$0.8 million decrease in other assets and a \$2.4 million decrease in investment in sales-type leases.

Table of Contents

Cash used in investing activities totaled \$161.2 million during the nine months ended September 30, 2012, as compared to \$10.4 million provided by investing activities during the nine months ended September 30, 2011. This \$150.8 million decrease in cash primarily reflects the \$156.3 million of net cash used to acquire MTS combined with cash used of \$2.8 million for purchases of property and equipment. The increase in cash used in investing activities was offset by the \$8.1 million in net proceeds from maturities of California revenue anticipation notes. Software development capitalization decreased by \$0.4 million from the prior period as a result of more pre-capitalization testing of several new software applications for external sale or lease performed in the prior period.

Cash used by financing activities was \$3.3 million during the nine months ended September 30, 2012, as compared to \$0.4 million during the nine months ended September 30, 2011, resulting in a difference of \$2.9 million in cash used. The increase is primarily due to cash used for stock repurchases of \$1.8 million. Additionally, excess tax benefits from employees stock plans was \$1.2 million less in the nine months ended September 30, 2012.

## Contractual Obligations

Except for the Milpitas lease signed in March 2012 and the assumption of the St. Petersburg lease in May 2012, there have been no material changes to our contractual obligations during the nine months ended September 30, 2012. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2011 for a description of our facility leases and contractual obligations and the Notes to the consolidated financial statements included therein.

The following table summarizes our contractual obligations at September 30, 2012 (in thousands):

	Total	Less than one year	One to three years	Three to five years	More than five years
Operating leases (1) (2) (3) (4)	\$47,093	\$ 5,758	\$10,633	\$9,397	\$21,305
Commitments to contract manufacturers and suppliers (5)	6,301	6,301	—	—	—
Total (6)	\$53,394	\$ 12,059	\$10,633	\$9,397	\$21,305

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

(2) In October 2011, we entered into a lease agreement for approximately 100,000 square feet of office space. Pursuant to the lease agreement, the landlord has constructed a single, three-story building of rentable space located at 590 Middlefield Road in Mountain View, California which we will lease and which will serve as our headquarters. The term of the lease agreement is for a period of ten years, and will commence in November 2012, with a base lease commitment of approximately \$40.0 million. We have two options to extend the term of the lease agreement at market rates. Each extension is for an additional 60 month term.

(3) In March 2012, we entered into a lease agreement for approximately 46,000 square feet of manufacturing, distribution and office space located at 735 Sycamore Drive in Milpitas, California which commenced in October 2012. The term of the lease agreement is for a period of 60 months, with a base lease commitment of approximately \$1.8 million and a single 60 month extension option.

(4) Commencing with the acquisition of MTS, we assumed responsibility for 132,500 square feet of manufacturing, warehousing and office space in St. Petersburg, Florida. The remaining term of the original 12 year lease agreement expires September 30, 2016, with a remaining base lease commitment of approximately \$3.7 million. We have two options to extend the term of the lease agreement at market rates. Each extension is for an additional 60 month term. In Leeds, United Kingdom, MTS leases an office and distribution center. The remaining term of the original 10 year lease agreement is through June 8, 2021, with no extension options. The remaining base lease commitment, converted from British Pounds at the current conversion rate, is approximately \$1.2 million. MTS also has smaller rented offices

in Strongsville, Ohio and Germany.

(5) We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates.

(6) At September 30, 2012, we have recorded \$3.5 million for uncertain tax positions under long term liabilities, in accordance with GAAP, summarized under Note 1, "Organization and Summary of Significant Accounting Policies." As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend

35

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Table of Contents

upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, the \$3.5 million of uncertain tax position liabilities has not been included in the table of commitments above.

Off-Balance Sheet Arrangements

As of September 30, 2012, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2012, there were no material changes to our disclosures to market risk from the disclosures set forth under the caption, "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011, other than the foreign currency exposure described in Note 16, "Risk Management and Derivatives," which are now relevant due to the higher foreign revenues of the acquired MTS business.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2012. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2012, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Legal Proceedings

The information set forth under “Legal Proceedings” in Note 11, “Contingencies,” of the Notes to Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for the period ended September 30, 2012 is incorporated herein by reference.

