OMNICELL, Inc
Form 10-Q
November 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from to
Commission File No. 000-33043
OMNICELL, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-3166458
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

590 East Middlefield Road
Mountain View, CA 94043
(Address of registrant's principal executive offices, including zip code)

(650) 251-6100
(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 29, 2015, there were 35,427,994 shares of the registrant's common stock, $0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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OMNICELL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2015	December 31, 2014
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$57,757	$125,888
Accounts receivable, net of allowances of $1,733 and $1,279, respectively	115,680	82,763
Inventories	49,460	31,554
Prepaid expenses	17,698	23,518
Deferred tax assets	12,489	12,446
Other current assets	6,802	7,215
Total current assets	259,886	283,384
Property and equipment, net	34,026	36,178
Long-term net investment in sales-type leases	13,557	10,848
Goodwill	148,727	122,720
Intangible assets, net	92,042	82,667
Long-term deferred tax assets	1,513	1,144
Other long-term assets	26,971	23,273
Total assets	$576,722	$560,214
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$24,691	$19,432
Accrued compensation	15,224	19,874
Accrued liabilities	29,382	19,299
Deferred service revenue	26,168	25,167
Deferred gross profit	27,179	28,558
Total current liabilities	122,644	112,330
Deferred service revenue, long-term	18,436	20,308
Long-term deferred tax liabilities	32,320	30,454
Other long-term liabilities	11,782	7,024
Total liabilities	185,182	170,116
Commitments and contingencies (Notes 9 & 10)		
Stockholders' equity:		
Common stock, $0.001 par value, 100,000 shares authorized; 44,548 and 43,540 shares issued; 35,403 and 35,816 shares outstanding, respectively	45	43
Treasury stock, at cost, 9,145 and 7,721 shares outstanding	(185,074)	(135,053)
Additional paid-in capital	485,919	457,436
Retained earnings	92,138	69,033
Accumulated other comprehensive income (loss)	(1,488)	(1,361)
Total stockholders' equity	391,540	390,098
Total liabilities and stockholders' equity	$576,722	$560,214

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

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OMNICELL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(Unaudited)			
	(In thousands, except per share data)			
Revenues:				
Product	$100,941	$92,229	$284,204	$260,053
Services and other revenues	24,293	20,314	70,039	59,306
Total revenues	125,234	112,543	354,243	319,359
Cost of revenues:				
Cost of product revenues	51,700	44,510	143,319	124,413
Cost of services and other revenues	9,831	8,487	28,074	24,865
Total cost of revenues	61,531	52,997	171,393	149,278
Gross profit	63,703	59,546	182,850	170,081
Operating expenses:				
Research and development	9,176	7,078	25,941	19,670
Selling, general and administrative	40,668	38,871	123,690	114,302
Gain on business combination	—	—	(3,443)	—
Total operating expenses	49,844	45,949	146,188	133,972
Income from operations	13,859	13,597	36,662	36,109
Other income (expense), net	(646)	(706)	(1,635)	(1,003)
Income before provision for income taxes	13,213	12,891	35,027	35,106
Provision for income taxes	5,177	5,591	11,922	13,824
Net income	$8,036	$7,300	$23,105	$21,282
Net income per share:				
Basic	$0.22	$0.20	$0.64	$0.60
Diluted	$0.22	$0.20	$0.63	$0.58
Weighted-average shares outstanding:				
Basic	35,806	35,994	35,983	35,634
Diluted	36,613	36,832	36,870	36,617

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

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OMNICELL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(Unaudited)			
	(In thousands)			
Net income	$8,036	$7,300	$23,105	21,282
Other comprehensive loss, net of reclassification adjustments:				
Foreign currency translation adjustments	(1,555)	(669)	(127)	(550)
Other comprehensive loss	(1,555)	(669)	(127)	(550)
Comprehensive income	$6,481	$6,631	$22,978	$20,732

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

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

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Operating Activities		
Net income	$23,105	$21,282
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,457	14,705
Loss on disposal of fixed assets	114	221
Gain on business combination	(3,443)	—
Provision for receivable allowance	542	850
Share-based compensation expense	11,267	8,610
Income tax benefits from employee stock plans	3,838	4,065
Excess tax benefits from employee stock plans	(3,942)	(4,456)
Provision for excess and obsolete inventories	317	450
Deferred income taxes	(2,235)	1,307
Changes in operating assets and liabilities:		
Accounts receivable, net	(26,132)	(35,028)
Inventories	(13,215)	1,301
Prepaid expenses	5,937	1,015
Other current assets	1,019	1,412
Net investment in sales-type leases	(3,220)	677
Other long-term assets	247	360
Accounts payable	(127)	5,420
Accrued compensation	(5,003)	(6,533)
Accrued liabilities	4,608	(416)
Deferred service revenue	(4,199)	2,650
Deferred gross profit	(1,170)	15,585
Other long-term liabilities	(833)	838
Net cash provided by operating activities	5,932	34,315
Investing Activities		
Acquisition of intangible assets, intellectual property and patents	(331)	(236)
Software development for external use	(9,445)	(7,925)
Purchases of property and equipment	(6,081)	(10,151)
Business acquisitions, net of cash acquired	(25,455)	(19,749)
Net cash used in investing activities	(41,312)	(38,061)
Financing Activities		
Proceeds from issuances under stock-based compensation plans	15,665	18,157
Employees' taxes paid related to restricted stock units	(2,285)	(2,023)
Common stock repurchases	(50,021)	(17,052)
Excess tax benefits from employee stock plans	3,942	4,456
Net cash (used) provided by financing activities	(32,699)	3,538
Effect of exchange rate changes on cash and cash equivalents	(52)	(136)
Net decrease in cash and cash equivalents	(68,131)	(344)
Cash and cash equivalents at beginning of period	125,888	104,531
Cash and cash equivalents at end of period	$57,757	$104,187

Supplemental cash flow information		
Cash paid for interest	$94	$—

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Cash paid for taxes, net of refunds	$7,027	$—
Supplemental disclosing of non-cash investing activities		
Unpaid property and equipment purchases	$554	$444
Non-cash activity business acquisition	$7,386	$860
Treasury stock in accrued liabilities	$—	$2,586

The accompanying notes are an integral part of these unaudited 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

Business

Omnicell, Inc. was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our major products are automated medication, supply control systems and medication adherence solutions which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States and Canada. "Omnicell," "our," "us," "we," or the "Company" collectively refer to Omnicell, Inc. and its subsidiaries.

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of the Company as of September 30, 2015 and December 31, 2014, the results of their operations, comprehensive income and cash flows for the three and nine months ended September 30, 2015 and September 30, 2014. 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, 2014 filed with the SEC on March 30, 2015. Our results of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2015 are not necessarily indicative of results that may be expected for the year ending December 31, 2015, or for any future period.

Principles of consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

On April 21, 2015, we completed the acquisition of Mach4 Automatisierungstechnik GmbH (“Mach4”), a privately held German limited liability company with registered office in Bochum, Germany. On April 30, 2015, we acquired the remaining 85% of the issued and outstanding ordinary shares of Avantec Healthcare Limited (“Avantec”) not already held by Omnicell. The consolidated financial statements include the results of operations of Mach4 and Avantec commencing as of their respective acquisition dates.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and accompanying Notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the Company in the future, actual results may be different from the estimates. 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, accounts receivable and notes receivable (net investment in sales-type leases), valuation of goodwill, purchased intangibles and long-lived assets, and accounting for income taxes.

Segment reporting change

As previously disclosed, since the first quarter of 2015, we modified the segment presentation to reflect the changes in how our Chief Operating Decision Maker (“CODM”) reviews the segments and the overall business. See Note 14, Segment Information, for additional information on our segment reporting change.

Our CODM is our Chief Executive Officer. With the increase in completed acquisitions in the last two years, our CODM changed how the financial information was reviewed to exclude general corporate-level costs that are not specific to either of the reporting segments when evaluating the operating results of each segment. Corporate-level costs include expenses related to executive management, finance and accounting, human resources, legal, training and

development, and certain administrative expenses.

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The historical information presented has been retrospectively adjusted to reflect the modified segment reporting. Our CODM allocates resources and evaluates the performance of our segments using information about its revenues, gross profit and income from operations, excluding certain costs which are managed separately at the corporate level. We enhanced our segment reporting structure to match our operating structure based on how our CODM views the business and allocates resources, beginning in the first quarter of 2015.

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 were no customers that accounted for more than 10% of our accounts receivable as of September 30, 2015 and December 31, 2014. We believe that we have no significant concentrations of credit risk as of September 30, 2015.

