

OMNICELL, Inc
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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, 2014

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

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.)

590 East Middlefield Rd.

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)

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 October 31, 2014 was 35,604,480.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 104,187	\$ 104,531
Accounts receivable, net of allowances of \$1,247 and \$490, respectively	95,167	58,597
Inventories	31,847	31,457
Prepaid expenses	18,221	18,883
Deferred tax assets	12,684	12,635
Other current assets	6,262	7,675
Total current assets	268,368	233,778
Property and equipment, net	37,688	35,254
Non-current net investment in sales-type leases	10,823	11,485
Goodwill	123,090	111,343
Intangible assets, net	84,075	81,602
Non-current deferred tax assets	975	1,102
Other assets	22,294	17,937
Total assets	\$ 547,313	\$ 492,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,202	\$ 16,471
Accrued compensation	13,071	19,604
Accrued liabilities	17,073	13,746
Deferred service revenue	22,672	22,626
Deferred gross profit	35,542	19,957
Total current liabilities	111,560	92,404
Non-current deferred service revenue	20,368	17,763
Non-current deferred tax liabilities	30,471	28,162
Other long-term liabilities	6,013	5,175
Total liabilities	168,412	143,504
Commitments and Contingencies (Note 11 and Note 12)		
Stockholders' equity:		
Total stockholders' equity	378,901	348,997
Total liabilities and stockholders' equity	\$ 547,313	\$ 492,501

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

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OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Product revenues	\$92,229	\$75,508	\$260,053	\$220,325
Services and other revenues	20,314	18,531	59,306	54,510
Total revenues	112,543	94,039	319,359	274,835
Cost of revenues:				
Cost of product revenues	44,510	33,977	124,413	103,810
Cost of services and other revenues	8,487	8,022	24,865	24,250
Total cost of revenues	52,997	41,999	149,278	128,060
Gross profit	59,546	52,040	170,081	146,775
Operating expenses:				
Research and development	7,078	6,561	19,670	21,665
Selling, general and administrative	38,871	34,762	114,302	100,866
Total operating expenses	45,949	41,323	133,972	122,531
Income from operations	13,597	10,717	36,109	24,244
Interest and other income (expense), net	(706	) 25	(1,003	) (134
Income before provision for income taxes	12,891	10,742	35,106	24,110
Provision for income taxes	5,591	2,987	13,824	6,954
Net income	\$7,300	\$7,755	\$21,282	\$17,156
Net income per share-basic	\$0.20	\$0.22	\$0.60	\$0.50
Net income per share-diluted	\$0.20	\$0.21	\$0.58	\$0.48
Weighted average shares outstanding:				
Basic	35,994	35,133	35,634	34,499
Diluted	36,832	36,190	36,617	35,466

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

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OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands)

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2014	2013	2014	2013
Net income	\$7,300	\$7,755	\$21,282	\$17,156
Other comprehensive income:				
Change in fair value of foreign currency forward contracts	—	—	—	(65)
Foreign currency translation adjustment	(669)	217	(550)	21
Other comprehensive income (loss)	(669)	217	(550)	(44)
Comprehensive income	\$6,631	\$7,972	\$20,732	\$17,112

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

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OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$21,282	\$17,156
Adjustments to reconcile net income to net cash provided by operating activities, net of business acquisition		
Depreciation and amortization	14,705	13,732
Loss on disposal of fixed assets	221	289
Impairment of software development costs	—	1,759
Provision for receivable allowance	850	110
Share-based compensation expense	8,610	8,387
Income tax benefits from employee stock plans	4,065	1,707
Excess tax benefits from employee stock plans	(4,456)	(2,827)
Provision for excess and obsolete inventories	450	911
Deferred income taxes	1,307	(737)
Changes in operating assets and liabilities:		
Accounts receivable, net	(35,028)	(9,004)
Inventories	1,301	(4,713)
Prepaid expenses	1,015	(1,661)
Other current assets	1,412	(394)
Non-current net investment in sales-type leases	677	1,313
Other assets	360	307
Accounts payable	5,420	6,462
Accrued compensation	(6,533)	1,263
Accrued liabilities	(416)	2,031
Deferred service revenue	2,650	(403)
Deferred gross profit	15,585	4,434
Other long-term liabilities	838	615
Net cash provided by operating activities	34,315	40,737
Cash flows from investing activities:		
Acquisition of intangible assets and intellectual property	(236)	(225)
Software development for external use	(7,925)	(5,694)
Purchases of property and equipment	(10,151)	(7,817)
Business acquisition, net of cash acquired	(19,749)	—
Net cash used in investing activities	(38,061)	(13,736)
Cash flows from financing activities:		
Proceeds from issuances under stock-based compensation plans	18,157	24,020
Employees' taxes paid related to restricted stock units	(2,023)	—
Common stock repurchases	(17,052)	—
Excess tax benefits from employee stock plans	4,456	2,827
Net cash provided by financing activities	3,538	26,847
Effect of exchange rate changes on cash and cash equivalents	(136)	29
Net increase (decrease) in cash and cash equivalents	(344)	53,877

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Cash and cash equivalents at beginning of period	104,531	62,313
Cash and cash equivalents at end of period	\$104,187	\$116,190
Supplemental disclosure of non-cash investing activities		
Business acquisition costs in accrued liabilities	\$860	\$—
Capital assets in accounts payable and accrued liabilities	\$444	\$—
Treasury stock in accrued liabilities	\$2,586	\$—

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

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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 automated medication supply control systems and medical adherence solutions which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States and Canada.

In 2012, we acquired Medication Technologies, Inc. ("MTS"), a provider of 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. MTS is part of our Medication Adherence segment which consists of all the products we sell to fulfill medication adherence needs through blister cards, blister card packaging equipment, and related software.

In August of 2014, we acquired Surgichem Limited ("Surgichem"), a provider of medication adherence solutions to the non-acute care market in the United Kingdom ("UK"). Surgichem supplies its monitored dosage systems to a network of over 3,200 independent pharmacies and UK pharmacy chains. Surgichem is expected to complement our Medication Adherence segment. For further information, please see Note 7, Business Acquisition.

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 our subsidiaries as of September 30, 2014, the results of our operations and comprehensive income for the three and nine months ended September 30, 2014 and 2013 and our cash flows for the nine months ended September 30, 2014 and 2013. 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, 2013.

Our results of operations, comprehensive income for the three and nine months ended September 30, 2014 and cash flows for the nine months ended September 30, 2014 are not necessarily indicative of results that may be expected for the year ending December 31, 2014, or for any future period.

Use of estimates. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, share-based compensation, inventory valuation, valuation of goodwill and purchased intangibles, valuation of long-lived assets and accounting for income taxes.

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.

Concentration of credit risk. Financial instruments that may potentially subject us to concentrations of credit risk consist principally of cash equivalents and accounts receivable. Cash equivalents are maintained with several financial institutions and may exceed the amount of insurance provided on such balances. The majority of our accounts receivable are derived from sales to customers for commercial applications. We perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed necessary but generally require no collateral. We maintain reserves for potential credit losses. Our products are broadly distributed and there was no single customer accounting for 10% or more of revenues in the three and nine months ended September 30, 2014 and 2013. Additionally, there was no single customer accounting for 10% or more of accounts receivable at September 30, 2014 or December 31, 2013. We believe that we have no significant concentrations of credit risk at September 30, 2014.

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

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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, 2014 and 2013 totaled approximately \$11.0 million and \$8.6 million, respectively, and \$28.2 million and \$22.5 million for the nine months ended September 30, 2014 and 2013, respectively.

There have been no material changes in our significant accounting policies as of and for the three and nine months ended September 30, 2014, compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013.

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Recently Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. We adopted the amendments in ASU 2013-11 in the first quarter of 2014. This update did not have a significant impact on our financial position, operating results or cash flows.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09"). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Companies may use either of two methods: (i) full retrospective application to each prior reporting period presented with the option to elect certain practical expedients defined within ASU 2014-09; or (ii) modified retrospective application with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. ASU 2014-09 is effective for us in the first quarter of 2017 and we are currently evaluating the impact of our pending adoption on our consolidated financial statements.

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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, we excluded 426,974 and 364,450 shares, respectively, from the calculations of diluted net income per share for the three and nine months ended September 30, 2014 and 465,301 and 1,178,755 shares, respectively, from the same calculations for the three and nine months ended September 30, 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic:				
Net income	\$7,300	\$7,755	\$21,282	\$17,156
Weighted average shares outstanding — basic	35,994	35,133	35,634	34,499
Net income per share — basic	\$0.20	\$0.22	\$0.60	\$0.50
Diluted:				
Net income	\$7,300	\$7,755	\$21,282	\$17,156
Weighted average shares outstanding — basic	35,994	35,133	35,634	34,499
Add: Dilutive effect of employee stock plans	838	1,057	983	967
Weighted average shares outstanding — diluted	36,832	36,190	\$36,617	35,466
Net income per share — diluted	\$0.20	\$0.21	\$0.58	\$0.48

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Note 3. Cash and Cash Equivalents and Fair Value of Financial Instruments

Cash and cash equivalents consist of the following significant asset investment classes as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014			Fair Value	Cash / Cash Equivalents	Security Classification
	Amortized Cost	Unrealized Gains	Unrealized Losses			
Cash	\$42,522	\$—	\$—	\$42,522	\$42,522	N/A
Money market fund	61,665	—	—	61,665	61,665	Available-for-sale
Total cash and cash equivalents	\$104,187	\$—	\$—	\$104,187	\$104,187	

c	December 31, 2013			Fair Value	Cash / Cash Equivalents	Security Classification
	Amortized Cost	Unrealized Gains	Unrealized Losses			
Cash	\$38,823	\$—	\$—	\$38,823	\$38,823	N/A
Money market fund	65,708	—	—	65,708	65,708	Available-for-sale
Total cash and cash equivalents	\$104,531	\$—	\$—	\$104,531	\$104,531	

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. We did not hold any Level 2 and Level 3 assets or liabilities as of September 30, 2014 and December 31, 2013.

The following table shows our financial assets measured at fair value, on a recurring basis, with money market funds recorded within cash and cash equivalents (in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)		Total Fair Value
Money market fund at September 30, 2014	\$61,665		\$61,665
Money market fund at December 31, 2013	\$65,708		\$65,708

Note 4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Raw materials	\$11,158	\$10,765
Work in process	883	534
Finished goods	19,806	20,158
Total	\$31,847	\$31,457

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Note 5. Property and Equipment

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

	September 30, 2014	December 31, 2013
Equipment	\$42,738	\$40,180
Furniture and fixtures	5,663	5,260
Leasehold improvements	8,214	7,394
Software	25,536	20,199
Construction in process	3,935	2,649
Total property and equipment	86,086	75,682
Accumulated depreciation and amortization	(48,398	) (40,428
Total property and equipment, net	\$37,688	\$35,254

Depreciation and amortization expense for property and equipment was approximately \$2.9 million and \$2.6 million for the three months ended September 30, 2014 and 2013, respectively, and \$8.2 million and \$8.2 million for the nine months ended September 30, 2014 and 2013, respectively.