Item 1A. RISK FACTORS

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

Unfavorable economic and market conditions, a decreased demand in the capital equipment market and uncertainty regarding the rollout of government legislation in the healthcare industry could adversely affect our operating results. Customer demand for our products is significantly linked to the strength of the economy. If decreases in demand for capital equipment caused by weak economic conditions and decreased corporate and government spending, including any effects of sequestration that may become effective in 2013, deferrals or delays of capital equipment projects, longer time frames for capital equipment purchasing decisions or generally reduced expenditures for capital solutions continues, we will experience decreased revenues and lower revenue growth rates and our operating results could be materially and adversely affected.

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

The medication management and supply chain solutions market is highly competitive and we may be unable to compete successfully against new entrants and established companies with greater resources and/or existing business relationships with our current and potential customers.

The medication management and supply chain solutions market is intensely competitive. We expect continued and increased competition from current and future competitors, many of which have significantly greater financial, technical, marketing and other resources than we do. Our current direct competitors in the medication management and supply chain solutions market include CareFusion Corporation (a spinoff from Cardinal Health, Inc., which includes Pyxis Corporation, PhACTs LLC and Rowa Technologies), McKesson Automation Inc. (a business unit of McKesson Corporation), AmerisourceBergen Corporation (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Talyst, Inc., Emerson Electronic Co. (through its acquisitions of Flo Healthcare LLC, Lionville Systems, Inc. and medDispense, L.P.), Swisslog Holding AG, Stinger Medical, Stanley Black and Decker, Inc. (through their acquisition of InfoLogix, Inc.), Ergotron, Inc., Capso Solutions LLC (through their acquisition of Artromick International, Inc.), Rubbermaid Medical Solutions (a business unit of Newell Rubbermaid Inc.), WaveMark Inc., ParExcellence Systems, Inc., Vanas n.v., Lawson Software, Inc. and MACH4 Automatisierungstechnik GmbH. Our current direct competitors in the medication packaging solutions market include Drug Package, Inc., AutoMed® Technologies, Inc. (a subsidiary of AmerisourceBergen Corporation) Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. in the United States, and Surgichem Ltd., and Jones Packaging Ltd. in Europe.

The competitive challenges we face in the medication management and supply chain solutions market include, but are not limited to, the following:

- certain competitors may develop new features or capabilities for their products not previously offered that could compete directly with our products;

- competitive pressures could result in increased price competition for our products and services, fewer customer

Table of Contents

orders and reduced gross margins, any of which could harm our business;

current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, including larger, more established healthcare supply companies, thereby increasing their ability to develop and offer products and services to address the needs of our prospective customers;

our competitors may develop, license or incorporate new or emerging technologies or devote greater resources to the development, promotion and sale of their products and services than we do;

certain competitors have greater brand name recognition and a more extensive installed base of medication and supply dispensing systems or other products and services than we do, and such advantages could be used to increase their market share;

certain competitors may have existing business relationships with our current and potential customers, which may cause these customers to purchase medication and supply dispensing systems or automation solutions from these competitors;

other established or emerging companies may enter the medication management and supply chain solutions market; and

our competitors may secure products and services from suppliers on more favorable terms or secure exclusive arrangements with suppliers or buyers that may impede the sales of our products and services.

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

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

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

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

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

We cannot assure you that we will be successful in marketing any new products or services that we introduce, that new products or services will compete effectively with similar products or services sold by our competitors, or that the

level of market acceptance of such products or services will be sufficient to generate expected revenues and synergies with our other products or services. Deployment of new products or services often requires interoperability with other Omnicell products or services as well as with healthcare facilities' existing information management systems. If these products or services fail to satisfy these demanding technological objectives, our customers may be dissatisfied and we may be unable to generate future sales.

38

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## Table of Contents

The acquisition of MTS could cause disruptions in our business, which could have an adverse effect on our financial results.