Significant accounting policies

There have been no material changes in our significant accounting policies for the three and nine months ended September 30, 2015, as compared to the significant accounting policies described in our annual report on Form 10-K for the year ended December 31, 2014.

Recently issued authoritative guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. Under the new guidance, an entity is required to recognize an amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The original effective date for the ASU would have required the Company to adopt the standard beginning in its first quarter of fiscal year 2017. In July 2015, the FASB voted to amend ASU No. 2014-09 by approving a one-year deferral of the effective date as well as providing the option to early adopt the standard on the original effective date. Accordingly, we may adopt the standard in its first quarter of fiscal year 2018. The new revenue guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial position or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The new guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. It applies to entities that measure inventory using a method other than last-in, first-out (LIFO) and the retail inventory method (RIM). The new guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and should be applied prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial position or results of operations.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU requires adjustments to provisional amounts that are identified during the measurement period of a business combination to be recognized in the reporting period in which the adjustment amounts are determined. Acquirers are no longer required to revise comparative information for prior periods as if the accounting for the business combination had been completed as of the acquisition date. The provisions of ASU 2015-16 are effective for reporting periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial position or results of operations.

There was no other recently issued authoritative guidance that has a material impact on our Condensed Consolidated Financial Statements through the reporting date.

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. Diluted net income per share is computed by dividing net income for the period by the weighted-average number of shares, less shares repurchased, plus, if dilutive, potential common stock outstanding during the

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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. The anti-dilutive weighted-average dilutive shares related to stock award plans are excluded from the computation of the diluted net income per share because their effect would have been anti-dilutive.

The calculation of basic and diluted net income per share is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
Net income	$8,036	$7,300	$23,105	$21,282
Weighted-average shares outstanding — basic	35,806	35,994	35,983	35,634
Dilutive effect of employee stock plans	807	838	887	983
Weighted-average shares outstanding — diluted	36,613	36,832	36,870	36,617
Net income per share — basic	$0.22	$0.20	$0.64	$0.60
Net income per share — diluted	$0.22	$0.20	$0.63	$0.58
Anti-dilutive weighted-average shares related to stock award plans	478	427	380	364

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

Cash and cash equivalents as of September 30, 2015 and December 31, 2014 includes cash and money market funds, which have original maturities of three months or less. Due to the short duration to maturity, the carrying value of such financial instruments approximates the estimated fair value.

The cash and cash equivalents at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Cash	$17,649	$61,311
Money market fund	40,108	64,577
Total cash and cash equivalents	$57,757	$125,888

Fair value hierarchy

The Company measures its financial instruments at fair value. The Company’s cash equivalents are classified within Level 1 of the fair value hierarchy as they are valued primarily using quoted market prices utilizing market observable inputs. The Company's foreign currency contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Level 3 valuation inputs include the Company’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument’s valuation.

The following table represents the fair value hierarchy of the Company’s financial assets measured at fair value as of September 30, 2015:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Money market funds	$40,108	$—	$—	$40,108
Derivative contracts	—	17	—	17
Total financial assets	$40,108	$17	$—	$40,125
Contingent consideration liability	—	—	5,572	5,572
Total financial Liabilities	$—	$—	$5,572	$5,572

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The significant unobservable inputs used in the fair value measurement of the contingent consideration classified as level 3 above are the achievement of booking targets and the discount rate. We did not hold any Level 3 assets or liabilities as of December 31, 2014.

There have been no transfers between fair value measurement levels during the three and nine months ended September 30, 2015 and September 30, 2014.

The following table represents the fair value hierarchy of the Company's financial asset measured at fair value as of December 31, 2014:

	Level 1	Level 2	Total
	(In thousands)		
Money market fund	$64,577	$—	$64,577
Total financial assets	$64,577	$—	$64,577

The Company had no financial liabilities measured at fair value at December 31, 2014.

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

Foreign Currency Risk Management

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which is the British Pound and Euro. In order to manage foreign currency risk, we enter into foreign exchange forward contracts to mitigate risks associated with changes in spot exchange rates of mainly non-functional currency denominated assets or liabilities of our foreign subsidiaries. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. By working only with major banks and closely monitoring current market conditions, we seek to limit the risk that counterparties to these contracts may be unable to perform. The foreign exchange forward contracts are measured at fair value and reported as other current assets or accrued liabilities on the Condensed Consolidated Balance Sheets. The derivative instruments we use to hedge this exposure are not designated as hedges. Any gains or losses on the foreign exchange forward contracts are recognized in earnings as Other Income/Expense in the period incurred in the Condensed Consolidated Statements of Operations. We do not enter into derivative contracts for trading purposes.

The aggregate notional amounts of our outstanding foreign exchange contracts as of September 30, 2015 were $1.8 million. The aggregate fair value of these outstanding foreign exchange contracts as of September 30, 2015 were less than $0.1 million. We did not have any outstanding foreign exchange contracts as of December 31, 2014.

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Note 4. Balance Sheet Components

	September 30, 2015	December 31, 2014
	(In thousands)	
Inventories:		
Raw materials	$11,027	$8,254
Work in process	2,238	64
Finished goods	36,195	23,236
Total inventories	$49,460	$31,554
Property and equipment:		
Equipment	$44,448	$42,829
Furniture and fixtures	5,903	5,689
Leasehold improvements	9,064	8,701
Purchased software	29,770	28,920
Construction in progress	4,902	1,538
Property and equipment, gross	94,087	87,677
Accumulated depreciation and amortization	(60,061)	(51,499)
Total property and equipment, net	$34,026	$36,178
Other long term assets:		
Capitalized software, net	$24,838	$19,643
Other assets	2,133	3,630
Total other long term assets, net	$26,971	$23,273
Accrued liabilities:		
Rebates and lease buyouts	$4,603	$6,512
Advance payments from customers	7,567	4,834
Group purchasing organization fees	3,437	3,475
Taxes payable	3,574	2,181
Other accrued liabilities	10,201	2,297
Total accrued liabilities	$29,382	$19,299

Note 5. Net Investment in Sales-Type Leases

On recurring basis, we enter into sales-type lease transactions which vary in length from one to five years. The receivables as a result of these type of transactions are collateralized by the underlying equipment leased and consist of the following components at September 30, 2015 and December 31, 2014:

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	September 30, 2015	December 31, 2014
	(In thousands)	
Net minimum lease payments to be received	$20,731	$17,616
Less: unearned interest income portion	(1,000)	(1,131)
Net investment in sales-type leases	19,731	16,485
Less: short-term portion*	(6,174)	(5,637)
Long-term net investment in sales-type leases	$13,557	$10,848

* The short-term portion of the net investments in sales-type leases are included in the Other current assets on the Condensed Consolidated Balance Sheets.

We evaluate our sales-type leases individually and collectively for impairment, and recorded $0.1 million collective allowance for credit losses as of September 30, 2015 and $0.2 million as of December 31, 2014.

At September 30, 2015, the future minimum lease payments under sales-type leases are as follows:

	September 30, 2015
Year ended December 31,	(In thousands)
Remaining three months of 2015	$1,774
2016	6,454
2017	5,428
2018	3,808
2019	2,188
Thereafter	1,079
Total	$20,731

Note 6. Business Acquisitions

Mach4 Acquisition

On April 21, 2015, we completed the acquisition of Mach4, a privately held German limited liability company with its registered office in Bochum, Germany pursuant to a share purchase agreement (the “Mach4 Agreement”), under which Omnicell International, Inc., a wholly-owned subsidiary of Omnicell Inc., purchased the entire issued share capital of Mach4 (the “Mach4 Acquisition”).

Mach4 manufactures robotic dispensing systems used by retail and hospital pharmacies and the Mach4 acquisition provides Omnicell with a more robust product offering that is intended to be leveraged to create opportunities to sell additional Omnicell medication cabinets. The robotic storage and dispensing product offering provides Omnicell with a solution to better compete for international market share.

Pursuant to the terms of the Mach4 Agreement, we paid approximately $17.2 million in cash after adjustments provided for in the Mach4 Agreement, of which $2.7 million was placed in an escrow fund, which will be distributed to Mach4's former stockholders subject to claims that we may make against the escrow fund with respect to indemnification and other claims within 18 months after the closing date of this transaction.

Avantec Acquisition

On April 30, 2015, we completed the acquisition of Avantec, the privately-held distributor of Omnicell’s products in the United Kingdom, pursuant to a share purchase agreement (the “Avantec Agreement”). Pursuant to the Avantec Agreement, we acquired the remaining 85% of issued and outstanding ordinary shares of Avantec that was not previously owned by the Company. Avantec develops medication and supply automation products that complement our solutions for configurations suited to the United Kingdom marketplace, and had been the exclusive distributor of our medication and supply automation solutions since 2005 in the United Kingdom.