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Note 6. Net Investment in Sales-Type Leases

Our sales-type leases are for terms generally 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):

	September 30, 2014	December 31, 2013	
Net minimum lease payments to be received	\$17,496	\$18,172	
Less unearned interest income portion	(1,108	) (1,455)
Net investment in sales-type leases	16,388	16,717	
Less current portion	(5,565	) (5,232)
Non-current net investment in sales-type leases	\$10,823	\$11,485	

The minimum lease payments under sales-type leases as of September 30, 2014 were as follows (in thousands):

Remainder of 2014	\$1,614
2015	5,746
2016	4,412
2017	3,465
2018	1,889
Thereafter	370
Total	\$17,496

The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest (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, 2014:			
Accounts collectively evaluated for impairment	\$ 151	\$16,539	\$16,388
Ending balances: September 30, 2014	\$ 151	\$16,539	\$16,388
Credit loss disclosure for December 31, 2013:			
Accounts collectively evaluated for impairment	\$ 167	\$16,884	\$16,717
Ending balances: December 31, 2013	\$ 167	\$16,884	\$16,717

The following table summarizes the activity for the allowance for credit losses for the investment in sales-type leases (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Allowance for credit losses, beginning of period	\$157	\$184	\$167	\$607
Current period provision (reversal)	(6	) 15	(16	) 34
Direct write-downs charged against the allowance	—	—	—	(413
Recoveries of amounts previously charged off	—	(25	) —	(54
Allowance for credit losses, end of period	\$151	\$174	\$151	\$174

Note 7. Business Acquisition

On August 22, 2014, we completed our acquisition of Surgichem, a wholly-owned subsidiary of Bupa Care Homes (CFG) plc ("Bupa") pursuant to an Agreement by and among Omnicell, Bupa and MTS (the "Share Purchase Agreement"), under which MTS, a wholly-owned subsidiary of Omnicell, purchased the entire issued share capital of Surgichem, with Omnicell acting as guarantor of MTS' obligations thereunder (the "Acquisition"). As a result of the Acquisition, Omnicell paid

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to Bupa \$19.9 million in cash, subject to certain adjustments as provided for in the Share Purchase Agreement. Surgichem is in the process of being integrated with Omnicell's existing UK business, MTS Medication Technologies Limited, a leading supplier of medication adherence packaging solutions.

The Surgichem 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, specifically in the UK market. We acquired all outstanding shares of Surgichem.

We are accounting for the transaction under the acquisition method of accounting in accordance with the provisions of FASB Accounting Standards Codification ("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 acquisition consideration of \$20.8 million is comprised of \$19.9 million in cash at closing plus an estimated \$0.9 million net working capital adjustment recorded in accrued liabilities, subject to review by Bupa and possible adjustment.

The purchase price allocation is subject to certain post-closing working capital adjustments for the acquired current assets and current liabilities of Surgichem on the acquisition date. The total consideration, and the allocation of consideration to the individual net assets is preliminary, as there are remaining uncertainties to be resolved, including the settlement of the final net working capital adjustment.

The total acquisition consideration was approximately \$20.8 million and the preliminary acquisition price allocation was comprised of the following (in thousands):

	Fair Value Acquired
Cash	\$ 153
Accounts receivable	2,462
Inventory	2,190
Deferred tax assets and other current assets	361
Total current assets	\$ 5,166
Property and equipment	164
Intangibles	5,730
Goodwill	12,016
Total assets	\$ 23,076
Current liabilities	1,191
Non-current deferred tax liabilities	1,104
Total purchase price	\$ 20,781

Acquired intangible assets. The fair value of \$5.4 million for acquired customer relationships was determined based on an income approach using the discounted cash flow method. The fair value of \$0.3 million for the trade name was determined using the relief-from-royalty approach. The intangible assets are being amortized over their estimated useful lives of 18 years for the customer relationships and just over one year for trade name.

Goodwill. Approximately \$12.0 million has been allocated to goodwill, which represents sales of future products and services and the assembled workforce of Surgichem. In accordance with FASB 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 Surgichem acquisition enhances Omnicell's offerings and diversifies its 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. Note that the amortization of intangible assets, and goodwill is not deductible for tax purposes. For the three months ended September 30, 2014, we incurred approximately \$0.2 million in acquisition related costs related to the Surgichem acquisition, offset by a \$0.5 million expense reimbursement from Bupa. For the nine months ended September 30,

2014, we incurred approximately \$1.1 million in acquisition related costs related to the Surgichem acquisition, offset by a \$0.5 million expense reimbursement from Bupa. These costs are included in selling, general and administrative expenses in our Condensed Consolidated Statement of Operations.

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During the three months ended September 30, 2014, the acquired Surgichem operations (consolidated since the August 22, 2014 acquisition date) generated approximately \$1.4 million of revenue and impact on income from operations was \$0.1 million.

The total revenues of Surgichem for the nine months ended September 30, 2014 and 2013, were approximately \$10.1 million (including the \$1.4 million mentioned above) and \$8.7 million, respectively. Results of operations for Surgichem have been included in our condensed consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

Note 8. Goodwill and Intangible Assets

Goodwill

Goodwill is tested for impairment at least annually or more frequently if events or circumstances indicate that an impairment loss may have occurred, and we write down these assets when impaired. We perform our annual impairment tests during the fourth quarter of each fiscal year using the closing balance sheet as of the last day of the third quarter.

During the nine months ended September 30, 2014, we noted no indications of impairment or triggering events to cause us to perform a goodwill impairment analysis.

Goodwill by reporting unit, which is the same for our operating segments, is as follows (in thousands):

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	Goodwill at December 31, 2013	Goodwill Acquired	Translation Adjustments	Goodwill at September 30, 2014
Reporting units:				
Automation and Analytics	\$28,543	\$—	\$—	\$28,543
Medication Adherence	82,800	12,016	(269)	94,547
Total	\$111,343	\$12,016	\$(269)	\$123,090

Intangible Assets, net

There were no indefinite-lived intangible assets as of September 30, 2014 or December 31, 2013. Finite-lived intangible assets consist of the following (in thousands):

	September 30, 2014			December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Finite-lived intangibles:							
Customer relationships	\$60,062	\$6,919	\$53,143	\$54,730	\$5,236	\$49,494	5-30 years
Acquired technology	27,580	3,700	23,880	27,580	2,598	24,982	3-20 years
Patents	1,658	338	1,320	1,493	254	1,239	20 years
Trade name	7,193	1,461	5,732	6,890	1,003	5,887	1-12 years
Non-compete agreements	60	60	—	60	60	—	3 years
Total finite-lived intangibles	\$96,553	\$12,478	\$84,075	\$90,753	\$9,151	\$81,602	

Amortization expense for the intangible assets presented above was \$1.2 million and \$1.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$3.3 million and \$3.2 million for the nine months ended September 30, 2014 and 2013, respectively. The amortization of acquired technology is included within product cost of sales and amortization of other acquired intangibles is included within selling, general and administrative expenses.

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Estimated future amortization expense of finite-lived intangible assets are as follows (in thousands):

Remainder of 2014	\$ 1,289
2015	4,980
2016	4,355
2017	4,267
2018	4,113
Thereafter	65,071
Total	\$84,075

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Note 9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Rebates and lease buyouts	\$4,202	\$1,699
Advance payments from customers	3,749	4,971
Accrued Group Purchasing Organization (GPO) fees(1)	3,314	2,324
Technology license purchase obligation, current portion	250	1,500
Taxes payable	3,159	1,664
Other	2,399	1,588
Total	\$17,073	\$13,746

(1) Fees paid pursuant to GPO agreements. Customers who buy our products pursuant to a GPO agreement obtain pre-negotiated contract terms and pricing.

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Note 10. Deferred Gross Profit

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

	September 30, 2014	December 31, 2013
Sales of medication and supply dispensing systems and packaging equipment(1)	\$48,669	\$29,040
Cost of revenues, excluding installation costs	(13,127	) (9,083
Deferred gross profit	\$35,542	\$19,957

(1) Sales that have been delivered and invoiced and not yet installed, or sales that have been shipped and not invoiced and not yet installed.

Note 11. Commitments

We lease properties in California, Florida, Illinois, Tennessee, and the United Kingdom. We also have smaller rented offices in Ohio, the United Arab Emirates, the People's Republic of China and the Federal Republic of Germany.

At September 30, 2014, the minimum payments under our operating leases for each of the five succeeding fiscal years were as follows (in thousands):

Remainder of 2014	\$1,448
2015	5,604
2016	5,192
2017	4,468
2018	4,298
Thereafter	16,976
Total	\$37,986

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 \$10.9 million as of September 30, 2014.

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Note 12. Contingencies

Legal Proceedings

On September 12, 2014, MV Circuit Design, Inc., an Ohio company, brought an action to correct the inventorship of certain patents owned by Omnicell, as well as related state-law claims against the Company in the Northern District of Ohio (Case No. 1:14-cv-02028-DAP) regarding allegations of fraud in the filing and prosecution of U.S. Patent Nos. 8,180,485, 8,773,270, 8,812,153, PCT/US2007/003765, PCT/US2011/063597, and PCT/US2011/0635505. Omnicell has been granted an extension to respond to the Original Complaint on November 14, 2014. No schedule has yet been set by the court. Omnicell is currently evaluating a response to this complaint and intends to defend the matter vigorously.

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

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 indemnification obligations as of September 30, 2014 or December 31, 2013.

Note 13. Stockholders' Equity

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Treasury Stock

2012 Stock Repurchase Program

On August 1, 2012, our Board of Directors established a 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 are to 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 2012 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.

For the nine months ended September 30, 2014, we repurchased a total of \$19.6 million, or 721,101 shares, at an average cost of \$27.23, including commissions. Of the repurchase activity, \$2.6 million settled in October of 2014. For details regarding the 2012 Repurchase Program, please refer to Note 15, Stockholders' Equity, of our Annual Report on Form 10-K for the year ended December 31, 2013.

From the inception of the 2012 Repurchase Program, we have repurchased a total of \$40.6 million, or 1,605,746 shares at an average cost of \$25.28 per share, including commissions. As of September 30, 2014, the maximum dollar value of shares that may yet be purchased under the plan is \$9.4 million.

Note 14. Stock Option Plans and Share-Based Compensation

Share-Based Plans

Equity Incentive Plan

For a detailed explanation of our stock plan and subsequent changes please refer to Note 16, Stock Option Plans, Share-Based Compensation and 401(k) Plan, of our Annual Report on Form 10-K for the year ended December 31, 2013.

At September 30, 2014, 2,238,383 shares of common stock were reserved for future issuance our 2009 Equity Incentive Plan, as amended (the "2009 Plan"), and \$5.8 million of total unrecognized compensation cost related to non-vested stock options was expected to be recognized over a weighted average period of 2.6 years.

A summary of option activity under the 2009 Plan for the nine months ended September 30, 2014 is presented below:

Options:	Number of Shares (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2013	3,143	\$15.82
Granted	397	\$26.14
Exercised	(786)	) \$14.44
Forfeited	(72)	) \$18.96
Expired	(12)	) \$19.88
Outstanding at September 30, 2014	2,670	\$17.66
Vested and expected to vest at September 30, 2014	2,638	\$17.60
Exercisable at September 30, 2014	1,612	\$15.47

The aggregate intrinsic value of options exercised under our stock plans for the three and nine months ended September 30, 2014 was \$2.5 million and \$10.4 million, respectively, determined as of the date of option exercise.