On May 21, 2012, we completed the acquisition of MTS, a provider of medication adherence packaging systems. Uncertainty about the effect of the acquisition on employees, customers, distributors, partners and suppliers may have an adverse effect on the combined company. These uncertainties may impair our ability to retain and motivate key personnel and could cause customers, distributors, suppliers, partners and others with whom we do business to seek to change existing business relationships. Any such change may materially and adversely affect our business. Any disruption in our operations could adversely affect the combined company's ability to maintain relationships with customers, distributors, partners, suppliers and employees or to achieve the anticipated benefits of the acquisition.

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

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

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

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

As a part of our business strategy we may seek to acquire businesses, technologies or products in the future. For example, on May 21, 2012, we completed the acquisition of MTS. We cannot assure you that any acquisition or any future transaction we complete will result in long-term benefits to us or our stockholders, or that our management will be able to integrate or manage the acquired business effectively. Acquisitions entail numerous risks, including difficulties associated with the integration of operations, technologies, products and personnel that, if realized, could harm our operating results. Risks related to potential acquisitions include, but are not limited to:

- difficulties in combining previously separate businesses into a single unit;
- the substantial costs that may be incurred and the substantial diversion of management's attention from day-to-day business when evaluating and negotiating such transactions and then integrating an acquired business;
- discovery, after completion of the acquisition, of liabilities assumed from the acquired business or of assets acquired that are broader in scope and magnitude or are more difficult to manage than originally assumed;
- failure to achieve anticipated benefits such as cost savings and revenue enhancements;
- difficulties related to assimilating the products of an acquired business; and
- failure to understand and compete effectively in markets in which we have limited previous experience.

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

Table of Contents

We may fail to realize the potential benefits of the acquisition of MTS.

We acquired MTS in an effort to realize certain potential benefits, including expansion of the combined businesses and broader market opportunities. However, our ability to realize these potential benefits depends on our successfully combining the businesses of Omnicell and MTS. The combined company may fail to realize the potential benefits of the merger for a variety of reasons, including the following:

- inability or failure to expand in long term care markets for medication management and adherence;
- inability or failure to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- inability or failure to successfully integrate and harmonize financial reporting and information technology systems;
- inability or failure to achieve the expected operational and cost efficiencies; and
- loss of key employees.

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

Demand for our consumable medication packages is perishable and if we are not able to supply the demand from our institutional and retail pharmacy customers on schedule, they may utilize alternative means to distribute medications to their customers.

Approximately 20% of our revenue is generated from the sale of consumable medication packages, which are produced in our St. Petersburg, Florida facilities on a continuous basis and shipped to our institutional pharmacies and retail pharmacy customers shortly before they are required by those customers. The demands placed on institutional pharmacies and retail pharmacies by their customers represent real time requirements of those customers. Our customer agreements for the sale of consumable medication packages are typically short-term in nature and typically do not include any volume commitments on the part of the customer. Although our packaging may be considered the preferred method of maintaining control of medications during the medication distribution and administration process, institutional and retail pharmacies have alternative methods of distributing medications, including bulk and alternative packaging, and medication adherence packaging may be supplied by our competitors. To the extent that we are unable to supply packaging to our customers in a timely manner, that demand will be supplied via alternative distribution methods and our revenue will be adversely affected. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages and would adversely affect our revenue.

We may need additional financing in the future to meet our capital needs and such financing may not be available on favorable terms, if at all, and may be dilutive to existing stockholders.

We intend to continue to expend substantial funds for research and development activities, product development, sales and marketing activities and the potential acquisition and integration of complementary products and businesses. As a consequence, in the future we may need to seek additional financing to meet our working capital needs and to finance capital expenditures, as well as to fund operations or potential acquisitions. We may be unable to obtain any desired additional financing on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund our expansion, successfully develop or enhance products, respond to competitive pressures or take advantage of acquisition opportunities, any of which could negatively affect our business. If we raise additional funds through the issuance of equity securities, our stockholders will experience dilution of their ownership interest. If we raise additional funds by issuing debt, we may be subject to certain contractual restrictions on our operations.