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Pursuant to the terms of the Avantec Agreement, we agreed to pay $12.0 million in cash (the “Purchase Consideration”) and potential earn-out payments of up to $3.0 million payable after December 31, 2015 and an additional $3.0 million payable after December 31, 2016, based on future bookings. The fair value of these potential earn-out payments as of the acquisition date was $5.6 million. Pursuant to the terms of the Avantec Agreement we retained $1.8 million of the Purchase Consideration to be held to settle any future indemnification claims within 18 months period that we may make following the closing.

The fair value of the contingent consideration liability related to Avantec is revalued at each reporting date or more frequently if circumstances dictate. Changes in the fair value of this obligation are recorded as income or expense within other expense in our condensed consolidated statements of operation. The significant unobservable inputs used in the fair value measurement of the contingent consideration are the achievement of booking targets and the discount rate. Significant increases or decreases in any of those inputs in isolation would result in a significantly lower or higher fair value measurement.

Prior to the Avantec Acquisition, we accounted for our 15% ownership interest in Avantec as an equity-method investment. The Avantec acquisition -date carrying book value of our previous equity interest was $1.3 million. This transaction was accounted for as a step acquisition, which required us to re-measure our previously held 15% ownership interest to fair value and record the difference between the fair value and carrying value as a gain. The fair value of the equity investment was determined to be $4.7 million which resulted in a gain of $3.4 million that was recorded in operating income in our Condensed Consolidated Statement of Operations in the three months ended June 30, 2015.

Both of the above acquired companies are included in our Automation and Analytics segment.

We accounted for the transactions above under the provisions of FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Accordingly, the estimated fair value of the consideration transferred to purchase the acquired companies is allocated to the assets acquired and the liabilities assumed based on their respective fair values. We have made significant estimates and assumptions in determining the allocation of the acquisition consideration.

The purchase price allocations are subject to certain post-closing working capital adjustments for the acquired current assets and current liabilities of both acquisitions at their respective acquisition dates. 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 for each.

Our preliminary allocation of the total purchase price for each transaction is summarized below:

	Mach4	Avantec	Total
	(In thousands)		
Cash	$397	$3,392	$3,789
Accounts receivable	3,743	3,607	7,350
Inventory	3,580	1,428	5,008
Deferred tax assets and other current assets	368	89	457
Total current assets	8,088	8,516	16,604
Property and equipment	463	—	463
Intangibles	7,710	6,341	14,051
Goodwill	10,539	15,606	26,145
Other non-current assets	52	—	52
Total assets	26,852	30,463	57,315
Current liabilities	3,684	4,125	7,809
Non-current deferred tax liabilities	2,564	1,269	3,833
Deferred service revenue and gross profit	2,314	928	3,242
Other non-current liabilities	1,056	—	1,056
Total purchase price	$17,234	$24,141	$41,375
Total purchase price, net of cash received	$16,837	$20,749	$37,586

Identifiable intangible assets

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Intangible assets acquired and their respective estimated remaining useful lives over which each asset will be amortized are as follows:

	Mach4		Avantec	
	Fair value	Weighted average useful life	Fair value	Weighted average useful life
	(In thousands)	(In years)	(In thousands)	(In years)
Developed technology	$3,290	8	$—	—
Trade name	850	6	92	2
Customer relationships	3,570	11-12	5,834	12
Backlog	—	—	415	2
Total purchased intangible assets	$7,710		$6,341	

Developed technology represents completed technology that has reached the technological feasibility and/or is currently offered for sale to Mach4 customers. The fair value is determined based on the relief from royalty method under the income approach, which requires us to estimate a reasonable royalty rate, identify relevant projected revenues and expenses, and select an appropriate discount rate. A royalty rate of 5.0% was used to value the developed technology. The after-tax cash flows were discounted to present value utilizing a 17.5% discount rate, which is based on our company-wide required return for this acquisition plus a discount of 1.5% to account for the unique riskiness of the asset. The developed technology had a fair value of $3.3 million and had an estimated economic life of eight years based on estimated technological obsolescence and is being amortized on an accelerated basis.

Trade name represents the fair value brand recognition that was determined using the relief-from-royalty method under the income approach. A royalty rate of 1.0% and 2.0% was used to value the trade names of Avantec and Mach4, respectively. The value of trade names of $0.1 million for Avantec is being amortized on straight-line method and $0.9 million for Mach4 is being amortized on an accelerated basis.

Customer relationships represent the fair value of future projected revenues that will be derived from the sale of products to existing customers of the acquired company. The fair value of the customer relationships is determined based on the excess earnings method under the income approach that resulted in a value of $3.6 million for Mach4 and $5.8 million for Avantec and has been amortized over their useful lives on accelerated basis.

Backlog represents the fair value of sales order backlog as of the valuation date and its fair value is determined based on the excess earnings method under the income approach and is being amortized on straight-line method.

Goodwill

The goodwill arising from these acquisitions is primarily attributed to sales of future products and services and the assembled workforce. Goodwill is not deductible for tax purposes. Goodwill is not being amortized but is reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with authoritative guidance.

The following table presents certain unaudited pro forma information for illustrative purposes only, for fiscal 2015 and fiscal 2014 as if Mach4 and Avantec had been acquired on January 1, 2014. The unaudited estimated pro forma information combines the historical results of Mach4 and Avantec with our consolidated historical results and includes certain adjustments reflecting the estimated impact of fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisitions taken place on January 1, 2014. Additionally, the pro forma financial information does not include the impact of possible business model changes between Mach4, Avantec and the Company. We expect to achieve further business synergies, as a result of the acquisitions that are not reflected in the pro forma amounts that follow. As a result, actual results will differ from the unaudited pro forma information presented (in thousands, except per share

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data):

	Nine months ended September 30,	
	2015	2014
	(In thousands, except per share data)	
Pro forma net revenues	$361,217	$340,915
Pro forma net income	$23,742	$22,511
Pro forma net income per share basic	$0.66	$0.63
Pro forma net income per share diluted	$0.64	$0.61

Note 7. Goodwill and Intangible Assets

Goodwill

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

	Automation and Analytics	Medication Adherence	Total
	(In thousands)		
Net balance as of December 31, 2014	$28,543	$94,177	$122,720
Goodwill acquired - Mach4	10,539	—	10,539
Goodwill acquired - Avantec	15,606	—	15,606
Foreign currency exchange rate fluctuations	194	(332)	(138)
Net balance as of September 30, 2015	$54,882	$93,845	$148,727

Intangible assets, net

The carrying amounts of intangibles as of September 30, 2015 are as follows:

	September 30, 2015				
	Gross carrying amount	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
	(In thousands, except for years)				
Customer relationships	$69,520	$(10,317)	$(355)	$58,848	5 - 30
Acquired technology	30,991	(5,534)	14	25,471	3 - 20
Trade names	8,069	(2,289)	(6)	5,774	1 - 12
Patents	1,986	(342)	—	1,644	2 - 20
Backlog	424	(105)	(14)	305	1.7
Total intangibles assets, net	$110,990	$(18,587)	$(361)	$92,042	

The carrying amounts of intangibles as of December 31, 2014 were as follows:

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	December 31, 2014				
	Gross carrying amount	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
Customer relationships	$60,150	$(7,596)	$(323)	$52,231	5 - 30
Acquired technology	27,580	(4,068)	—	23,512	3 - 20
Trade names	7,110	(1,559)	(17)	5,534	3 - 12
Patents	1,655	(265)	—	1,390	2 - 20
Total intangibles assets, net	$96,495	$(13,488)	$(340)	$82,667	

Amortization expense of intangible assets was $2.0 million and $1.2 million for the three months ended September 30, 2015 and September 30, 2014, respectively, and $5.1 million and $3.3 million for the nine months ended September 30, 2015 and September 30, 2014, respectively.

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

	September 30, 2015
Year ended December 31,	(In thousands)
Remaining three months of 2015	$1,919
2016	6,849
2017	6,034
2018	5,546
2019	5,262
Thereafter	66,432
Total	$92,042

Note 8. Deferred Gross Profit

Deferred gross profit consists of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Sales of medication and supply dispensing systems including packaging equipment [1]	$44,158	$36,947
Less: cost of revenues, excluding installation costs	(16,979)	(8,389)
Total deferred gross profit	$27,179	$28,558

[1] Delivered and invoiced, pending installation.