Restricted Stock and Restricted Stock Units

A summary of activity of both restricted stock and restricted stock units ("RSUs") for the nine months ended September 30, 2014 is presented below:

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	Restricted Stock		Restricted Stock Units	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	(in thousands)		(in thousands)	
Non-vested, December 31, 2013	52	\$18.43	362	\$17.15
Granted	38	\$25.16	127	\$25.73
Vested	(54	) \$17.78	(118	) \$16.70
Forfeited	—	—	(18	) \$16.15
Non-vested, September 30, 2014	36	\$26.47	353	\$20.42

The fair value of restricted stock is the product of the number of shares granted and the closing market price of our common stock on the grant date. Our unrecognized compensation cost related to non-vested restricted stock is approximately \$6.8 million and is expected to be recognized over a weighted-average period of 2.5 years.

Performance-Based Restricted Stock Units

Performance-based restricted stock units ("PSUs") are an element of our executive compensation plans. In 2012, we granted 125,000 PSUs to our executive officers, of which 62,500 became eligible for vesting upon the achievement of a certain level of shareholder return for 2012 as described below. In 2013, we granted 137,500 PSUs to our executive officers, all of which became eligible for vesting upon the achievement of a certain level of shareholder return for the period from January 1, 2013 through February 28, 2014, as described below. In 2014, we granted 152,500 PSUs to our executive officers, all, none or a portion of which may become eligible for vesting depending on the level of shareholder return for 2014 and eligible for further time-based vesting based on the ranking of our total shareholder return. For a more detailed explanation of our PSUs and subsequent changes, please refer to Note 16, Stock Option Plans, Share-Based Compensation and 401(k) Plan on our Annual Report on Form 10-K for the year ended December 31, 2013.

Our unrecognized compensation cost related to non-vested performance-based restricted stock units at September 30, 2014 was approximately \$1.8 million and is expected to be recognized over a weighted-average period of 1.3 years. For the three months ended September 30, 2014 and 2013, we recognized \$0.5 million and \$0.4 million, respectively, of compensation expense for the PSUs. For the nine months ended September 30, 2014 and 2013, we recognized \$1.5 million and \$1.2 million, respectively, of compensation expense for the PSUs.

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%

On January 22, 2013, the Compensation Committee of our Board of Directors ("the Compensation Committee") confirmed 35.3% as the percentile rank of Omnicell's 2012 total stockholder return. This resulted in 50% of the 2012 PSU awards, or 62,500 shares, as eligible for further time-based vesting. The eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible shares vested immediately on January 22, 2013 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year 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.

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The following table shows the percent of PSUs granted in 2013 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%

On March 20, 2014, the Compensation Committee confirmed 63.94% as the percentile rank of Omnicell's 2013-2014 total stockholder return. This resulted in 100% of the 2013 PSU awards, or 137,500 shares, as eligible for further time-based vesting. The eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible shares vested immediately on March 20, 2014 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year 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.

On February 5, 2014, the Compensation Committee approved PSU awards of 132,500 shares. If the minimum performance threshold is met as determined by the Compensation Committee in 2015, the eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible shares will vest immediately, with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year 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 2014 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%

A summary of activity of the PSUs for the nine months ended September 30, 2014 is presented below:

Performance-based Stock Units	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	(in thousands)	
Non-vested, December 31, 2013	225	\$13.32
Granted	155	\$14.36
Vested	(74	) \$13.66
Forfeited	(28	) \$3.07
Non-vested, September 30, 2014	278	\$14.84
1997 Employee Stock Purchase Plan		

We have an Employee Stock Purchase Plan (the “ESPP”) under which eligible employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings; provided, however, an eligible employees' right to purchase shares of our common stock may not accrue at a rate which exceeds \$25,000 of the fair market value of such shares for each calendar year in which such rights are outstanding. The purchase price per share is equal to the lower of 85% of the fair market value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period.

At the 2009 Annual Meeting of Stockholders, the stockholders approved an amendment to the ESPP, which added 2,622,426 shares to the reserve for future issuance. As of September 30, 2014, there were 619,616 shares reserved for

future issuance under the ESPP. For the three months ended September 30, 2014, 227,275 shares of common stock were purchased under the ESPP. For the nine months ended September 30, 2014, 481,284 shares of common stock were purchased under the ESPP.

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As of September 30, 2014, our unrecognized compensation cost related to the shares to be purchased under our ESPP was approximately \$2.6 million and is expected to be recognized over a weighted average period of approximately 1.0 year.

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.

The following table shows a summary of the share-based compensation expense included in the condensed consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2014	2013	2014	2013
Cost of revenues	\$441	\$325	\$973	\$955
Research and development	407	405	1,156	1,019
Selling, general and administrative	2,313	2,080	6,481	6,449
Total share-based compensation expenses	\$3,161	\$2,810	\$8,610	\$8,423

Note 15. Segments

Prior to the first quarter of 2014, we organized our business into two operating business segments, the Acute Care and Non-Acute Care segments, which were based on the target customers for our products. The Acute Care segment primarily included products and services sold to hospital customers, and the Non-Acute Care segment primarily included products and services sold to customers outside of hospital settings.

In the first quarter of 2014, we realigned our segments based on the products we sell, regardless of who they are sold to because our business has evolved to be managed more on a product basis, rather than on a customer-type basis. It has become more difficult to determine whether a customer is a hospital or a blend of hospitals and non-acute care facilities. We are at a point where many of our Acute Care and Non-Acute Care customers are converging to provide services across the continuum of care. These customers seek automation and analytics products that function across the various facilities they manage. We find ourselves providing solutions across multiple types of care environments. These customers are also interested in obtaining higher levels of adherence to prescribed medication regimens that our blister card products provide.

Our two reportable segments are the Automation and Analytics segment and the Medication Adherence segment. The Automation and Analytics segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. The Medication Adherence segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services.

Prior period amounts in the tables below have been recast to conform to the way we internally manage and monitor performance at the segment level during the current period.

We report segment information based on the management approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker (the "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. The CODM does not evaluate operating business segments using discrete asset information; accordingly, we do not report segment assets.

Since 1992, Omnicell has provided automation and business information solutions to healthcare facilities in general, but with a focus on 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 hospitals. As the healthcare market evolves, acute care facilities are beginning to merge operationally with non-acute

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care facilities. The new healthcare organizations desire medication and supply inventory control and business analytics across the continuum of care environments they serve. Our Automation and Analytics segment represents the products we sell to fulfill these needs.

Since 1984, MTS has provided medication adherence solutions to the non-acute care market. In 2012, we acquired MTS. The solutions supplied by MTS 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. As healthcare evolves, these medication adherence solutions are finding application in acute care settings as well. Our Medication Adherence segment represents all the products we sell to fulfill medication adherence needs through blister cards, blister card packaging equipment, and related software.

In August of 2014, we acquired Surgichem. Based in Stockport, UK, Surgichem is a provider of medication adherence packaging solutions to the UK care home and domiciliary care markets since 1989. Surgichem supplies its monitored dosage systems to a network of over 3,200 independent pharmacies and UK pharmacy chains. Surgichem is part of our Medication Adherence segment.

The contributions of our operating segments to net revenues and income from operations, and the reconciliation to total net income, were as follows (amounts in thousands):

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013			
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total	
Total revenues	\$89,546	\$22,997	\$112,543	\$75,110	\$18,929	\$94,039	
Cost of revenues	38,412	14,585	52,997	30,240	11,759	41,999	
Gross profit	\$51,134	\$8,412	\$59,546	\$44,870	\$7,170	\$52,040	
Gross margin %	57.1	% 36.6	% 52.9	% 59.7	% 37.9	% 55.3	%
Operating expenses	38,662	7,287	45,949	35,052	6,271	41,323	
Income from operations	\$12,472	\$1,125	\$13,597	\$9,818	\$899	\$10,717	
Operating margin %	13.9	% 4.9	% 12.1	% 13.1	% 4.7	% 11.4	%
Interest and other income (expense), net			(706)			25	
Income before provision for income taxes			12,891			10,742	
Provision for income taxes			5,591			2,987	
Net income			\$7,300			\$7,755	

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	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
Total revenues	\$255,747	\$63,612	\$319,359	\$217,688	\$57,147	\$274,835
Cost of revenues	109,345	39,933	149,278	92,465	35,595	128,060
Gross profit	\$146,402	\$23,679	\$170,081	\$125,223	\$21,552	\$146,775
Gross margin %	57.2	% 37.2	% 53.3	% 57.5	% 37.7	% 53.4
Operating expenses	112,572	21,400	133,972	101,425	21,106	122,531
Income from operations	\$33,830	\$2,279	\$36,109	\$23,798	\$446	\$24,244
Operating margin %	13.2	% 3.6	% 11.3	% 10.9	% 0.8	% 8.8
Interest and other income (expense), net			(1,003)			(134)
Income before provision for income taxes			35,106			24,110
Provision for income taxes			13,824			6,954
Net income			\$21,282			\$17,156

Segment depreciation and amortization, and capital expenditures were as follows (amounts in thousands):

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
Depreciation and amortization	\$3,460	\$1,854	\$5,314	\$2,805	\$1,683	\$4,488
Capital expenditures	\$2,635	\$785	\$3,420	\$1,311	\$745	\$2,056

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
Depreciation and amortization	\$9,402	\$5,303	\$14,705	\$8,351	\$5,381	\$13,732
Capital expenditures	\$8,802	\$1,953	\$10,755	\$3,329	\$4,478	\$7,807

Note 16. Impairment of Software Development Costs

2013 Impairment

As part of the continuing integration of MTS, in the first quarter of 2013, we reorganized our management team, including the software development department, within the Medication Adherence segment (formerly known as our Non-Acute segment). Through the end of the first quarter of 2013, the Medication Adherence segment had capitalized approximately \$1.8 million of software development costs associated with a software solution under development which was intended to assist pharmacies in manual packaging of prescriptions. In connection with our financial statement close process for the quarter ended March 31, 2013, our management reassessed the viability of this project

and the net realizable value of capitalized costs in light of its decision to change the related product road map and redesign this product based on evolving market demands. As part of this redesign process, new functionality and capabilities will need to be added to the product before commercialization. This redesign is intended to provide a more robust global platform providing larger scalability and significant functionality not contained in our current beta version. As such, we determined we can no longer support the technological feasibility of this project in conjunction with our software capitalization policy. Therefore, we charged these costs, in the amount of \$1.8 million, (\$0.03 per diluted share, net of tax), to expense as a component of research and development in the accompanying condensed consolidated statement of operations.

Note 17. Credit Agreement

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In September 2013, we entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and the lenders from time to time thereto. The Credit Agreement provides for a \$75.0 million revolving credit facility with a \$10.0 million letter of credit sub-limit. Loans under the Credit Agreement mature on September 25, 2018. The Credit Agreement permits us to request one or more increases in the aggregate commitments provided that such increases do not exceed \$25.0 million in the aggregate. We expect to use the proceeds from any revolving loans under the credit facility for general corporate purposes, including future acquisitions. Our obligations under the Credit Agreement are guaranteed by certain of our domestic subsidiaries and secured by substantially all of our and the subsidiary guarantors' assets.

Amounts drawn under the Credit Agreement bear interest, at our election, at a Eurodollar rate plus a margin of 1.75% per annum, or an alternate base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) LIBOR for an interest period of one month plus 1.75%. We are required to pay a commitment fee of 0.25% per annum on the aggregate undrawn amount of the commitments under the credit facility.

The Credit Agreement contains customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, dividends and other distributions. The Credit Agreement contains financial covenants that require us to, among other things, maintain a maximum consolidated total leverage ratio and a minimum consolidated fixed charge coverage ratio, in each case, as of the last day of each fiscal quarter.