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

Our success is highly dependent upon the continuing contributions of our key management, sales, technical and engineering staff. We believe that our future success will depend upon our ability to attract, train and retain highly skilled and motivated personnel. As more of our products are installed in increasingly complex environments, greater technical expertise will be required. As our installed base of customers increases, we will also face additional demands on our customer service and support personnel, requiring additional resources to meet these demands. We may experience difficulty in recruiting qualified personnel. Competition for qualified technical, engineering, managerial, sales, marketing, financial reporting and

Table of Contents

other personnel can be intense and we cannot assure you that we will be successful in attracting and retaining qualified personnel. Competitors have in the past attempted, and may in the future attempt, to recruit our employees.

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

We have experienced substantial fluctuations in customer demand, affecting our annual revenue, and we cannot be sure that we will be able to respond proactively to future changes in customer demand.

Macroeconomic and general market conditions in recent years have contributed to revenue volatility. Revenues for the year ended December 31, 2009 declined by \$38.4 million or 15.2% from \$251.9 million in 2008. For the year ended December 31, 2010, revenue increased by \$8.9 million or 4.2% to \$222.4 million compared to \$213.5 million for 2009. For the year ended December 31, 2011, revenue increased by \$23.1 million or 10.4% to \$245.5 million.

Our ability to adjust to rapid reductions in our revenue while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If macroeconomic and general market conditions improve and return to historical levels, our ability to grow revenue and profitability will also be dependent on our ability to continue to manage costs and control expenses. If our revenue increases rapidly, we may not be able to manage this growth effectively. Future growth is dependent on the continued demand for our products, the volume of installations we are able to complete, our ability to continue to meet our customers' needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis. Our expense control is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our ability to gain efficiencies in our workforce through the local and worldwide labor markets and our ability to grow our outsourced vendor supply model. Our expense growth rate may equal or exceed our revenue growth rate if we are unable to streamline our operations, or fail to reduce the costs or increase the margins of our products. In addition, we may not be able to reduce our expenses to keep pace with any reduction in our revenue, which could harm our results of operations and financial position.

The healthcare industry faces financial constraints and consolidation that could adversely affect the demand for our products and services.

The healthcare industry has faced, and will likely continue to face, significant financial constraints. Recently enacted legislation such as the American Recovery and Reinvestment Act in 2009, the Patient Protection and Affordable Care Act in 2010, the Budget Control Act of 2011, and other health reform legislation may cause customers to postpone purchases of our products while the impact of the legislation on their operations is determined. Our automation solutions often involve a significant financial commitment by our customers and, as a result, our ability to grow our business is largely dependent on our customers' capital and operating budgets. To the extent healthcare spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

Many healthcare providers have consolidated to create larger healthcare delivery organizations to achieve greater market power. If this consolidation continues, it could reduce the number of our target customers. In addition, the resulting organizations could have greater bargaining power, which may lead to price erosion.

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

Our success depends in part on our ability to obtain patent protection for technology and processes and our ability to preserve our trademarks, copyrights and trade secrets. We have pursued patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and for technology that offers us a potential

competitive

41

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Table of Contents

advantage for our products. We intend to continue to pursue such protection in the future. Our issued patents relate to various features of our medication and supply dispensing systems and our packaging systems. We cannot assure you that we will file any patent applications in the future, and that any of our patent applications will result in issued patents or that, if issued, such patents will provide significant protection for our technology and processes.

Furthermore, we cannot assure you that others will not develop technologies that are similar or superior to our technology or that others will not design around the patents we own. All of our system software is copyrighted and subject to the protection of applicable copyright laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary, which could harm our competitive position.