Note 9. Commitments

Lease commitments

We lease office space and office equipment under operating leases. At September 30, 2015, future minimum lease payments under such operating leases were as follows:

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	September 30, 2015 (In thousands)
Remaining three months of 2015	$1,751
2016	6,526
2017	5,885
2018	5,490
2019	5,481
Thereafter	15,216
Total minimum future lease payments	$40,349

Purchase obligations

During the course of the business, we issue purchase orders based on our current manufacturing needs. At September 30, 2015, we had non-cancelable purchase commitments of $28.8 million, which are expected to be paid within the next twelve months.

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Note 10. Contingencies

Legal Proceedings

We are currently involved in various legal proceedings. 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 below 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.

Pending legal proceedings as of September 30, 2015 are as follows:

On September 12, 2014, MV Circuit Design, Inc., an Ohio company ("MV Circuit"), brought an action to correct the inventorship of certain patents owned by Omnicell, as well as related state-law claims against Omnicell 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 (the “Action”). On November 14, 2014, we filed a Motion to Dismiss the Action. MV Circuit responded on January 29, 2015, and we replied in support of our Motion to Dismiss on February 17, 2015. On March 24, 2015, the Court issued an Order granting in part and denying in part the Motion to Dismiss. Specifically, the Court granted Omnicell's Motion to Dismiss with respect to Counts 4, 5, and 6 (declaratory judgments regarding PCT/US2007/003765, PCT/US2011/063597, and PCT/US2011/0635505) and count 13 (civil conspiracy). The Court denied the Company's Motion to Dismiss with respect to Count 9 (fraud), Count 7 (fraudulent concealment) and Count 8 (negligent misrepresentation). Omnicell filed an Answer to the Complaint on April 8, 2015. Following an initial Case Management Conference on April 22, 2015, the Court ordered MV Circuit and Omnicell to make a limited initial production of documents. The parties completed this initial document production and held further conference calls with the Court on September 16 and October 19, 2015 to discuss a potential settlement. The parties are continuing settlement negotiations and a follow-up teleconference with the Court is scheduled for November 18, 2015. No case schedule has been set.

Note 11. 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 39.3% and 40.5% for the nine months ended September 30, 2015 and September 30, 2014, respectively. The nine months ended September 30, 2015 and 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.

We recorded a gain of $3.4 million attributable to the increase in the fair value of Omnicell's 15% minority interest in Avantec which was revalued in conjunction with our purchase of the remaining 85% of Avantec shares. This gain was treated as a discrete item and excluded from profit-before-tax in calculating the annual effective tax rate for the nine months ended September 30, 2015.

The federal research and development credit law, which was extended through December 31, 2014, retroactively has not been extended to the end of 2015. As a result the annual effect tax rate for the nine months ended September 30, 2015 and 2014 did not consider the effect of the federal research and development tax credit.

As of September 30, 2015 and December 31, 2014, the Company had gross unrecognized tax benefits of $7.1 million and $5.9 million, respectively. It is the Company’s policy to classify accrued interest and penalties as part of the unrecognized tax benefits, but to record interest and penalties in operating expense. As of September 30, 2015 and December 31, 2014, the amount of accrued interest and penalties was immaterial.

As of September 30, 2015, the calendar years 2011 and thereafter are open and are subject to potential examination in one or more jurisdictions. However, because all of the net operating loss and research credit carryforwards that may be used in future years are subject to adjustment, if and when utilized, our federal and California tax years remain open from 1996 and 1992, respectively. We have been contacted for audit by the Internal Revenue Service for tax years

2011, 2012 and 2013.

Although we believe we have adequately provided for uncertain tax positions, the provisions on these positions may change as revised estimates are made or the underlying matters are settled or otherwise resolved. It is not possible at this time to reasonably estimate changes in the unrecognized tax benefits within the next twelve months.

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Note 12. Stock Repurchases

In August 2012, our Board of Directors authorized a program (the "2012 Stock Repurchase Program") to repurchase up to $50.0 million of common stock, of which approximately $45.1 million had been repurchased as of December 31, 2014, and the remaining $4.9 million has been repurchased as of the second quarter of 2015 and the 2012 Stock Repurchase Program was concluded. In November 2014, our Board of Directors authorized a program (the "2014 Stock Repurchase Program") to repurchase up to $50.0 million of common stock of which approximately $45.1 million had been repurchased as of September 30, 2015. The 2014 Stock Repurchase Program has a total of $4.9 million remaining for future repurchases as of September 30, 2015, and the program has no expiration date. During the nine months ended September 30, 2015, we repurchased approximately 1,424 thousand shares under our stock repurchase programs.

The following table summarizes our stock repurchases:

	September 30, 2015	December 31, 2014
	(In thousands, except per share data)	
Total number of shares repurchased	1,424	884
Dollar amount of shares repurchased	$50,020	$24,091
Average price paid per share	$35.13	$27.24

Note 13. Employee Benefits and Share-Based Compensation

Stock based plans

For a detailed explanation of our stock plans and subsequent changes please refer to Note 16, Employee Benefits and Stock-Based Compensation, of our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 30, 2015.

Share-based compensation expense

The following table sets forth the total share-based compensation expense recognized in our Condensed Consolidated Statements of Operations:

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(In thousands)			
Cost of product and service revenues	$581	$ 441	$1,630	$ 973
Research and development	587	407	1,472	1,156
Selling, general and administrative	2,798	2,313	8,165	6,481
Total share-based compensation expense	$3,966	$ 3,161	$11,267	$ 8,610

The following weighted average assumptions are used to value share options and Employee Stock Purchase Plan ("ESPP") shares issued pursuant to our equity incentive plans for the three and nine months ended September 30, 2015 and September 30, 2014:

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	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(In thousands, except percentages)			
Stock Option Plans				
Expected life, years	5.04	4.81	5.04	4.80
Expected volatility, %	29.3 %	34.1 %	31.1 %	35.1 %
Risk free interest rate, %	1.73 %	1.70 %	1.63 %	1.56 %
Estimated forfeiture rate %	2.5 %	2.5 %	2.5 %	2.5 %
Dividend yield, %	— %	— %	— %	— %

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(In thousands, except percentages)			
Employee Stock Purchase Plan				
Expected life, years	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Expected volatility, %	25.79-34.36%	29.56-39.69%	25.79-37.53%	29.56-42.16%
Risk free interest rate, %	0.12-0.79%	0.03-0.53%	0.03-0.79%	0.03-0.53%
Estimated forfeiture rate %	— %	— %	— %	— %
Dividend yield, %	— %	— %	— %	— %

Stock option and restricted stock activity

Stock options activity

The following table summarizes the stock option activity under the Company's equity incentive plans during the nine months ended September 30, 2015:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Years	Aggregate Intrinsic Value[(1)]
	(In thousands, except per share data)			
Stock Options				
Outstanding at December 31, 2014	2,672	$ 19.02	6.5	
Granted	322	34.90		
Exercised	(494)	15.90		
Expired	(2)	15.72		
Forfeited	(81)	23.82		
Outstanding at September 30, 2015	2,417	$ 21.61	6.5	$24,341
Exercisable at September 30, 2015	1,368	$ 16.73	4.8	$19,660
Vested and expected to vest at September 30, 2015 and thereafter	2,390	$ 21.50	6.4	$24,293

(1) Intrinsic value is calculated as the difference between the market value or closing price of our common stock as of the last trading day of the period as reported by the NASDAQ Global Select Market, and the exercise price of the option.

The weighted-average fair value per share of options granted during the three and nine months ended September 30, 2015, was $10.51 and $10.57, respectively, and the weighted-average fair value per share of options granted during the three and nine months ended September 30, 2014 was $8.51 and $8.78, respectively. The intrinsic value of options exercised during the three and nine months ended September 30, 2015 was $3.1 million and $9.7 million, respectively. The intrinsic value of options exercised during the three and nine months ended September 30, 2014 was $2.5 million and $10.4 million, respectively.

As of September 30, 2015, total unrecognized compensation cost related to unvested stock options was $9.0 million, which is expected to be recognized over a weighted-average vesting period of 2.7 years.

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Restricted stock activity

Restricted stock activity under the Company's equity incentive plans in the nine months ended September 30, 2015 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Years	Aggregate Intrinsic Value
	(In thousands, except per share data)			
Restricted Stock Units (RSUs)				
Outstanding at December 31, 2014	399	$ 24.00	1.5	
Granted	131	34.72		
Vested	(99)	21.51		
Forfeited	(29)	23.79		
Outstanding and unvested at September 30, 2015	402	$ 28.10	1.3	$12,503
Expected to vest after September 30, 2015	392		1.2	$12,181

The weighted-average grant date fair value per share of RSUs granted during the nine months ended September 30, 2015 and September 30, 2014 was $34.72 and and $25.16, respectively.