To date, we have not yet drawn any funds under the credit facility. We were in full compliance with all covenants at September 30, 2014 and for all periods since the commencement of the Credit Agreement.

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Note 18. Income Taxes

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 40.4% and 38.1% for the nine months ended September 30, 2014 and 2013, respectively. The increase in the estimated annual effective tax rate for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to the expiration of the federal research and development credit as of December 31, 2013. The 2014 annual effective tax rate differed from the statutory rate of 35.0% 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 domestic production activities deduction.

The 2013 annual effective tax rate differed from the statutory rate of 35.0% 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.

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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:

- our expectations regarding our future product bookings;
- the extent and timing of future revenues, including the amounts of our current backlog;
- the size or growth of our market or market share;
- the opportunity presented by new products, emerging markets and international market;
- our ability to align our cost structure and headcount with our current business expectations;
- the operating margins or earnings per share goals we may set;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our ability to generate cash from operations and our estimates regarding the sufficiency of our cash resources; and
- our ability to acquire companies, businesses, products or technologies on commercially reasonable terms and integrate such acquisitions effectively.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. We discuss many of these risks in this 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 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 "OmniceCell, Inc.," "OmniceCell," "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 are a leading provider of comprehensive automation and business analytics software solutions for patient-centric medication and supply management across the entire healthcare continuum, from the acute care hospital setting to post-acute skilled nursing and long-term care facilities to the home. Our Omnicell Automation and Analytic customers worldwide have utilized medication automation, supply chain and analytics solutions to enable them to increase operational efficiency, reduce errors, deliver actionable intelligence and improve patient safety.

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

We sell our product and consumable solutions together with related service offerings. Total revenue for the United States and Canada generated approximately 90% of our total revenues and we expect our revenues from international operations to increase in future periods as we continue to grow our international business. We have not sold in the

past, and have no future plans to sell our products either directly or indirectly, to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, and are subject to economic sanctions and export controls.

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Prior to the first quarter of 2014, we managed our business in two customer-centric operating segments: Acute Care which primarily included products and services sold to hospital customers, and Non-Acute Care which primarily included products and services sold to customers outside of hospital settings.

In the first quarter of 2014, we began to manage our business according to two product segments because many of our Acute Care and Non-Acute Care customers are converging to provide services across the continuum of care. These customers seek Automation and Analytics products that function across the various facilities they manage and we find ourselves providing solutions across multiple types of care environments. These customers are also interested in obtaining higher levels of adherence to prescribed medication regimens that our blister card products provide. Our business has evolved to be managed more on a product basis and it has become more difficult to determine whether a customer is a hospital or a blend of hospitals and non-acute care facilities. Our two product segments are Automation and Analytics and Medication Adherence. The Automation and Analytics segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. The Medication Adherence segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services.

Our Automation and Analytics segment has been the predominant market for our products since our inception in 1992 and today comprises approximately 80% of our overall business. The Medication Adherence segment became a significant portion of our business in May 2012, when we completed our acquisition of MTS Medication Technologies, Inc. ("MTS"), a worldwide provider of medication adherence packaging systems. The acquisition aligned us with the long-term trends of the healthcare market to manage the health of patients across the continuum of care. The combination of Omnicell and MTS brought capabilities to each other that strengthened the product lines and expanded the medication management coverage of both companies. As our business evolves, we will continue to assess our segments which could result in future modifications to the current presentation.

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

Development of differentiated products. We invest in the development of products that we believe bring patient safety and workflow efficiency to our customers' operations that they cannot get from other competing solutions. These differentiators may be as small as how a transaction operates or the information provided on a report or as large as the entire automation of a workflow that would otherwise be completed manually. We intend to continue our focus on differentiating our products, and we carefully assess our investments regularly as we strive to assure those investments provide the solutions most valuable to our customers.

Deliver our solutions to new markets. Areas of healthcare where work is done manually may benefit from our existing solutions. These areas include hospitals that continue to use manual operations, healthcare segments of the US market outside hospitals, and markets outside the United States. We weigh the cost of entering these new markets against the expected benefits, and focus on the markets that we believe are most likely to adopt our products.

Expansion of our solutions through acquisitions and partnerships. Our acquisitions have generally been focused on automation of manual workflows or on data analytics, which is the enhancement of data for our customers' decision-making processes. We believe that expansion of our product lines through acquisition and partnerships to meet our customers changing and evolving expectations is a key aspect to our historical and future success.

Our investments have been consistent with the strategies outlined above. To differentiate our solutions from others available in the market, we began shipping a refresh of our product line in 2011, which we market as G4. The G4 refresh included multiple new products and an upgrade product that allowed existing customers to augment their installations to obtain the most current technology that we provide. The G4 product refresh has been a key contributor to our growth, with 54% of our automation and analytics installed base ordering upgrades to their existing systems since the announcement of G4. In addition to enhanced capabilities, we have focused on attaining the highest quality

and service measurements for G4 in the industry, while marketing the solution to new and existing customers. Our research and development efforts today are designed to bring new products to market beyond the G4 product line that we believe will meet customer needs in years to come.

Consistent with our strategy to enter new markets, we have made investments in our selling, general and administrative expenses to expand our sales team and market to new customers. Our international efforts have focused primarily on three markets: China, where we made a Mandarin version of our automated dispensing systems available in 2011,

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the Middle Eastern countries of the Arabian Peninsula where new healthcare facility construction is taking place, and in the United Kingdom where, in the third quarter of 2012, we purchased 15% of our United Kingdom distributor's outstanding equity for approximately \$0.9 million in cash to accelerate the adoption of medication and supply automation. In connection with the investment, we have the right, under certain circumstances, to appoint a member to this company's board of directors as well as certain other voting rights and, therefore, we believe we have the ability to exert significant influence over this distributor's operations. Our proportionate equity share of the income of this distributor recognized in our financial statements for the three and nine months ended September 30, 2014 was immaterial. We have also expanded our sales efforts to medication adherence customers in the United States which has allowed us to sell our automated dispensing solutions and other products to this market.

Expansion of our solutions through acquisitions and partnerships include our acquisition of MTS in 2012 and our acquisition of Surgichem Limited ("Surgichem") in August 2014. Surgichem is a provider of medication adherence products in the United Kingdom. The Surgichem acquisition is expected to enable both Omnicell and Surgichem to sell their lines of proven multi- and single-dose products across a broader medication adherence packaging market in the United Kingdom. We have also developed relationships with major providers of hospital information management systems with the goal of enhancing the interoperability of our products with their systems. We believe that enhanced interoperability will help reduce implementation costs, time, and maintenance for shared clients, while providing new clinical workflows designed to enhance efficiency and patient safety.

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

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

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

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

Among other financial measures, we utilize product bookings to assess the current success of our strategies. Product bookings consist of all firm orders, as evidenced by a contract and purchase order for equipment and software, and by a purchase order for consumables. Equipment and software bookings are installable within 12 months and generally recorded as revenue upon customer acceptance of the installation. Consumables are recorded as revenue upon shipment to a customer or receipt by the customer, depending upon contract terms. Consumable bookings are generally recorded as revenue within one month.

In addition to product solution sales, we provide services to our customers. Our healthcare customers expect a high degree of partnership involvement from their technology suppliers throughout their ownership of the products. We provide extensive installation planning and consulting as part of every product sale and included in the initial price of the solution. Our customers' medication control systems are mission critical to their success and our customers require these systems to be functional at all times. To help assure the maximum availability of our systems, our customers typically purchase maintenance and support contracts in one, two or five year increments.

The growth in our Automation and Analytics revenue for the three and nine months ended September 30, 2014 was driven primarily by our success in consistently growing the number of our customer installations. Installed customers grew from 1,806 hospitals as of September 30, 2013 to 1,897 hospitals as of September 30, 2014. To a lesser extent, but of equal importance, revenue growth was also driven by our success in upgrading installed customers to newer G4 technology, which is in line with our strategy of striving to deliver differentiated innovation in our solutions. Our larger installed base has provided growth opportunities and, as a result, our service revenues have also grown for the nine months ended September 30, 2014.

The growth in our Medication Adherence revenue for the three and nine months ended September 30, 2014 was driven primarily by increased sales of our OnDemand medication packaging systems in the United States market and increased adoption of multi-medication adherence solutions used by patients in assisted living or home care in Europe.

This growth is in line with our strategy to deliver solutions to markets outside the United States. On a geographic basis, the United States market did not contribute to, nor erode, the growth in our Medication Adherence business as the population of patients living in nursing homes in the United States has remained relatively constant over the past twelve months.

We strive to provide the best service possible, as measured by third party rating agencies and by our own surveys. Our long-term liabilities include long-term deferred service revenue of \$20 million and \$18 million as of September 30, 2014 and

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December 31, 2013, respectively. Our deferred service revenue will be amortized to service revenue as the service contracts are performed upon.

In the future, we expect our strategies to evolve as the business environment of our customers evolves, but our focus will remain on improving healthcare with solutions that improve patient and provider outcomes. We expect our investment in differentiated products, new markets, and acquisitions and partnerships to continue. For the remainder of 2014, we also intend to continue to manage our business to operating profit margins similar to what we have achieved in the nine months ended September 30, 2014.

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Results of Operations

The table below shows the components of our consolidated results of operations as percentages of total revenues for the three and nine months ended September 30, 2014 and 2013 (in thousands, except percentages):

	Three Months Ended		September 30, 2013			
	September 30, 2014		September 30, 2013			
	\$	% of Revenue	\$	% of Revenue		
Revenues:						
Product revenue	\$92,229	82.0	% \$75,508	80.3	%	
Service and other revenues	20,314	18.0	% 18,531	19.7	%	
Total revenues	112,543	100.0	% 94,039	100.0	%	
Cost of revenues:						
Cost of product revenues	44,510	39.6	% 33,977	36.1	%	
Cost of service and other revenues	8,487	7.5	% 8,022	8.5	%	
Total cost of revenues	52,997	47.1	% 41,999	44.6	%	
Gross profit	59,546	52.9	% 52,040	55.4	%	
Operating expenses:						
Research and development	7,078	6.3	% 6,561	7.0	%	
Selling, general and administrative	38,871	34.5	% 34,762	37.0	%	
Total operating expenses	45,949	40.8	% 41,323	44.0	%	
Income from operations	13,597	12.1	% 10,717	11.4	%	
Interest and other income (expense), net	(706	) (0.6	)% 25	—	%	
Income before provision for income taxes	12,891	11.5	% 10,742	11.4	%	
Provision for income taxes	5,591	5.0	% 2,987	3.2	%	
Net income	\$7,300	6.5	% \$7,755	8.2	%	

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	Nine Months Ended		September 30, 2013		
	September 30, 2014		September 30, 2013		
	\$	% of Revenue	\$	% of Revenue	
Revenues:					
Product revenue	\$260,053	81.4 %	\$220,325	80.2 %	
Service and other revenues	59,306	18.6 %	54,510	19.8 %	
Total revenues	319,359	100.0 %	274,835	100.0 %	
Cost of revenues:					
Cost of product revenues	124,413	39.0 %	103,810	37.8 %	
Cost of service and other revenues	24,865	7.7 %	24,250	8.8 %	
Total cost of revenues	149,278	46.7 %	128,060	46.6 %	
Gross profit	170,081	53.3 %	146,775	53.4 %	
Operating expenses:					
Research and development	19,670	6.2 %	21,665	7.9 %	
Selling, general and administrative	114,302	35.8 %	100,866	36.7 %	
Total operating expenses	133,972	42.0 %	122,531	44.6 %	
Income from operations	36,109	11.3 %	24,244	8.9 %	
Interest and other income (expense), net	(1,003	) (0.3 %)	(134) — %	
Income before provision for income taxes	35,106	11.0 %	24,110	8.9 %	
Provision for income taxes	13,824	4.3 %	6,954	2.5 %	
Net income	\$21,282	6.7 %	\$17,156	6.4 %	

We anticipate our revenues will continue to increase in 2014 compared to the same periods in 2013, as we fulfill our existing orders. Our ability to continue to grow revenue is dependent on our ability to continue to obtain orders from customers, our ability to produce quality consumables to fulfill customer demand, the volume of installations we are able to complete and 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.