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

We currently have operations outside of the United States, including sales efforts centered in Canada, Europe, the Middle East and Asia-Pacific regions and supply chain efforts in Asia. During the fourth quarter of 2011, we launched Mandarin-language versions of our G4 medication automation products for clinical use in China and entered into a partnership to distribute, install, and service our automated medication dispensing systems in China. Our international operations subject us to a variety of risks, including:

- the difficulty of managing an organization operating in various countries;
- growing political sentiment against international outsourcing of production;
- reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;
- changes in foreign regulatory requirements;
- the requirement to comply with a variety of international laws and regulations, including labor, import, export, tax, anti-bribery and employment laws and changes in tariff rates;
- fluctuations in currency exchange rates and difficulties in repatriating funds from certain countries; and
- political unrest, terrorism and the potential for other hostilities in areas in which we have facilities.

Our success depends, in part, on our ability to anticipate and address these risks. We cannot assure you that these or other factors will not adversely affect our business or operating results.

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

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

- our ability to successfully install our products on a timely basis and meet other contractual obligations necessary to recognize revenue;
- the size, product mix and timing of orders for our medication and supply dispensing systems, and our medication packaging systems, and their installation and integration;
- the overall demand for healthcare medication management and supply chain solutions;
- changes in pricing policies by us or our competitors;
- the number, timing and significance of product enhancements and new product announcements by us or our competitors;
- the timing and significance of any acquisition or business development transactions that we may consider or negotiate and the revenues, costs and earnings that may be associated with these transactions;
- the relative proportions of revenues we derive from products and services;
- fluctuations in the percentage of sales attributable to our international business;
- our customers' budget cycles;
- changes in our operating expenses and our ability to stabilize expenses;
- our ability to generate cash from our accounts receivable on a timely basis;
- the performance of our products;
- changes in our business strategy;
- macroeconomic and political conditions, including fluctuations in interest rates, tax increases and availability of credit markets; and

•volatility in our stock price and its effect on equity-based compensation expense.

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

42

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## Table of Contents

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

A number of group purchasing organizations, including AmeriNet, Inc., Carolina Shared Services, LLC, Child Health Corporation of America, HealthTrust Purchasing Group, L.P., MedAssets, Inc. Supply Chain Systems, Novation, LLC, Premier Purchasing Partners, L.P. and Resources Optimization & Innovation, LLC have negotiated standard contracts for our products on behalf of their member healthcare organizations. Members of these group purchasing organizations may purchase under the terms of these contracts, which obligates us to pay the group purchasing organization a fee. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our revenue targets or increase our revenues. We cannot assure you that these organizations will renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire. If we are unable to maintain our relationships with major institutional pharmacies, we may experience a decline in the sales of consumables used to produce blister cards to these customers.

The institutional pharmacy market consists of significant national suppliers of medications to non-acute care facilities, smaller regional suppliers, and very small local suppliers. Although none of these customers comprise more than 10% of Omnicell revenues, they may, in some periods, comprise between 5 and 10% of revenues. If the larger national suppliers were to source consumable blister card components from alternative sources, or if alternatives to blister cards were used for medication control, our revenues would decline.

If the transition to our new headquarters building is not completed on schedule or effectively coordinated, we risk increased costs and possible interruption of our business.

We entered into a long term lease for a new headquarters building that commenced construction in November 2011 was completed in October 2012. We intend to move into the new building during the fourth quarter of 2012. In the event that we are unable to complete the move to our new facility by December 2012, the lease for our current headquarters facility allows for continuation of occupancy on a month to month basis for one year following November 30, 2012, however the monthly rent pursuant to such basis would be at a substantial increase to our current monthly rent. If the move to our new facility is not completed by November 30, 2012, we would, under the continuation terms of our current lease, incur additional costs of \$6,368 per day for up to a period of one year. If the move to our new headquarters facility is not completed by November 30, 2013, we do not expect our current landlord to further extend our current lease and therefore we could experience interruptions to our business while we secure a new headquarters facility.

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

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

As of December 31, 2010 our management determined that our internal control over financial reporting was not effective under the Section 404 criteria, as a result of a material weakness in our income tax accounting. Specifically, our processes, procedures and controls related to the preparation and review of the annual income tax provision were not effective to ensure that amounts recorded for the income tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. GAAP.