As of September 30, 2015, total unrecognized compensation expense related to RSUs was $9.3 million, which is expected to be recognized over the remaining weighted-average vesting period of 2.4 years.

	Number of Shares	Weighted-Average Grant Date Fair Value
	(In thousands, except per share data)	
Restricted Stock Awards (RSAs)		
Outstanding at December 31, 2014	36	$ 26.47
Granted	37	36.05
Vested	(41)	26.47
Forfeited	(1)	27.65
Outstanding and unvested at September 30, 2015	31	$ 35.95

The weighted-average grant date fair value per share of RSAs granted during the nine months ended September 30, 2015 was and $36.05.

As of September 30, 2015, total unrecognized compensation cost related to RSAs was $0.7 million, which is expected to be recognized over the remaining weighted-average vesting period of 0.7 years.

Performance-based restricted stock unit activity

Performance-based restricted stock activity under our equity incentive plans in the nine months ended September 30, 2015 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Unit
	(In thousands, except per share data)	
Performance-based Restricted Stock Units (PSUs)		
Outstanding at December 31, 2014	233	$ 17.96
Granted	60	29.56
Vested	(70)	18.91
Forfeited	(27)	14.69
Outstanding and unvested at September 30, 2015	196	$ 21.63

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The weighted-average grant date fair value per share of PSUs granted during the nine months ended September 30, 2015 and September 30, 2014 was $29.56 and $14.36, respectively. The total fair value of PSUs that vested during the nine months ended September 30, 2015 and September 30, 2014 was $2.6 million and $2.1 million, respectively.
As of September 30, 2015, total unrecognized compensation cost related to PSUs was approximately $2.0 million, which is expected to be recognized over the remaining weighted-average period of 1.1 years.
Employee Stock Purchase Plan (ESPP) activity
The unrecognized compensation cost related to the shares to be purchased under our ESPP was approximately $2.1 million as of September 30, 2015, and is expected to be recognized over a weighted-average period of 0.1 years.
Summary of shares reserved for future issuance under equity incentive plans
We had the following ordinary shares reserved for future issuance under our equity incentive plans as of June 30, 2015:

	Number of Shares (In thousands)
Share options outstanding	2,417
Restricted share awards outstanding	629
Shares authorized for future issuance	4,402
ESPP shares available for future issuance	3,251
Total shares reserved for future issuance as of September 30, 2015	10,699

Note 14. Segment Information
In the first quarter of 2015, we modified the segment presentation to reflect the changes in how our Chief Operating Decision Maker (“CODM”) reviews the segments and the overall business. With the increase in completed acquisitions in the last two years, we changed how the financial information was presented for CODM review to exclude general corporate-level costs that are not specific to either of the reporting segments when evaluating the operating results of each segment. Corporate-level costs include expenses related to executive management, finance and accounting, human resources, legal, training and development, and certain administrative expenses.
The historical information presented has been retrospectively adjusted to reflect the modified segment reporting. Our CODM allocates resources and evaluates the performance of our segments using information about its revenues, gross profit and income from operations, excluding certain costs which are managed separately at the corporate level. We enhanced our segment reporting structure to match our operating structure based on how our Chief Operating Decision Maker (“CODM”) views the business and allocates resources, beginning in the first quarter of 2015. Our CODM is our Chief Executive Officer. Retrospective adjustments of prior period financial information have been made to conform to the current period presentation.
The two operating segments, which are the same as our reportable segments, are as follows:
Automation and Analytics
The Automation and Analytics segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. Our Automation and Analytics products are designed to enable our customers to enhance and improve the effectiveness of the medication-use process, the efficiency of the medical-surgical supply chain, overall patient care and clinical and financial outcomes of medical facilities. Through modular configuration and upgrades, our systems can be tailored to specific customer needs.
Medication Adherence
The Medication Adherence segment includes primarily the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services. These products are used to manage medication administration outside of the hospital setting and include medication adherence products sold under the brand name MTS Medication Technologies ("MTS"), Surgichem Limited ("Surgichem"), and under the Omnicell and SureMed brands. MTS products consist of proprietary medication packaging systems and related products for use by institutional pharmacies servicing long-term care, and correctional facilities or retail pharmacies serving patients in

their local communities.

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The following table summarizes the financial performance of our reportable segments, including a reconciliation of income from segment operations to income from total operations:

	Three Months Ended September 30, 2015			September 30, 2014		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
	(In thousands)					
Revenues	$102,967	$22,267	$125,234	$89,547	$22,996	$112,543
Cost of revenues	45,668	15,863	61,531	38,412	14,585	52,997
Gross profit	57,299	6,404	63,703	51,135	8,411	59,546
Operating expenses	30,628	6,070	36,698	27,420	4,822	32,242
Income from segment operations	$26,671	$334	$27,005	$23,715	$3,589	$27,304
Corporate costs			13,146			13,707
Income from operations			$13,859			$13,597

	Nine Months Ended September 30, 2015			September 30, 2014		
	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
	(In thousands)					
Revenues	$284,447	$69,796	$354,243	$255,748	$63,611	$319,359
Cost of revenues	123,923	47,470	171,393	109,344	39,934	149,278
Gross profit	160,524	22,326	182,850	146,404	23,677	170,081
Operating expenses	85,195	18,321	103,516	78,566	14,273	92,839
Income from segment operations	$75,329	$4,005	$79,334	$67,838	$9,404	$77,242
Corporate costs			42,672			41,133
Income from operations			$36,662			$36,109

Significant customers

There were no customers that accounted for more than 10% of our total revenues for the three and nine months ended September 30, 2015 and three and nine months ended September 30, 2014.

Note 15. Subsequent Events

On October 29, 2015, we entered into a securities purchase agreement (the “Securities Purchase Agreement”) with Aesynt Holding, L.P., Aesynt, Ltd. (together with Aesynt Holding, L.P., the “Sellers”) and Aesynt Coöperatief U.A. (“Aesynt”). Pursuant to the terms and conditions of the Securities Purchase Agreement, we will acquire from the Sellers, and the Sellers will sell to Omnicell, all of the outstanding interests of Aesynt on the closing date (such acquisition, the “Aesynt Acquisition”). Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, IV sterile preparation robotics and software, including software related to medication management. The contemplated total aggregate consideration is $275.0 million, in cash, plus cash on hand at signing minus indebtedness at close, or approximately $217.5 million, subject to certain adjustments at closing as provided for in the Securities Purchase Agreement. The closing of the acquisition is subject to certain closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act ("HSR") of 1976, as amended.

In connection with the Securities Purchase Agreement, we entered into a commitment letter with Wells Fargo Bank, National Association (“Wells Fargo Bank”) and Wells Fargo Securities, LLC (“Wells Fargo Securities” and, together with

Wells Fargo Bank, the “Commitment Parties”) on October 29, 2015, pursuant to which Wells Fargo Bank has committed to provide $300.0 million of senior secured credit facilities consisting of (a) a $200.0 million term loan facility, and (b) a $100.0 million revolving credit facility (collectively, the “Senior Credit Facilities”), a portion of which, together with our existing cash on hand, would

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be used to (i) refinance the loans under our existing senior secured credit facility, if any, and Aesynt's existing senior secured credit facility, (ii) pay the purchase price for the Aesynt Acquisition, and (iii) pay any fees and expenses incurred in connection with any of the foregoing. The commitment to provide the loans under the Senior Credit Facilities is subject to certain conditions, including the negotiation of definitive documentation for the Senior Credit Facilities and other customary closing conditions.

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

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

This quarterly report on Form 10-Q contains forward-looking statements. 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, which consist of all firm orders, as evidenced by a contract and purchase order for equipment and software and, generally, by a purchase order for consumables. Equipment and software bookings are installable within 12 months and consumables are generally recorded as revenue within one month;
- the extent and timing of future revenues, including the amounts of our current backlog, which represents firm orders that have not completed installation and therefore have not been recognized as revenue;
- the size or growth of our market or market share;
- the opportunity presented by new products, emerging markets and international markets;
- our ability to align our cost structure and headcount with our current business expectations;
- the operating margins or earnings per share goals we may set;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- 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 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. You should also read this quarterly report and the documents that we reference in this quarterly report and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to "Omnicell," "our," "us," "we," or the "Company" collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries. The term "Omnicell, Inc.," refers only to Omnicell, Inc., excluding its subsidiaries.

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

OVERVIEW

Our Business

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

Omnicell Medication Adherence solutions, including the MTS, SureMed and Surgichem brands, provide innovative medication adherence packaging solutions that can help reduce costly hospital readmissions and enable institutional and retail pharmacies worldwide to maintain high accuracy and quality standards in medication dispensing and

administration while optimizing productivity and controlling costs.