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Operations by Segment During the Three and Nine Months Ended September 30, 2014

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013			
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total	
Total revenues	\$89,546	\$22,997	\$112,543	\$75,110	\$18,929	\$94,039	
Cost of revenues	38,412	14,585	52,997	30,240	11,759	41,999	
Gross profit	51,134	8,412	59,546	44,870	7,170	52,040	
Gross margin %	57.1	% 36.6	% 52.9	% 59.7	% 37.9	% 55.3	%
Operating expenses	38,662	7,287	45,949	35,052	6,271	41,323	
Income from operations	\$12,472	\$1,125	\$13,597	\$9,818	\$899	\$10,717	
Operating margin %	13.9	% 4.9	% 12.1	% 13.1	% 4.7	% 11.4	%

Total revenues grew approximately 19.7% for the three months ended September 30, 2014 compared with the same period last year. Overall product and service gross margins decreased by approximately 2.4% for the three months ended September 30, 2014 compared to the same period in 2013 primarily due to the timing of installations of larger, lower margin new customers. Income from operations increased primarily due to increase in revenues and improved efficiency in operating expenses.

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013			
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total	
Total revenues	\$255,747	\$63,612	\$319,359	\$217,688	\$57,147	\$274,835	
Cost of revenues	109,345	39,933	149,278	92,465	35,595	128,060	
Gross profit	146,402	23,679	170,081	125,223	21,552	146,775	
Gross margin %	57.2	% 37.2	% 53.3	% 57.5	% 37.7	% 53.4	%
Operating expenses	112,572	21,400	133,972	101,425	21,106	122,531	
Income from operations	\$33,830	\$2,279	\$36,109	\$23,798	\$446	\$24,244	
Operating margin %	13.2	% 3.6	% 11.3	% 10.9	% 0.8	% 8.8	%

Total revenues grew approximately 16.2% for the nine months ended September 30, 2014 compared with the same period last year. Overall product and service gross margins decreased by approximately 0.1 % for the nine months ended September 30, 2014 compared to the same period in 2013. Income from operations increased by \$11.9 million, primarily through increased sales and efficiency in operating expense.

Critical Accounting Policies and Estimates

Management's 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:

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- Revenue recognition;
- Valuation and impairment of goodwill, intangible assets and other long lived assets;
- Excess and obsolete inventory reserve;
- Valuation of share-based awards; and
- Accounting for income taxes.

During the nine months ended September 30, 2014, 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, 2013 for a discussion of our critical accounting policies and estimates.

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Recently Adopted and Issued Accounting Standards

Please refer to Part I, Note 1, Organization and Summary of Significant Accounting Policies, of this Quarterly Report on Form 10-Q for a description of recently adopted and issued accounting standards.

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Revenues, Cost of Revenues and Gross Profit

Automation and Analytics Segment

The tables below show our Automation and Analytics segment's results for the periods shown, and the change between those periods (in thousands, except percentages):

	Three Months Ended		Change in	
	September 30,			
	2014	2013	\$	%
Product Revenue	\$69,942	\$57,385	\$12,557	21.9 %
Service Revenue	19,604	17,725	1,879	10.6 %
Total revenues	89,546	75,110	14,436	19.2 %
Product Cost	30,594	22,794	7,800	34.2 %
Service Cost	7,818	7,446	372	5.0 %
Total cost of revenues	38,412	30,240	8,172	27.0 %
Product Margin	39,348	34,590	4,758	13.8 %
Service Margin	11,786	10,279	1,507	14.7 %
Gross profit	\$51,134	\$44,870	\$6,264	14.0 %
Gross margin %	57.1	% 59.7	%	(2.6)

	Nine Months Ended		Change in	
	September 30,			
	2014	2013	\$	%
Product Revenue	\$198,785	\$165,544	\$33,241	20.1 %
Service Revenue	56,962	52,144	4,818	9.2 %
Total revenues	255,747	217,688	38,059	17.5 %
Product Cost	86,326	69,978	16,348	23.4 %
Service Cost	23,019	22,487	532	2.4 %
Total cost of revenues	109,345	92,465	16,880	18.3 %
Product Margin	112,459	95,566	16,893	17.7 %
Service Margin	33,943	29,657	4,286	14.5 %
Gross profit	\$146,402	\$125,223	\$21,179	16.9 %
Gross margin %	57.2	% 57.5	%	(0.3)

Revenues. We provide our Automation and Analytics customers with customized products that meet a wide variety of needs. These needs may vary significantly from customer to customer. Automation and Analytics products include software and service, highly customizable dispensing cabinets, and non-customized products from third parties such as carousels to store bulk medication.

The year over year growth in total revenues in our Automation and Analytics segment was driven primarily by our success in growing the number of our customer installations. We have historically measured the growth in our customer installations by the number of hospital installations. In the United States, our hospital installations grew from 1,806 as of September 30, 2013 to 1,897 as of September 30, 2014. To a lesser extent, but of equal importance, the segment's revenue growth was driven by success in upgrading installed customers to newer G4 technology, which is in line with our strategy of continually striving to deliver differentiated innovation in our solutions. Our larger installed base has provided growth opportunities for expansion of installations and, as a result, our service revenues have also grown for the nine months ended September 30, 2014.

The growth in product revenue for the three months ended September 30, 2014 was primarily driven by a \$10.5 million increase due to new installations of medication cabinets and, to a lesser extent, of supply cabinets, a \$1.0 million increase in revenue associated with freight due to the aforementioned increase in installations of medication

cabinets, and a \$0.7 million increase in revenues from other software products and lease renewals. The growth in service revenue for the three months ended September 30, 2014 was driven by the increase in our installed base.

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The growth in product revenue for the nine months ended September 30, 2014 was primarily driven by a \$25.3 million increase in new installations of medication cabinets as we continue to see a robust pipeline and increase in bookings as compared to same period last year and a \$4.8 million increase in revenue from supply cabinets due to increased demand, a \$1.3 million increase in revenue associated with freight due to the aforementioned increase in installations of medication cabinets, a \$1.2 million increase in revenue from other software products and a \$0.8 million net increase associated with other product sales. The growth in service revenue for the nine months ended September 30, 2014 was driven by the increase in our installed base which led to an increase in service renewal.

Cost of Revenues. Cost of revenues and related margins have slight variations between products. Product cost of revenue has three general categories: (i) standard product costs - accounts for the majority of the product cost of revenues that are provided to customers and are inclusive of purchased material, labor to build the product, and overhead costs associated with production; (ii) installation costs - because Omnicell installs its equipment at the customer site, these are costs of the field installation personnel, including labor, travel expense, and other expenses; and (iii) other costs - these costs include variances in standard costs and overhead, scrap costs, rework, warranty, provisions for excess and obsolete inventory and amortization of software development costs as product costs.

The increase in product costs for the three months ended September 30, 2014 was primarily driven by increased revenue due to the growth in customer installations, which accounted for \$5.8 million of the increase. To a lesser extent, the increase in product costs was due to a change in customer mix, as we installed more competitive conversion customers, which typically carry a lower gross margin. Installation costs also increased by \$0.8 million and amortization of capitalized software increased by \$1.2 million. Service costs decreased slightly for the three months ended September 30, 2014 compared to the same period last year.

The increase in product costs for the nine months ended September 30, 2014 was primarily driven by increased revenue due to the growth in customer installations, which accounted for \$13.6 million of the increase. To a lesser extent, the increase in product costs was due to a change in customer mix, as we installed more competitive conversion customers, which carry a lower gross margin. Installation costs also increased by \$2.2 million and amortization of capitalized software increased by \$0.8 million. Service costs remained relatively flat for the nine months ended September 30, 2014, as we were able to service a larger installed base with the same resources.

Gross Profit. Gross profit dollars on product revenue increased during the three months ended September 30, 2014 as a result of the overall increase in product revenue offset by a higher mix of large competitive conversion installations, which typically carry a lower gross margin. The increase in gross profit on service revenue for the three months ended September 30, 2014 reflects higher service revenues without a consistent increase in service staffing or spare parts usage. This increased efficiency is a result of higher reliability rates of our G4 product platform as compared to previous products.

Gross profit on product revenue increased during the nine months ended September 30, 2014 as a result of the overall increase in product revenue and a relatively consistent growth in costs. The increase in gross profit on service revenue for the nine months ended September 30, 2014 reflects higher service revenues without a consistent increase in service staffing or spare parts usage. This improved efficiency is a result of higher reliability rates of our G4 product platform as compared to previous products.

Medication Adherence Segment

The tables below show our Medication Adherence segment's results for the periods shown, and the change between those periods (in thousands, except percentages):

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	Three Months Ended		Change in	
	September 30,			
	2014	2013	\$	%
Product Revenue	\$22,287	\$18,124	\$4,163	23.0 %
Service Revenue	710	806	(96)	(11.9) %
Total revenues	22,997	18,929	4,068	21.5 %
Product Cost	13,916	11,183	2,733	24.4 %
Service Cost	669	576	93	16.1 %
Total cost of revenues	14,585	11,759	2,826	24.0 %
Product Margin	8,371	6,941	1,430	20.6 %
Service Margin	41	230	(189)	(82.2) %
Gross profit	\$8,412	\$7,170	\$1,242	17.3 %
Gross margin %	36.6	% 37.9	%	(1.3)

	Nine Months Ended September		Change in	
	30,			
	2014	2013	\$	%
Product Revenue	\$61,268	\$54,781	\$6,487	11.8 %
Service Revenue	2,344	2,366	(22)	(0.9) %
Total revenues	63,612	57,147	6,465	11.3 %
Product Cost	38,087	33,832	4,255	12.6 %
Service Cost	1,846	1,763	83	4.7 %
Total cost of revenues	39,933	35,595	4,338	12.2 %
Product Margin	23,181	20,949	2,232	10.7 %
Service Margin	498	603	(105)	(17.4) %
Gross profit	\$23,679	\$21,552	\$2,127	9.9 %
Gross margin %	37.2	% 37.7	%	(0.5)

Revenues. The year over year growth in total revenues in our Medication Adherence segment was due to increased sales of OnDemand medication packaging systems in the United States market and increased adoption of our multi-medication consumable products by patients in Europe. Our multi-medication consumable products help to organize multiple oral solid medications by time of day and day of the week, giving patients an instant visual reinforcement of what to take and when. This helps to improve compliance for patients in assisted living, group homes or home care who struggle with complex prescription regimens. On a geographic basis, the United States market had a neutral impact on this segment, neither contributing to nor eroding the growth in our business as the population of patients living in nursing homes who are most likely to use our products has remained relatively constant over the past twelve months.