Based on completion of our remediation plan, our management determined that, as of December 31, 2011, we had remediated the material weakness in internal control over financial reporting that existed at December 31, 2010.

However, any future failure by us to maintain an effective internal control environment could negatively impact the

market price of our common stock.

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

43

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## Table of Contents

During the nine months ended September 30, 2012, our common stock traded between \$12.33 and \$17.94 per share. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

- changes in our operating results;
- developments in our relationships with corporate customers;
- changes in the ratings of our common stock by securities analysts;
- announcements by us or our competitors of technological innovations or new products;
- announcements by us or our competitors of acquisitions of businesses, products or technologies; or
- general economic and market conditions.

Furthermore, the stock market as a whole from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for technology companies. These broad market fluctuations may cause the market price of our common stock to decline irrespective of our performance. In addition, sales of substantial amounts of our common stock in the public market could lower the market price of our common stock. We depend on a limited number of suppliers for our products and our business may suffer if we were required to change suppliers to obtain an adequate supply of components, equipment and raw materials on a timely basis. Although we generally use parts and components for our products with a high degree of modularity, certain components are presently available only from a single source or limited sources. We rely on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages. We have generally been able to obtain adequate supplies of all components and raw materials in a timely manner from existing sources, or where necessary, from alternative sources of supply. We engaged multiple single source third-party manufacturers to build several of our sub-assemblies. The risk associated with changing to alternative vendors, if necessary, for any of the numerous components used to manufacture our products could limit our ability to manufacture our products and harm our business. Our reliance on a few single source partners to build our hardware sub-assemblies and on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages, a reduction or interruption in supply from our partners or suppliers, or a significant increase in the price of one or more components could have an adverse impact on our business, operating results and financial condition. In certain circumstances, the failure of any of our suppliers or us to perform adequately could result in quality control issues affecting end users' acceptance of our products. These impacts could damage customer relationships and could harm our business.

Complications in connection with our ongoing business information system upgrades to adopt new accounting standards and eventually adopt changes driven by converged accounting standards for revenues, leases and other topics may impact our results of operations, financial condition and cash flows.

We continue to upgrade our enterprise-level business information system with new capabilities. Based upon the complexity of some of the upgrades, there is risk that we will not see the expected benefit from the implementation of these upgrades in accordance with their anticipated timeline and will incur costs in addition to those we have already planned for. In addition, in future years, we may need to begin efforts to comply with final converged accounting standards to be established by the FASB for revenues, leases and other components of our financial reporting. These new standards could require us to modify our accounting policies, including our revenue recognition policy, which we modified in fiscal 2011. We further anticipate that integration of these and possibly other new standards may require a substantial amount of management's time and attention and require integration with our enterprise resource planning system. The implementation of the system and the adoption of future new standards, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to record certain business transactions timely. All of these risks could adversely impact our results of operations, financial condition and cash flows.

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



U.S. government customers that lease our equipment typically sign contracts with five-year payment terms that are subject to one-year government budget funding cycles. Further, the government has in certain circumstances mandated unilateral changes in its Federal Supply Services contract that could render our lease terms with the government less attractive. In our judgment and based on our history with these accounts, we believe these receivables are collectible. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell

Table of Contents

our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. As of September 30, 2012, the balance of our unsold leases to U.S. government customers was \$10.7 million.

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

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

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

For healthcare facilities to fully benefit from our automation solutions, our systems must interface with their existing information systems. This may require substantial cooperation, incremental investment and coordination on the part of our customers and may require coordination with third party suppliers of the existing information systems. There is little uniformity in the systems currently used by our customers, which complicates the interfacing process. If these systems are not successfully interfaced, our customers could choose not to use or to reduce their use of our automation solutions, which would harm our business.

Additionally, our competitors may enter into agreements with providers of hospital information management systems that are designed to increase the interoperability of their respective products. To the extent our competitors are able to increase the interoperability of their products with those of the major hospital information systems providers, customers who utilize such information systems may choose not to use our products and services.