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We sell our product and consumable solutions together with related service offerings. Revenue generated in the United States represented 83% and 84% of our total revenues for the three and nine months ended September 30, 2015, respectively, 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.

Operating Segments

Beginning in the first quarter of 2015, we have managed our business according to two operating segments, Automation and Analytics and Medication Adherence.

Automation and Analytics

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

Medication Adherence

The Medication Adherence segment primarily includes the manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services. These products are used to manage medication administration outside of the hospital setting and include medication adherence products sold under the brand name MTS, Surgichem, SureMed and the Omnicell brand. MTS products consist of proprietary medication packaging systems and related products for use by institutional pharmacies servicing long-term care and correctional facilities or retail pharmacies serving patients in their local communities. Similarly, Surgichem is a provider of medication adherence packaging systems and solutions to the United Kingdom community and home care markets.

Strategy

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

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

Our investments have been consistent with the strategies outlined above. To differentiate our solutions from others available in the market, 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 upgraded 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 73%

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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: the United Kingdom and Germany where we sell automation and analytics and medication adherence products through a direct sales team; Middle Eastern countries of the Arabian Peninsula where new healthcare facility construction is taking place; and China, where we launched a Mandarin version of our automated dispensing systems in 2011. We have also expanded our sales efforts to medication adherence customers in the United States, which has allowed us to sell our automated dispensing solutions and other products to this market.

Expansion of our solutions through acquisitions and partnerships include our acquisition of MTS in 2012, our acquisition of Surgichem in August 2014, and our acquisitions of Mach4 and Avantec in April 2015. Surgichem is a provider of medication adherence products in the United Kingdom. Mach4 is a provider of automated medication management systems to retail and hospital pharmacy customers primarily in Europe, with additional installations in China, the Middle East and Latin America. Avantec develops medication and supply automation products that complement our solutions for configurations suited to the United Kingdom marketplace, and has been the exclusive United Kingdom distributor for our medication and supply automation solutions since 2005. 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 twelve 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. As a result of the growth of our installed base of customers, our service revenues have also grown. We strive to provide the best service possible, as measured by third-party rating agencies and by our own surveys, to assure our customers continue to seek service maintenance from us. Our liabilities include current and long-term deferred service revenue of $44.6 million and $45.5 million as of September 30, 2015 and December 31, 2014, respectively. Our deferred service revenue will be amortized to service revenue as the service contracts are executed.

The growth in our Automation and Analytics revenue for the three and nine months ended September 30, 2015 was driven primarily by our success in consistently growing the number of our customer installations. Installed customers in the United States grew to 2,023 hospitals as of September 30, 2015 from 1,886 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

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installed base has provided growth opportunities for follow on sales and increased service contracts and, as a result, our service revenues have also grown for the nine months ended September 30, 2015.

The growth in our Medication Adherence revenue for the nine months ended September 30, 2015 was driven primarily by the inclusion of Surgichem operations which was acquired in August 2014 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 year.

In the future, we expect our strategies to evolve as the business environment of our customers evolves, but for our focus to remain on improving healthcare with solutions that help change practices in ways that improve patient and provider outcomes. We expect our investment in differentiated products, new markets, and acquisitions and partnerships to continue. In 2015, we also intend to manage our business to operating profit margins similar to those achieved in 2014.

Pending Aesynt Acquisition

On October 29, 2015, we entered into a securities purchase agreement (the "Securities Purchase Agreement") with Aesynt Holding, L.P., Aesynt, Ltd. (together with Aesynt Holding, L.P., the "Sellers") and Aesynt Coöperatief U.A. ("Aesynt"). Pursuant to the terms and conditions of the Securities Purchase Agreement, we will acquire from the Sellers, and the Sellers will sell to us, all of the outstanding interests of Aesynt on the closing date (such acquisition, the "Aesynt Acquisition"). Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, IV sterile preparation robotics and software, including software related to medication management. The contemplated total aggregate consideration is $275.0 million, in cash, plus cash on hand at signing minus indebtedness at close, or approximately $217.5 million, subject to certain adjustments at closing as provided for in the Securities Purchase Agreement. The closing of the Aesynt Acquisition is subject to certain closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended.

In connection with the Securities Purchase Agreement, we entered into a commitment letter with Wells Fargo Bank, National Association ("Wells Fargo Bank") and Wells Fargo Securities, LLC ("Wells Fargo Securities" and, together with Wells Fargo Bank, the "Commitment Parties") on October 29, 2015, pursuant to which Wells Fargo Bank has committed to provide $300.0 million of senior secured credit facilities consisting of (a) a $200.0 million term loan facility, and (b) $100.0 million revolving credit facility (collectively, the "Senior Credit Facilities"), a portion of which, together with our existing cash on hand, would be used to (i) refinance the loans under Omnicell's existing senior secured credit facility, if any, and Aesynt's existing senior secured credit facility, (ii) pay the purchase price for the Aesynt Acquisition, and (iii) pay any fees and expenses incurred in connection with any of the foregoing. The commitment to provide the loans under the Senior Credit Facilities is subject to certain conditions, including the negotiation of definitive documentation for the Senior Credit Facilities and other customary closing conditions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

- Revenue recognition;
- Accounts receivable and notes receivable (net investment in sales-type leases);

- 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.

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There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our Condensed Consolidated Financial Statements during the three and nine months ended September 30, 2015 as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2014.

Recently issued authoritative guidance

Refer to Note 1, Summary of Significant Accounting Policies, of the Notes to Condensed Consolidated Financial Statements in this quarterly report for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial positions and cash flows.

RESULTS OF OPERATIONS

Total Revenues

	Three months ended September 30,						Change in		
	2015		2014		$		%	
	(Dollars in thousands)								
Product revenues	$100,941		$92,229		8,712		9	%
Percentage of total revenues	81	%	82	%				
Service and other revenues	24,293		20,314		3,979		20	%
Percentage of total revenues	19	%	18	%				
Total revenues	$125,234		$112,543		$12,691		11	%

Product revenues represented 81% and 82% of total revenues for the three months ended September 30, 2015 and September 30, 2014, respectively. Product revenues increased due to increased sales for Automation and Analytics segment of $9.5 million, partially offset by the decrease of $0.8 million in our Medication Adherence segment. The increase in our Automation and Analytics segment is attributed to larger orders received from our customers and the newly acquired companies Mach4 and Avantec, which contributed approximately $4.7 million to the increase in the product revenue compared to three months ended September 30, 2014. The decrease in Medication Adherence segment is attributed to lower sales in the consumable and equipment product sales compared to the three months ended September 30, 2014.

Service and other revenues represented 19% and 18% of total revenues for the three months ended September 30, 2015 and September 30, 2014, respectively. Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. Service and other revenues increased primarily due to an increase from our Automation and Analytics segment of $3.9 million. The newly acquired companies Mach4 and Avantec contributed approximately $2.0 million to the service revenue of Automation and Analytics segment for the three months ended September 30, 2015. Service and other revenues from Medication Adherence segment increased $0.1 million for the three months ended September 30, 2015 compared to the same period last year.

Our international sales represented 17% and 10% of total revenues for the three months ended September 30, 2015 and September 30, 2014, respectively, and are expected to be affected by foreign currency exchange rates fluctuations. We are unable to predict the extent to which revenue in future periods will be impacted by changes in foreign currency exchange rates.

	Nine Months Ended September 30,						Change in		
	2015		2014		$		%	
	(Dollars in thousands)								
Product revenues	$284,204		$260,053		24,151		9	%
Percentage of total revenues	80	%	81	%				
Service and other revenues	70,039		59,306		10,733		18	%
Percentage of total revenues	20	%	19	%				
Total revenues	$354,243		$319,359		$34,884		11	%

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Product revenues represented 80% and 81% of total revenues for the nine months ended September 30, 2015 and September 30, 2014, respectively. Product revenues increased due to increased sales for both our Automation and Analytics segment of $18.0 million and Medication Adherence segment of $6.2 million. The newly acquired companies Mach4 and Avantec contributed approximately $7.6 million to the Automation and Analytics segment for the nine months ended September 30, 2015.

Service and other revenues represented 20% and 19% of total revenues for the nine months ended September 30, 2015 and September 30, 2014, respectively. Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. Service and other revenues increased primarily due to an increase from our Automation and Analytics segment of $10.7 million. The newly acquired companies Mach4 and Avantec contributed approximately $3.2 million to the service revenue of Automation and Analytics segment for the nine months ended September 30, 2015.