The increase in product revenue for the three months ended September 30, 2014 was primarily due to a \$2.8 million increase in sales of our multi-medication consumable products in Europe, a \$0.3 million increase in sales of packaging equipment and a \$1.0 million increase in sales of medication adherence consumables in the United States, which we believe to be driven by customer timing of orders. Service revenue was down slightly due to the transition of a number of customers from annual service contracts to service by time and material, which we expect to provide less consistent stream of service revenue.

The growth in product revenues for the nine months ended September 30, 2014 was primarily due to a \$4.6 million increase in adoption of our multi-medication consumable products in Europe, an approximately \$1.3 million increase in sales of OnDemand medication packaging systems, and a \$0.5 million increase in other sales medication adherence consumable products. Service revenue remained relatively flat and was commensurate with the modest growth in our

installed based.

Cost of Revenues. The increase in product costs for the three and nine months ended September 30, 2014 was attributable to product revenue growth, initial costs of ramping up new production equipment and changes in product mix. Service costs remained relatively flat.

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Gross Profit. The increase in gross profit overall for the three and nine months ended September 30, 2014 was primarily due to the increase in product revenue in Europe. Gross profit on service revenue for the three and nine months ended September 30, 2014 declined due to the transition of a number of customers from annual service contracts to service by time and material, which we expect to provide a less consistent stream of service revenue.

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Operating Expenses

Automation and Analytics Segment

The tables below show our Automation and Analytics segment's operating expenses for the three and nine months ended September 30, 2014 and 2013 and the change between those periods (in thousands, except percentages):

	Three Months Ended		Change in		
	September 30,				
	2014	2013	\$	%	
Gross profit	\$51,134	\$44,870	\$6,264	14.0	%
Research and development	5,765	5,404	361	6.7	%
Selling, general and administrative	32,897	29,648	3,249	11.0	%
Total operating expenses	38,662	35,052	3,610	10.3	%
Operating income	\$12,472	\$9,818	\$2,654	27.0	%
Operating margin	13.9	% 13.1	%	0.8	

	Nine Months Ended		Change in		
	September 30,				
	2014	2013	\$	%	
Gross profit	\$146,402	\$125,223	\$21,179	16.9	%
Research and development	15,784	16,739	(955)	(5.7)	%
Selling, general and administrative	96,788	84,686	12,102	14.3	%
Total operating expenses	112,572	101,425	11,147	11.0	%
Operating income	\$33,830	\$23,798	\$10,032	42.2	%
Operating margin	13.2	% 10.9	%	2.3	

Research and Development. The increase in research and development expenses for the three months ended September 30, 2014 was primarily driven by increases of \$0.5 million in employee-related expenses due to increased staffing and higher year over year benefit costs, and \$0.2 million in consulting-related expense driven by expanded research and development activities, offset by a \$0.3 million decrease in capitalized software costs due to the lower level of post-feasibility beta testing which therefore does not reduce our research and development expenses.

The decrease in research and development expenses for the nine months ended September 30, 2014 was primarily driven by a \$2.2 million increase in capitalized software costs due to the higher level of post-feasibility beta testing which therefore decreases our research and development expenses, an increase of \$1.2 million in employee-related expenses due to increased staffing and higher year over year benefit costs and a \$0.1 million increase in consulting-related expense.

We expect research and development expenses to remain relatively flat as a percentage of our revenue on an annual basis and to 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. The increase in selling, general and administrative expenses for the three months ended September 30, 2014 was comprised of \$1.1 million associated with higher sales volumes and \$2.0 million associated with increased investment in sales, marketing, and administrative efforts. The \$1.1 million of higher sales volume-related expenses were driven by a \$0.4 million increase in freight costs due to a higher volume of shipments this quarter, \$0.4 million increase in Group Purchasing Organization fees due to increased invoicing and collections and \$0.3 million in bad debt expense due to an increase in specific reserves. The \$2.0 million of increased investment was driven by \$1.0 million in employee-related expenses due to an increased headcount and higher year over year

benefit costs, \$0.6 million in sales meetings and marketing for our mobile truck tour and, \$0.4 million in consulting and professional fees driven by merger and acquisition-related activities and increased accounting and auditing fees.

The increase in selling, general and administrative expenses for the nine months ended September 30, 2014 was comprised of \$5.8 million associated with higher sales volumes and \$5.8 million associated with increased investment in sales, marketing, and administrative efforts. The \$5.8 million of higher sales volume related expenses were driven by \$1.4 million in commission expenses associated with increased revenues and increased bookings, \$1.3 million in increased freight costs due to

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a higher volume of shipments this year as compared to last year, \$0.9 million in Group Purchasing Organization fees due to increased invoicing, \$0.7 million in bad debt expense due to an increase in specific reserves and the remainder was for various travel and entertainment, property tax, merger and acquisition and temporary labor, all to support our current growth. The \$5.8 million of increased investment was driven by \$4.2 million in employee-related expenses due to increased staffing and higher year over year benefit costs, including a \$1.1 million increase in variable compensation expense which was due to achieving our company goals in the current year, compared to missing our company goals in the quarter ended March 31, 2013, \$1.0 million in consulting and professional fees driven by merger and acquisition-related activities and increased accounting and auditing fees and \$0.9 million in sales meetings and marketing for our mobile truck tour.

We expect selling, general, and administrative expenses to remain relatively flat as a percentage of our revenue on an annual basis and to grow in absolute dollars in the future as our revenue grows to support our anticipated growth as well as international expansion efforts.

Medication Adherence Segment

The tables below show our Medication Adherence segment's operating expenses for the three and nine months ended September 30, 2014 and 2013 and the change between those periods (in thousands, except percentages):

	Three Months Ended September 30,		Change in		
	2014	2013	\$	%	
Gross profit	\$8,412	\$7,170	\$1,242	17.3	%
Research and development	1,313	1,157	156	13.5	%
Selling, general and administrative	5,974	5,114	860	16.8	%
Total operating expenses	7,287	6,271	1,016	16.2	%
Operating income	\$1,125	\$899	\$226	25.1	%
Operating margin	4.9	% 4.7	%	0.2	pps

	Nine Months Ended September 30,		Change in		
	2014	2013	\$	%	
Gross profit	\$23,679	\$21,552	\$2,127	9.9	%
Research and development	3,886	4,926	(1,040)	(21.1))%
Selling, general and administrative	17,514	16,180	1,334	8.2	%
Total operating expenses	21,400	21,106	294	1.4	%
Operating income	\$2,279	\$446	\$1,833	411.0	%
Operating margin	3.6	% 0.8	%	2.8	pps

Research and Development. The increase in research and development expenses for the three months ended September 30, 2014 was due to increased staffing.

The decrease in research and development expenses for the nine months ended September 30, 2014 was primarily due to a one-time \$1.8 million write-off of previously capitalized software development costs in the first quarter of 2013, partially offset by a \$0.4 million increase in headcount and personnel-related costs, which includes salaries for new hires, stock-based compensation and a \$0.3 million increase for consulting services, to continue our efforts to develop additional functionality for our existing products.

We expect research and development expenses to remain relatively flat as a percentage of our revenue on an annual basis and to 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. The increase in selling, general and administrative expenses for the three months ended September 30, 2014 was attributable to \$0.3 million in consulting to further our product research, a \$0.2 million increase in expenses due to the Surgichem acquisition and a \$0.1 million increase in headcount and personnel-related costs.

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The increase in selling, general and administrative expenses for the nine months ended September 30, 2014 was attributable to a \$0.3 million in consulting to further our product research, a \$0.2 million increase in headcount expenses, a \$0.2 million increase in commissions due to a change in the commission plan and a \$0.2 million increase in expenses due to the Surgichem acquisition.

We expect selling, general, and administrative expenses to remain relatively flat as a percentage of our revenue on an annual basis and to grow in absolute dollars in the future as our revenue grows to support our anticipated growth as well as international expansion efforts.

Provision for Income Taxes

The annual effective tax rate before discrete items was 40.4% and 38.1% for the three and nine months ended September 30, 2014 and 2013, respectively. The increase in the estimated annual effective tax rate for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to the expiration of the federal research and development credit as of December 31, 2013. This increase was partially offset by a decrease in other non-deductible expenditures. The impacts of these amounts were 2.2% and 0.2%, respectively. The effective tax rate was 43.4% and 39.4% for the three and nine months ended September 30, 2014 compared to an effective tax rate of 27.8% and 28.9% for the three and nine months ended September 30, 2013. The increases in the rates for both three and nine months ended September 30, 2014 is primarily due to disqualifying of stock options and R&D tax credits in 2013 that were not present in 2014

Liquidity and Capital Resources

We had cash and cash equivalents of \$104.2 million at September 30, 2014, compared to \$104.5 million at December 31, 2013. All of our cash and cash equivalents are invested in demand deposits and money market funds.

In September 2013, we entered into a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, and the lenders from time to time thereto, which provides for a \$75.0 million revolving credit facility to be used for general corporate purposes, including future acquisitions. The Credit Agreement permits us to request one or more increases in the aggregate commitment provided such increases do not exceed \$25.0 million in the aggregate. The Credit Agreement contains affirmative, negative and financial covenants that require us to, among other things, maintain a maximum consolidated total leverage ratio and a minimum consolidated fixed charge coverage ratio, in each case, as of the last day of each fiscal quarter. We were in full compliance with all covenants at September 30, 2014 and for the all periods since the commencement of the Credit Agreement. For additional details, refer to Note 17, Credit Agreement, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Based on our current business plan and revenue backlog, we believe that our existing cash, cash equivalents, our anticipated cash flows from operations, cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan, along with the availability of funds under our \$75.0 million Credit Agreement, will be sufficient to meet our cash needs for working capital, capital expenditures, potential acquisitions, and other contractual obligations for at least the next twelve months. For periods beyond the next twelve months, we also anticipate that our net operating cash flows plus existing balances of cash and cash equivalents will suffice to fund the continued growth of our business.

Cash flows for the nine months ended September 30, 2014 and 2013, and the change between those periods, are as follows (in thousands):

Nine Months Ended September
30,

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	2014	2013	Change
Net cash provided by operating activities	\$34,315	\$40,737	\$(6,422)
Net cash used in investing activities	(38,061)	(13,736)	(24,325)
Net cash provided by financing activities	3,538	26,847	(23,309)
Effect of exchange rate changes on cash and cash equivalents	(136)	29	(165)
Net increase (decrease) in cash and cash equivalents	\$(344)	\$53,877	\$(54,221)

Operating activities. During the nine months ended September 30, 2014, cash provided by operating activities consisted of net income of \$21.3 million and non-cash charges of \$25.8 million, offset by a \$12.7 million decrease in net operating assets and liabilities.

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Our non-cash charges consisted primarily of depreciation and amortization for our fixed and intangible assets of \$14.7 million, stock-based compensation expense of \$8.6 million, income tax benefits from employee stock plans of \$4.1 million and deferred income taxes of \$1.3 million, partially offset by \$4.5 million in excess tax benefits from employee stock plans.

The main drivers in the change in our net operating assets and liabilities were a \$35.0 million increase in accounts receivable due to increased shipments under purchase contracts of medication and supply cabinets, a \$6.5 million decrease in accrued compensation primarily due to incentive bonus payouts, and lower accrued commissions due to higher bookings in the fourth quarter of 2013 as compared to the nine months ended September 30, 2014, offset by a \$15.6 million increase in deferred gross profit due to an increase in products shipped but not yet installed, a \$5.4 million increase in trade accounts payable due to growth in our business activities, a \$2.7 million increase in deferred service revenues associated with new third-party leases generated and billed, a \$1.4 million decrease in other current assets due to receipt of a tax refund, a \$1.0 million decrease in prepaid expenses primarily due to a decrease in commissions driven by higher bookings in the fourth quarter of 2013 as compared to the nine months ended September 30, 2014, and a \$0.8 million increase in other long-term tax liabilities.