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

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

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

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

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

Our products provide medication management and supply chain management solutions for the healthcare industry. Despite the presence of healthcare professionals as intermediaries between our products and patients, if our products fail to provide accurate and timely information or operate as designed, customers, patients or their family members

could assert claims against us for product liability. Moreover, failure of health care facility employees to use our products for their intended purposes could result in product liability claims against us. Litigation with respect to liability claims, regardless of any outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We possess a variety of insurance policies that include coverage for general commercial liability, technology

45

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Table of Contents

errors and omissions liability, and we attempt to mitigate these risks through contractual terms negotiated with our customers. However, these policies and protective contractual terms may not be adequate against product liability claims. A successful claim brought against us, or any claim or product recall that results in negative publicity about us, could harm our competitive position, results of operations and financial condition. Also, in the event that any of our products is defective, we may be required to recall or redesign those products.

We are dependent on technologies provided by third-party vendors.

Some of our products incorporate technologies owned by third parties that are licensed to us for use, modification, and distribution. If we lose access to third-party technologies, or we lose the ongoing rights to modify and distribute these technologies with our products we will either have to devote resources to independently develop, maintain and support the technologies ourselves, pay increased license costs, or transition to another vendor. Any independent development, maintenance or support of these technologies by us or the transition to alternative technologies could be costly, time consuming and could delay our product releases and upgrade schedules. These factors could negatively and materially affect our ability to market, sell or distribute our products and in turn our business and prospects.

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

While the manufacture and sale of our current products are not regulated by the United States Food and Drug Administration, or FDA, or the Drug Enforcement Administration, or DEA, these products, or our future products, if any, may be regulated in the future by these or other federal agencies due to future legislative and regulatory initiatives or reforms. Direct regulation of our business and products by FDA, DEA or other federal agencies could substantially increase the cost to produce our products and increase the time required to bring those products to market, reduce the demand for our products and reduce our revenues. In addition, healthcare providers and facilities that use our equipment and dispense controlled substances are subject to regulation by the DEA. The failure of these providers and facilities to comply with DEA requirements, including the Controlled Substances Act and its implementing regulations, could reduce demand for our products and harm our competitive position, results of operations and financial condition. Pharmacies are regulated by individual state boards of pharmacy that issue rules for pharmacy licensure in their respective jurisdictions. State boards of pharmacy do not license or approve our medication and supply dispensing systems; however, pharmacies using our equipment are subject to state board approval. The failure of such pharmacies to meet differing requirements from a significant number of state boards of pharmacy could decrease demand for our products and harm our competitive position, results of operations and financial condition. Similarly, hospitals must be accredited by The Joint Commission in order to be eligible for Medicaid and Medicare funds. The Joint Commission does not approve or accredit medication and supply dispensing systems; however, disapproval of our customers' medication and supply dispensing management methods and their failure to meet The Joint Commission requirements could decrease demand for our products and harm our competitive position, results of operations and financial condition.

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

The standards adopted to date include, among others, the "Standards for Privacy of Individually Identifiable Health Information," which restrict the use and disclosure of personally identifiable health information by covered entities, and the "Security Standards," which require covered entities to implement administrative, physical and technical safeguards to protect the integrity and security of certain electronic health information. Under HIPAA, we are considered a "business associate" in relation to many of our customers that are covered entities, and as such, most of these customers have required that we enter into written agreements governing the way we handle and safeguard certain patient health information we may encounter in providing our products and services and may impose liability on us for failure to

meet our contractual obligations. Further, pursuant to recent changes in HIPAA under the American Recovery and Reinvestment Act of 2009, or ARRA, we are now also covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties and other sanctions. In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on

Table of Contents

OmniceCell. These laws could restrict the ability of our customers to obtain, use or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

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

We grant stock options to our employees as incentives to join Omnicell or as an on-going reward and retention vehicle. At September 30, 2012, we had options outstanding to purchase approximately 4.6 million shares of our common stock at exercise prices ranging from \$2.70 to \$29.16 per share, at a weighted-average exercise price of \$13.73 per share. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable. Changes in our tax rates, the adoption of new tax legislation or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in the United States and other foreign jurisdictions. Our future effective tax rates could be affected by several factors, many of which are outside of our control, including: changes in the mix of earnings with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. We regularly assess the likelihood of adverse outcomes to determine the adequacy of our provision for taxes. We are also subject to examination of our income tax returns by the Internal Revenue Service and other tax authorities. There can be no assurance that the outcomes from these examinations will not materially adversely affect our financial condition and operating results.