Our international sales represented 16% and 8% of total revenues for the nine months ended September 30, 2015 and September 30, 2014, respectively, and are expected to be affected by foreign currency exchange rates fluctuations. We are unable to predict the extent to which revenue in future periods will be impacted by changes in foreign currency exchange rates.

We anticipate our revenues will continue to increase in 2015 compared to the same periods in 2014 as we fulfill our existing orders and based on our growth in bookings in 2014 and in the first nine months of 2015, some of which will be recognized as revenue in 2015. 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, our ability to meet customer needs by providing a quality installation experience, and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues for equipment is primarily dependent on when our customers' schedules allow for installations.

Financial Information by Segment

Revenues

	Three months ended September 30,							
	2015		2014		Change in $		%	
Revenues:	(Dollars in thousands)							
Automation and Analytics	$102,967		$89,547		$13,420		15	%
Percentage of total revenues	82	%	80	%				
Medication Adherence	22,267		22,996		(729	)	(3	)%
Percentage of total revenues	18	%	20	%				
Total revenues	$125,234		$112,543		$12,691		11	%

The increase in Automation and Analytics revenues for the three months ended September 30, 2015 in comparison to the three months ended September 30, 2014 was due to an increase in product revenue which contributed $9.5 million to the increase, and service and other revenues of $3.9 million. The increase in product and service revenue was primarily due to newly acquired companies Mach4 and Avantec which accounted for $4.7 million and $2.0 million of the increase in product and service revenue, respectively. Larger deal sizes primarily due to customer conversions, also contributed to the increase in product revenue in the three months ended September 30, 2015.

Medication Adherence revenues decreased for the three months ended September 30, 2015 in comparison to the three months ended September 30, 2014 primarily due to the decrease in the product revenues, particularly in the consumable and

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equipment product sales.

	Nine months ended September 30,						Change in		
	2015		2014		$		%		
Revenues:	(Dollars in thousands)								
Automation and Analytics	$284,447		$255,748		$28,699		11		%
Percentage of total revenues	80	%	80	%					
Medication Adherence	69,796		63,611		6,185		10		%
Percentage of total revenues	20	%	20	%					
Total revenues	$354,243		$319,359		$34,884		11		%

The increase in Automation and Analytics revenues for the nine months ended September 30, 2015 in comparison to the nine months ended September 30, 2014 was due to an increase in product revenues of $18.0 million primarily due to the larger deal sizes, mainly attributable to competitive conversions, and revenue from the newly acquired companies Mach4 and Avantec, which contributed $7.6 million to the increase in product revenue. Service and other revenues increased by $10.7 million primarily from higher service renewal fees driven mainly by an increase in installed customer base and $3.2 million due to the newly acquired companies Mach4 and Avantec.

Medication Adherence revenues increased for the nine months ended September 30, 2015 in comparison to the nine months ended September 30, 2014, primarily due to an increase in product revenues of $6.9 million. The increase in product revenue was largely driven by the inclusion of Surgichem operations since its acquisition in August 2014 which contributed approximately $8.4 million, which was partially offset by lower equipment sales in the nine months ended September 30, 2015 in comparison to the same period of 2014. Service and other revenues remained relatively flat compared to the prior year.

Cost of Revenues and Gross Profit

Cost of revenues is primarily comprised of three general categories: (i) standard product costs which accounts for the majority of the product cost of revenues that are provided to customers, and are inclusive of purchased material, labor to build the product and overhead costs associated with production; (ii) installation costs as we install our equipment at the customer site and include costs of the field installation personnel, including labor, travel expense, and other expenses; and (iii) other costs, including variances in standard costs and overhead, scrap costs, rework, warranty, provisions for excess and obsolete inventory and amortization of software development costs and intangibles.

	Three months ended September 30,						Change in		
	2015		2014		$		%		
Cost of revenues:	(Dollars in thousands)								
Automation and Analytics	$45,668		$38,412		$7,256		19		%
As a percentage of related revenues	44	%	43	%					
Medication Adherence	15,863		14,585		1,278		9		%
As a percentage of related revenues	71	%	63	%					
Total cost of revenues	$61,531		$52,997		$8,534		16		%
As a percentage of total revenues	49	%	47	%					
Gross profit:									
Automation and Analytics	$57,299		$51,135		$6,164		12		%
Automation and Analytics gross margin	56	%	57	%					
Medication Adherence	6,404		8,411		(2,007	)	(24	)	%
Medication Adherence gross margin	29	%	37	%					
Total gross profit	$63,703		$59,546		$4,157		7		%
Total gross margin	51	%	53	%					

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	Nine months ended September 30,							
	2015		2014		Change in $		Change in %	
Cost of revenues:	(Dollars in thousands)							
Automation and Analytics	$123,923		$109,344		$14,579		13	%
As a percentage of related revenues	44	%	42	%				
Medication Adherence	47,470		39,934		7,536		19	%
As a percentage of related revenues	68	%	63	%				
Total cost of revenues	$171,393		$149,278		$22,115		15	%
As a percentage of total revenues	48	%	47	%				
Gross profit:								
Automation and Analytics	$160,524		$146,404		$14,120		10	%
Automation and Analytics gross margin	56	%	57	%				
Medication Adherence	22,326		23,677		(1,351)		(6)	%
Medication Adherence gross margin	32	%	37	%				
Total gross profit	$182,850		$170,081		$12,769		8	%
Total gross margin	52	%	53	%				

Automation and Analytics

Cost of Revenues. The increase in cost of revenues for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 was $7.3 million, $6.2 million of which was attributable to product costs and $1.1 million attributable to service costs. Of the $6.2 million increase in product costs the newly acquired companies Mach4 and Avantec contributed $4.4 million. Cost of service revenues increased by $1.1 million primarily due to an increase in costs related to the newly acquired companies Mach4 and Avantec which accounted for $0.8 million of the increase.

The increase in cost of revenues for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 was $14.6 million, $12.1 million of which was attributable to product costs and $2.5 million of which was attributable to service costs. Both increases were a result of higher volume of revenue. Of the $14.6 million increase in product costs the newly acquired companies Mach4 and Avantec attributed $7.5 million, $0.6 million is attributable to more product installation costs associated with higher revenue, and $1.0 million is in other costs, primarily driven by software amortization. Cost of service revenues increased by $2.5 million due to an increase in support headcount to service a larger installed base and to an increase of $1.3 million in expenses related to the newly acquired companies Mach4 and Avantec.

Gross profit for the three and nine months ended September 30, 2015 increased compared to the three and nine months ended September 30, 2014 as a result of increased revenue at consistent gross margin percentages, partially offset by lower gross margins from the newly acquired companies Mach4 and Avantec.

Medication Adherence

Cost of revenues increased by $1.3 million and $7.5 million, respectively, in the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014. The increase in the three and nine months ended September 30, 2015 of cost of revenue is primarily due to higher volume of revenues from our Surgichem acquisition that closed in August 2014, changes in our product mix and higher cost of service sales.

Gross profit decreased due to changes in our product mix, higher manufacturing cost, higher cost of service and, the inclusion of our Surgichem acquisition in August of 2014.

Operating Expenses and Income from Operations

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	Three months ended September 30,							
					Change in			
	2015		2014		$		%	
Operating expenses:	(Dollars in thousands)							
Research and development	$9,176		$7,078		$2,098		30	%
As a percentage of total revenues	7	%	6	%				
Selling, general and administrative	40,668		38,871		1,797		5	%
As a percentage of total revenues	32	%	35	%				
Total operating expenses	$46,401		$45,949		$452		1	%
As a percentage of total revenues	37	%	41	%				
Income from operations:								
Automation and Analytics	$26,671		$23,715		$2,956		12	%
Operating margin	21	%	21	%				
Medication Adherence	334		3,589		(3,255	)	(91	)%
Operating margin	—	%	3	%				
Corporate Expenses	13,146		13,707		(561	)	(4	)%
Total income from operations	$13,859		$13,597		$262		2	%
Total operating margin	11	%	12	%				

Research and Development. The increase in research and development expenses of $2.1 million for the three months ended September 30, 2015 in comparison to three months ended September 30, 2014 was primarily driven by an increase in research and development expenses of $2.5 million in our Automation and Analytics segment which was primarily attributable to a $0.8 million increase in head-count, a $1.0 million increase in tools and equipment expenses and personnel related costs and a $0.6 million increase in consulting expenses, partially offset by higher capitalized software costs. The increase in research and development expenses in our Automation and Analytics segment was partially offset by a decrease in our Medication Adherence segment research and development expenses of $0.3 million which was primarily driven by an increase in capitalized software costs. The increase in the capitalized software costs were the result of a higher level of post-feasibility beta testing associated with certain products under development for our Medication Adherence segment.