During the nine months ended September 30, 2013, cash provided by operating activities consisted of net income of \$17.2 million and non-cash charges of \$23.3 million, offset by a \$0.3 million decrease in net operating assets and liabilities. Our non-cash charges consisted primarily of depreciation and amortization of \$13.7 million, stock-based compensation of \$8.4 million, \$1.8 million asset impairment charges related a software development project, offset by \$2.8 million in excess tax benefits from employee stock plans. The main drivers in the change in our net operating assets and liabilities were a \$9.0 million increase in accounts receivable due to increased shipments, \$6.5 million increase primarily in trade accounts payable due to growth in our business activities, \$4.7 million increase in inventory, \$0.4 million decrease in deferred service revenue, offset by \$4.4 million increase in deferred gross profit and \$2.0 million increase in accrued liabilities.

Investing activities. Net cash used in investing activities for the nine months ended September 30, 2014 consisted primarily of \$19.7 million for the acquisition of Surgichem, \$10.2 million for purchases of property and equipment, primarily for software licenses and software upgrades, and \$7.9 million expended for capitalized software development costs.

Net cash used in investing activities for the nine months ended September 30, 2013 consisted primarily of \$7.8 million for purchases of property and equipment, and \$5.7 million expended for capitalized software development costs.

Financing activities. Net cash provided by financing activities during the nine months ended September 30, 2014 consisted of \$18.2 million in proceeds from employee stock option exercises and employee stock plan purchases, \$4.5 million in excess tax benefits from employee stock plans, offset by \$17.1 million in cash used for stock repurchases under our 2012 Stock Repurchase Program and \$2.0 million in employees' taxes paid related to restricted stock units.

Net cash provided by financing activities during the nine months ended September 30, 2013 consisted primarily of \$24.0 million in proceeds from the employee stock option exercises and employee stock plan purchases and \$2.8 million in excess tax benefits from employee stock plans.

Contractual Obligations

There were no material changes to our contractual obligations during the nine months ended September 30, 2014. For a description of our facility leases and contractual obligations, please refer to our Annual Report on Form 10-K for the year ended December 31, 2013 and the Notes to the Consolidated Financial Statements included therein.

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The following table summarizes our contractual obligations at September 30, 2014 (in thousands):

	Total	Less than one year	One to three years	Four to five years	More than five years
Operating leases (1)	\$37,986	\$ 1,448	10,796	\$8,766	\$16,976
Commitments to contract manufacturers and suppliers (2)	10,942	10,942	—	—	—
Total (3)	\$48,928	\$ 12,390	\$10,796	\$8,766	\$16,976

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

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We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing (2) 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.

At September 30, 2014, we have recorded \$5.8 million for uncertain tax positions under long term liabilities, in accordance with U.S. GAAP. As these liabilities do not reflect actual tax assessments, the timing and amount of (3) 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, a \$5.8 million of uncertain tax position liability has not been included in the contractual obligations table.

Off-Balance Sheet Arrangements

As of September 30, 2014, we had no off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii) 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, 2014, 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, 2013.

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, 2014. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2014, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated version of its Internal Control - Integrated Framework (the "2013 Framework"). Originally issued in 1992 (the "1992 Framework"), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts

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and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it superseded by the 2013 Framework. As of September 30, 2014, the Company continues to utilize the 1992 Framework during the transition to the 2013 Framework which will be completed by the end of 2014.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Legal Proceedings

The information set forth under “Legal Proceedings” in Note 12, Contingencies, of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for the period ended September 30, 2014 is incorporated herein by reference.

Item 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Our business faces significant risks and the risks described below may not be the

only risks we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations or financial condition could suffer and the market price of our common stock could decline.

In assessing these risks, you should also refer to other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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 (which includes Pyxis, Rowa, and PhACTs), which has entered into an agreement to be acquired by Becton Dickinson Corporation, Aesynt Inc. (through the acquisition of McKesson Hospital Automation, Inc. by Francisco Partners), AmerisourceBergen Corporation (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Talyst, Inc., Emerson Electronic Co. (through its

acquisition of medDispense, L.P.), Swisslog Holding AG, which has entered into an agreement to be acquired by KUKA, 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, Jones Packaging Ltd., Synergy Medical Systems, Manrex Ltd, and WebsterCare outside the United States.

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

- certain competitors may offer or have the ability to offer a broader range of solutions in the marketplace that we are unable to match;

- certain competitors may develop alternative solutions to the customer problems our products are designed to solve that may provide a better customer outcome or a lower cost of operation;

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

- competitive pressures could result in increased price competition for our products and services, fewer customer orders and reduced gross margins, any of which could harm our business;

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

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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 or increased financing costs could decrease demand for our medication and supply dispensing systems and related services and reduce our revenues. Changing customer requirements could decrease the demand for our products and services and our new product solutions may not achieve market acceptance.

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

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

that the level of market acceptance of such products or services will be sufficient to generate expected revenues and synergies with our other products or services. 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.

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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. US government 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 they make changes to their operations to meet the requirements of this legislation. Our automation solutions often involve a significant financial commitment from our customers and, as a result, our ability to grow our business is largely dependent on our customers' capital and operating budgets. To the extent 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 in order to achieve greater market power. If this consolidation continues, it would increase the size of certain target customers, which could increase the cost, effort and difficulty in selling our products to such target customers, or could cause our existing customers or potential new customers to begin utilizing our competitors' products if such customers are acquired by healthcare providers that prefer our competitors' products to ours. In addition, the resulting organizations could have greater bargaining power, which may lead to price erosion.

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

As a part of our business strategy we may seek to acquire businesses, technologies or products in the future. For example, on August 22, 2014, we acquired Surgichem Limited from Bupa Care Homes (CFG) Plc ("Bupa"). We cannot provide assurance that any acquisition or any future transaction we complete will result in long-term benefits to us or our stockholders, or that our management will be able to integrate or manage the acquired business effectively. Acquisitions entail numerous risks, including difficulties associated with the integration of operations, technologies, products and personnel that, if realized, could harm our operating results. Risks related to potential acquisitions include, but are not limited to:

- difficulties in combining previously separate businesses into a single unit and the complexity of managing a more dispersed organization as sites are acquired;

- the substantial costs that may be incurred and the substantial diversion of management's attention from day-to-day business when evaluating and negotiating such transactions and then integrating an acquired business;

- discovery, after completion of the acquisition, of liabilities assumed from the acquired business or of assets acquired that are broader in scope and magnitude or are more difficult to manage than originally assumed;

- failure to achieve anticipated benefits such as cost savings and revenue enhancements;

- difficulties related to assimilating the products or key personnel of an acquired business; and

- failure to understand and compete effectively in markets in which we have limited previous experience.

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

Demand for our consumable medication packages is time-sensitive and if we are not able to supply the demand from our institutional and retail pharmacy customers on schedule and with quality packaging products, they may 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 primarily produced in our St. Petersburg, Florida facilities on a continuous basis and shipped to our institutional pharmacy and retail pharmacy customers shortly before they are required by those customers. The demands placed on institutional pharmacies and retail pharmacies by their customers represent real time requirements of those customers.

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Our customer agreements for the sale of consumable medication packages are typically short-term in nature and typically do not include any volume commitments on the part of the customer. Although our packaging may be considered the preferred method of maintaining control of medications during the medication distribution and administration process, institutional and retail pharmacies have alternative methods of distributing medications, including bulk and alternative packaging, and medication adherence packaging may be supplied by our competitors. To the extent that we are unable to supply quality packaging to our customers in a timely manner, that demand will be met via alternative distribution methods, including consumable medication packaging sold by our competitors, and our revenue will decline. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages and would reduce our revenue.

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

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

- our reliance on distributors for the sale and post-sale support of our automated dispensing systems outside the United States and Canada;

- the difficulty of managing an organization operating in various countries;

- political sentiment against international outsourcing of production;

- reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;

- changes in foreign regulatory requirements;

- the requirement to comply with a variety of international laws and regulations, including privacy, labor, import, export, environmental standards, tax, anti-bribery and employment laws and changes in tariff rates;

- fluctuations in currency exchange rates and difficulties in repatriating funds from certain countries;

- additional investment, coordination and lead-time necessary to successfully interface our automation solutions with the existing information systems of our customers or potential customers outside of the United States; and

- political unrest, terrorism and the potential for other hostilities in areas in which we have facilities.

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

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

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

installation at a customer's site, any delay in installation by our customers will also cause a delay in the recognition of the revenue for that system.

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

The manufacture and sale of our current products are not regulated by the United States Food and Drug Administration (the "FDA"), or the Drug Enforcement Administration (the "DEA"). However, our current products, and any future products,

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

While we have implemented a Privacy and Use of Information Policy and adhere to established privacy principles, use of customer information guidelines and related federal and state statutes, we cannot assure you that we will be in compliance with all federal and state healthcare information privacy and security laws that we are directly or indirectly subject to, including, without limitation, the Health Insurance Portability and Accountability Act of 1996, or ("HIPAA"). Among other things, this legislation required the Secretary of Health and Human Services ("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 changes in HIPAA under the American Recovery and Reinvestment Act of 2009 ("ARRA"), we are now also covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties and other sanctions.

During November 2012, an Omnicell electronic device containing medication dispensing cabinet log files from three health system customers was stolen from an Omnicell employee's locked vehicle. The files on this device contained certain protected patient health information related to medication dispensing transactions from our medication dispensing cabinets over a one to three-week period, downloaded by the employee while troubleshooting software for the hospitals. This loss resulted in a putative class action complaint being filed against us and certain of our customers in the United States District Court for the District of New Jersey in March 2013 alleging breach of state security notification laws, violations of state consumer fraud laws, fraud, negligence and conspiracy relating to the theft of an Omnicell electronic device containing medication dispensing cabinet log files, including certain patient health information, described above and subsequent notification of this unauthorized disclosure of personal health information. In December 2013, the court issued an order dismissing the plaintiff's complaint without prejudice. The plaintiff failed to file an appeal of the court's decision by the January 27, 2014 deadline. There is no guarantee that, if

we are involved in any similar litigation in the future, such an outcome will result. Any similar unauthorized disclosure of personal health information could cause us to experience contractual indemnification obligations under business associate agreements with certain customers, litigation against us, reputational harm and a reduction in demand from our customers. To the extent that this disclosure is deemed to be a violation of HIPAA or other privacy or security laws, we may be subject to significant fines, penalties and other sanctions.

In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our 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.

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

In September, 2013, we entered into a \$75.00 million revolving credit facility pursuant to a Credit Agreement, by and among Omnicell, Wells Fargo Bank, National Association, as administrative agent, and the lenders from time to time party thereto (the "Credit Agreement"). The Credit Agreement contains various customary covenants that limit our ability and/or our subsidiaries' ability to, among other things:

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

The Credit Agreement also includes, among other financial covenants, financial covenants that require us to maintain a maximum total leverage ratio and minimum fixed charge coverage ratio. Our ability to comply with these financial covenants may be affected by events beyond our control. Our failure to comply with any of the covenants could result in a default under the Credit Agreement, which could permit the administrative agent or the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the revolving credit facility, which could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions to take advantage of certain business opportunities that may be presented to us. In addition, if we are unable to repay those amounts, the administrative agent and the lenders under the Credit Agreement could proceed against the collateral granted to them to secure that debt, which would seriously harm our business.