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

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

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

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

In February 2003, our Board of Directors adopted a stockholder rights plan that may have the effect of discouraging, delaying or preventing a change in control of our company that may be beneficial to our stockholders. Pursuant to the

terms of the plan, when a person or group, except under certain circumstances, acquires 15% or more of our outstanding common stock (other than two then current stockholders and their affiliated entities, which will not trigger the rights plan unless they acquire beneficial ownership of 17.5% and 22.5% or more, respectively, of our outstanding common stock) or ten business days after commencement or announcement of a tender or exchange offer for 15% or more of our outstanding common stock, the rights

47

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Table of Contents

(except those rights held by the person or group who has acquired or announced an offer to acquire 15% or more of our outstanding common stock) would generally become exercisable for shares of our common stock at a discount. Because the potential acquirer's rights would not become exercisable for our shares of common stock at a discount, the potential acquirer would suffer substantial dilution and may lose its ability to acquire us. In addition, the existence of the plan itself may deter a potential acquirer from acquiring us. As a result, either by operation of the plan or by its potential deterrent effect, a change in control of our company that our stockholders may consider in their best interests may not occur.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the number of shares of common stock repurchased by us during the three months ended September 30, 2012:

Period	Total number of shares (or units) purchased	Average price paid per share (or unit), including commissions	Total number of Shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
July 1—31, 2012	200,950	\$13.33	200,950	\$2.6 million
August 1—31, 2012	113,650	13.50	113,650	\$1.1 million
September 1—30, 2012	78,431	\$13.89	78,431	\$—
Total	393,031	\$13.49	393,031	

## Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

## Item 5. OTHER INFORMATION

None.



Table of Contents

Item 6. EXHIBITS

Exhibit No.	Exhibit Title
3.1(1)	Amended and Restated Certificate of Incorporation of Omnicell, Inc.
3.2(2)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.
3.3(3)	Certificate of Designation of Series A Junior Participating Preferred Stock.
3.4(4)	Bylaws of Omnicell, Inc., as amended.
4.1(1)	Form of Common Stock Certificate.
4.2	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
4.3(5)	Rights Agreement, dated February 6, 2003, between Omnicell, Inc. and EquiServe Trust Company, N.A.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350).
101.INS(6)	XBRL Instance Document.
101.SCH(6)	XBRL Taxonomy Extension Schema Document.
101.CAL (6)	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF(6)	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB(6)	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE(6)	XBRL Taxonomy Extension Presentation Linkbase Document.

Previously filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-57024), and (1) amendments thereto, originally filed with the Securities and Exchange Commission on March 14, 2001, and incorporated herein by reference.

(2) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q (File No. 000-33043) filed with the Securities and Exchange Commission on August 9, 2010, and incorporated herein by reference.

Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K (File No. 000-33043), and (3) amendments thereto, originally filed with the Securities and Exchange Commission on March 28, 2003, and incorporated herein by reference.

(4) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q (File No. 000-33043) filed with the Securities and Exchange Commission on August 9, 2007, and incorporated herein by reference.

(5) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 000-33043) filed with the Securities and Exchange Commission on February 14, 2003, and incorporated herein by reference.

(6) Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant

to Rule 406T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

Table of Contents

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.

OMNICELL, INC.

Date: November 8, 2012

/s/ ROBIN G. SEIM  
Robin G. Seim  
Duly Authorized Officer, Chief Financial Officer and  
Executive Vice President Finance, Administration and  
Manufacturing

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Table of Contents

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