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

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

In addition, we have historically used stock options, restricted stock units and other forms of equity compensation as key components of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. The effect of managing share-based compensation expense and minimizing shareholder dilution from the issuance of new shares may make it less favorable for us to grant stock options, restricted stock units or other forms of equity compensation, to employees in the future. In order to continue granting equity compensation at competitive levels, we must seek stockholder approval for any increases to the number of shares reserved for issuance under our equity incentive plans, such as the share increase for which we obtained approval at our 2013 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals in the future. Any failure to receive approval for current or future proposed increases could prevent us from granting equity compensation at competitive levels and make it more difficult to

attract, retain and motivate employees. Further, to the extent that we expand our business or product lines through the acquisition of other businesses, any failure to receive any such approvals could prevent us from securing employment commitments from such newly acquired employees. Failure to attract and retain key personnel could harm our competitive position, results of operations and financial condition.

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

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

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are able to complete, our ability to continue to meet our customers' needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

Regarding our expenses, our ability to control expense is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our ability to gain efficiencies in our workforce through the local and worldwide labor markets and our ability to grow our outsourced vendor supply model. Our expense growth rate may equal or exceed our revenue growth rate if we are unable to streamline our operations, 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. If we are unable to successfully interface our automation solutions with the existing information systems of our customers, they may choose not to use our products and services.

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

Additionally, our competitors may enter into agreements with providers of hospital information management systems that are designed to increase the interoperability of their respective products. To the extent our competitors are able to increase the interoperability of their products with those of the major hospital information systems providers, customers who utilize such information systems may choose not to use our products and services. Furthermore, we expect the importance of interoperability to increase in the next few years. Regulations such as the HITECH Act Meaningful Use Stage 3 are expected to heavily focus on evidence and outcomes. Given our role in care delivery process, the data generated by our products may be a key input for assessing and reporting on clinical outcomes. This may elevate interoperability with information systems to a relative importance to our customers creating a business opportunity and risk.

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

Our success depends in part on our ability to obtain patent protection for technology and processes and our ability to preserve our trademarks, copyrights and trade secrets. We have pursued patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and for technology that offers us a potential competitive advantage for our products. We intend to continue to pursue such protection in the future. Our issued patents relate to various features of our medication and supply dispensing systems and our packaging systems. We cannot assure you that we will file any patent applications in the future, and that any of our patent applications will result in issued patents or that, if issued, such patents will provide significant protection for our technology and processes. As an example, in September 2014, an action was brought against us, to, among other matters, correct the inventorship of certain patents owned by us. For additional details, please refer to Note 12, Contingencies, to this Quarterly Report on Form 10-Q. Furthermore, we cannot assure you that others will not develop technologies that are similar or superior to our technology or that others will not design around the patents we own. All of our system software is copyrighted and subject to the protection of applicable copyright laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary, which could harm our competitive position.

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

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

- our ability to successfully install our products on a timely basis and meet other contractual obligations necessary to recognize revenue;

- 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;

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- the timing and significance of any acquisition or business development transactions that we may consider or negotiate and the revenues, costs and earnings that may be associated with these transactions;
- the relative proportions of revenues we derive from products and services;
- fluctuations in the percentage of sales attributable to our international business;
- our customers' budget cycles;
- changes in our operating expenses and our ability to stabilize expenses;
- expenses incurred to remediate product quality or safety issues
- our ability to generate cash from our accounts receivable on a timely basis;
- the performance of our products;
- changes in our business strategy;
- macroeconomic and political conditions, including fluctuations in interest rates, tax increases and availability of credit markets; and
- volatility in our stock price and its effect on equity-based compensation expense.

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

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 obligate us to pay the group purchasing organization a fee. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our revenue targets or increase our revenues. These organizations may not renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire, any of which could cause our revenues to decline.

If we are unable to maintain our relationships with major institutional pharmacies, we may experience a decline in the sales of blister cards and other consumables sold to these customers.

The institutional pharmacy market consists of significant national suppliers of medications to non-acute care facilities, smaller regional suppliers, and very small local suppliers. Although none of these customers comprised more than 10% of our total revenues as of September 30, 2014, they may, in some periods, comprise between 5% and 10% of our total revenues. If these larger national suppliers were to purchase consumable blister card components from alternative sources, or if alternatives to blister cards were used for medication control, our revenues would decline. Our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could cause our stock price to decline.

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

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

During the nine months ended September 30, 2014, our common stock traded between \$30.33 and \$24.85 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;

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• 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 engage multiple single source third-party manufacturers to build several of our sub-assemblies. The risk associated with changing to alternative vendors, if necessary, for any of the numerous components used to manufacture our products could limit our ability to manufacture our products and harm our business. 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.

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

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

We expect to incur costs to design and implement a process to discover the origin of the tantalum, tin, tungsten and gold used in our products, including components we purchase from third parties, and to audit our conflict minerals disclosures. Our reputation may also suffer if we have included conflict minerals originating in the Democratic Republic of the Congo or surrounding countries in our products.

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

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

our unsold receivables from U.S. government customers. As of September 30, 2014, the balance of our unsold leases to U.S. government customers was \$11.7 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

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purchased in bulk to obtain favorable pricing, the general unpredictability of demand for specific products and customer requests for quick delivery schedules, may result in us maintaining large amounts of inventory. Other factors, including changes in market demand, customer requirements and technology, may cause our inventory to become obsolete. Any excess or obsolete inventory could result in inventory write-downs, which in turn could harm our business and results of operations.

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

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

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

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

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

Our products provide medication management and supply chain management solutions for the healthcare industry. Despite the presence of healthcare professionals as intermediaries between our products and patients, if our products fail to provide accurate and timely information or operate as designed, customers, patients or their family members could assert claims against us for product liability. Moreover, failure of health-care facility employees to use our products for their intended purposes could result in product liability claims against us. Litigation with respect to product liability claims, regardless of any outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We possess a variety of insurance policies that include coverage for general commercial liability and technology errors and omissions liability. We attempt to mitigate these risks through contractual terms negotiated with our customers. However, these policies and protective contractual terms may not be adequate against product liability claims. A successful claim brought against us, or any claim or product recall that results in negative publicity about us, could harm our competitive position, results of operations and financial condition. Also, in the event that any of our products is defective, we may be required to recall or redesign those products.

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

Some of our products incorporate technologies owned by third parties that are licensed to us for use, modification, and distribution. 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.

* Complications in connection with our ongoing business information system upgrades, including those required 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 and transition acquired entities onto information systems already utilized in the company. For example, in 2014 we are replacing legacy Enterprise

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Requirements Planning systems utilized in the acquired MTS business with systems currently in use in other parts of Omnicell. 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 Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") for revenues, leases and other components of our financial reporting. These new standards could require us to modify our accounting policies. We further anticipate that integration of these and possibly other new standards may require a substantial amount of management's time and attention and require integration with our enterprise resource planning system. The implementation of the system and the adoption of future new standards, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to record certain business transactions timely. All of these potential results could adversely impact our results of operations, financial condition and cash flows. Outstanding employee stock options have the potential to dilute stockholder value and cause our stock price to decline.

We grant stock options to certain of our employees as incentives to join Omnicell or as an on-going reward and retention vehicle. At September 30, 2014, we had options outstanding to purchase approximately 2.7 million shares of our common stock at exercise prices ranging from \$6.44 to \$29.16 per share, at a weighted-average exercise price of \$15.47 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 foreign jurisdictions. Our future effective tax rates could be affected by several factors, many of which are outside of our control, including: changes in the mix of earnings with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. We regularly assess the likelihood of adverse outcomes to determine the adequacy of our provision for taxes. We are also subject to examination of our income tax returns by the Internal Revenue Service and other tax authorities. There can be no assurance that the outcomes from these examinations will not materially adversely affect our financial condition and operating results.

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

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

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

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to the stockholders. Our anti-takeover provisions include provisions in our certificate of incorporation providing that stockholders' meetings may only be called by our Board of Directors and provisions in our bylaws providing that the stockholders may not take action by written consent and requiring that stockholders that desire to

nominate any person for election to our Board of Directors or to make any proposal with respect to business to be conducted at a meeting of our stockholders be submitted in appropriate form to our Secretary within a specified period of time in advance of any such meeting. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until the holder has held the stock for three years unless, among other possibilities, our Board of Directors approves the transaction. Our Board of Directors may use these provisions to prevent changes in the management and control of our company. Also, under applicable Delaware law, our board of directors may adopt additional anti-takeover measures in the future.

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

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

Share Repurchase Programs

The following table presents a summary of our stock repurchase activity during nine months ended September 30, 2014:

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs ⁽¹⁾	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
January 1, 2014 to January 31, 2014	31,469	\$25.00	31,469	\$28,277,375
February 1, 2014 to February 28, 2014	8,100	\$25.00	8,100	\$28,074,875
March 1, 2014 to March 31, 2014	106,168	\$28.96	106,168	\$25,000,027
September 1, 2014 to September 30, 2014	575,364	\$27.06	575,364	\$9,427,715

⁽¹⁾ Shares purchased under the 2012 Stock Repurchase Program

⁽²⁾ These amounts reflect the available shares authorized for repurchase under the 2012 Stock Repurchase Program. Refer to Note 13, Stockholders' Equity, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for information regarding our 2012 Stock Repurchase Program.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporation By Reference			Filing Date
		Form	SEC File No.	Exhibit	
3.1	Amended and Restated Certificate of Incorporation of Omnicell, Inc.	S-1	333-57024	3.1	3/14/2001
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.	10-Q	000-33043	3.2	8/9/2010
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock	10-K	000-33043	3.2	3/28/2003
3.4	Bylaws of Omnicell, Inc., as amended	10-Q	000-33043	3.3	8/9/2007
4.1	Reference is made to Exhibits 3.1, 3.2 , 3.3 and 3.4				
4.2	Form of Common Stock Certificate	S-1	333-57024	4.1	3/14/2001
31.1 ⁺	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
31.2 ⁺	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
32.1 ⁺	Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350) ⁽¹⁾				
101.INS ⁺	XBRL Instance Document				
101.SCH ⁺	XBRL Taxonomy Extension Schema Document				
101.CAL ⁺	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF ⁺	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB ⁺	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE ⁺	XBRL Taxonomy Extension Presentation Linkbase Document				

+ Filed herewith

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

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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 10, 2014

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

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporation By Reference			Filing Date
		Form	SEC File No.	Exhibit	
3.1	Amended and Restated Certificate of Incorporation of Omnicell, Inc.	S-1	333-57024	3.1	3/14/2001
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.	10-Q	000-33043	3.2	8/9/2010
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock	10-K	000-33043	3.2	3/28/2003
3.4	Bylaws of Omnicell, Inc., as amended	10-Q	000-33043	3.3	8/9/2007
4.1	Reference is made to Exhibits 3.1, 3.2 , 3.3 and 3.4				
4.2	Form of Common Stock Certificate	S-1	333-57024	4.1	3/14/2001
31.1 ⁺	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
31.2 ⁺	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
32.1 ⁺	Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350) ⁽¹⁾				
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