Selling, General and Administrative. The increase in selling, general and administrative expenses for the three months ended September 30, 2015 in comparison to the three months ended September 30, 2014 was primarily due to increases from our Automation and Analytics segment of $0.8 million and our Medication Adherence segment of $1.6 million, which is partially offset by decreases in corporate expenses of $0.6 million. The increase in our Automation and Analytics segment was primarily attributable to the newly acquired companies Mach4 and Avantec by $2.3 million which was partially offset by decreases primarily in marketing and sales activities. The increase from our Medication Adherence segment of $1.6 million was the result of increases in sales and marketing related activities mainly due to an increase in headcount specifically within our marketing and international departments. The corporate expenses remained relatively flat compared to the three months ended September 30, 2014.

Operating Income. Operating income from our Automation and Analytics segment increased $3.0 million due to a higher gross margin of $6.2 million, partially offset by higher research and development and selling, general and administrative costs.

Operating income from our Medication Adherence segment decreased due to product mix, higher manufacturing costs, higher cost of service, and higher operating expenses.

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	Nine months ended September 30,							
	2015		2014		Change in $		%	
Operating expenses:	(Dollars in thousands)							
Research and development	$25,941		$19,670		$6,271		32	%
As a percentage of total revenues	7	%	6	%				
Selling, general and administrative	123,690		114,302		9,388		8	%
As a percentage of total revenues	35	%	36	%				
Gain on business combination	(3,443)		—		(3,443)		100	%
As a percentage of total revenues	(1)%		—	%				
Total operating expenses	$146,188		$133,972		$12,216		9	%
As a percentage of total revenues	41	%	42	%				
Income from operations:								
Automation and Analytics	$75,329		$67,838		$7,491		11	%
Operating margin	21	%	21	%				
Medication Adherence	4,005		9,404		(5,399)		(57)%	
Operating margin	1	%	3	%				
Corporate Expenses	42,672		41,133		1,539		4	%
Total income from operations	$36,662		$36,109		$553		2	%
Total operating margin	10	%	11	%				

Research and Development. The increase in research and development expenses of $6.3 million for the nine months ended September 30, 2015 in comparison to nine months ended September 30, 2014 was primarily driven by an increase of $5.8 million in our Automation and Analytics segment which was primarily attributable to a $3.5 million increase in head-count, a $1.7 million increase in consulting expenses and $1.6 million increase in tools and equipment expenses, partially offset by an increase in capitalized software costs due to the higher level of post-feasibility beta testing which therefore decreased our research and development expenses. The research and development expenses remained flat for our Medication Adherence segment.

We expect research and development expenses to increase in 2015 as we continue to invest in new products and services, and increase as a percentage of total revenues from approximately 6% in 2014 to approximately 7-8% in 2015. The amount of research and development expenses can fluctuate based on the amount of prototype expenses for hardware and/or the amount of capitalized software development costs.

Selling, General and Administrative. The increase in selling, general and administrative expenses for the nine months ended September 30, 2015 in comparison to the nine months ended September 30, 2014 was primarily due to increases from our Automation and Analytics segment of $3.5 million, from our Medication Adherence segment of $4.4 million and increases in corporate expenses of $1.5 million. The increase in our Automation and Analytics segment was primarily attributable to the newly acquired companies Mach4 and Avantec by $3.7 million. The increase from our Medication Adherence segment was the result of $2.0 million from the inclusion of Surgichem operations for nine months in 2015 in comparison to three months of 2014, with the remainder attributed to an increase in headcount specifically within our marketing and international departments. The increase in corporate expenses was primarily related to legal expenses of $1.6 million mainly due to the investigation of a whistleblower claim.

We anticipate selling, general and administrative expenses as a percentage of total revenues to be stable throughout 2015; however this estimate could be impacted by ongoing business development activities and external macro-economic factors.

Operating Income. Operating income from our Automation and Analytics segment increased for the nine months ended September 30, 2015 relative to the nine months ended September 30, 2014 due to increased revenues at consistent operating margins.

Operating income from our Medication Adherence segment decreased due to product mix, higher manufacturing costs, higher cost of service, and higher operating expenses.

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Provision for Income Taxes

	Three months ended			
			Change in	
	September 30, 2015	September 30, 2014	$	%
	(Dollars in thousands)			
Provision for income taxes	$5,177	$5,591	$(414)	(7)%

	Nine months ended			
			Change in	
	September 30, 2015	September 30, 2014	$	%
	(Dollars in thousands)			
Provision for income taxes	$11,922	$13,824	$(1,902)	(14)%
Effective tax rate on earnings	39.3%	40.5%		

Our annual effective tax rate before discrete items was 39.3% and 40.5% for the nine months ended September 30, 2015 and September 30, 2014, respectively. The decrease in the estimated annual effective tax rate for the nine months ended September 30, 2015 compared to the same period in 2014 was primarily due to the decrease in the state effective tax rate, and the decrease in non-deductible equity charges and other non-deductible expenditures.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Cash

We had cash and cash equivalents of $57.8 million at September 30, 2015, compared to $125.9 million at December 31, 2014. All of our cash and cash equivalents are invested in demand deposits and money market funds. Our cash position and working capital at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Cash	$17,649	$61,311
Cash equivalents	40,108	64,577
Total	$57,757	$125,888
Working Capital	$137,242	$171,054

Our ratio of current assets to current liabilities was 2.1:1 at September 30, 2015 compared to 2.5:1 at December 31, 2014.

We maintain a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, and the lenders from time to time which provides for a $75 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 million in the aggregate.

On November 5, 2014, we entered into Amendment Number One (the “Amendment”) to the Credit Agreement. The Amendment increases the amount of our common stock that may be repurchased by us in open market transactions authorized by our Board of Directors, together with any repurchases of our common stock from any consultants, employees, officers or directors of the Company or any of our subsidiaries following the death, disability, retirement or termination of employment of such employees, officers or directors, from $25 million to $50 million per year. The Credit Agreement contains customary affirmative and negative covenants, and financial covenants that require us to, among other things, maintain a maximum

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consolidated total leverage ratio and a minimum consolidated fixed charge coverage ratio, in each case, as of the last day of each quarter.

As of September 30, 2015, we were in full compliance with all covenants, and there was no outstanding balance on the credit facility.

In connection with the Securities Purchase Agreement of the pending Aesynt Acquisition on October 29, 2015, we entered into a commitment letter with Wells Fargo Bank and Wells Fargo Securities, pursuant to which Wells Fargo Bank has committed to provide $300 million of Senior Credit Facilities. The commitment to provide the loans under the Senior Credit Facilities is subject to certain conditions, including the negotiation of definitive documentation for the Senior Credit Facilities and other customary closing conditions.

Uses of Cash

Our future uses of cash are expected to be primarily for working capital, capital expenditures and other contractual obligations. We also expect the continued use of cash for potential acquisition and acquisition assessment activities. Our 2014 Stock Repurchase Program had a total of $4.9 million remaining for future repurchases as of September 30, 2015, which may result in additional use of cash. See Note 12, Stock Repurchases, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report. In accordance with the Avantec share purchase agreement, we may pay out potential earn-out payments of $3.0 million payable after December 31, 2015 and an additional $3.0 million payable after December 31, 2016, based on future bookings. The fair value of these earn-out payments as of the acquisition date was $5.6 million. Pursuant to the terms of the agreement we also held back $1.8 million from the purchase consideration towards any future indemnification claims that we may make at the end of the 18-month period. Additional charges to the purchase price based on actual working capital at the time of acquisition generated a payment obligation to the former owners of Avantec as of June 30, 2015 of additional $1.8 million. This amount was paid out during the third quarter of 2015.

Except with respect to the Aesynt Acquisition, based on our current business plan and revenue backlog, we believe that our existing cash and cash equivalents, our anticipated cash flows from operations, cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan, along with the availability of funds under our $75 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.

We do not currently have sufficient capital to consummate the Aesynt Acquisition. In connection with the Securities Purchase Agreement, we entered into a commitment letter with Wells Fargo Bank and Wells Fargo Securities, pursuant to which Wells Fargo Bank has committed to provide $300.0 million of Senior Credit Facilities. The commitment to provide the loans under the Senior Credit Facilities is subject to certain conditions, including the negotiation of definitive documentation for the Senior Credit Facilities and other customary closing conditions. We cannot assure you that either the Senior Credit Facilities will be available prior to the contractually required time for the closing of the proposed Aesynt Acquisition or that the terms of the definitive documentation for the Senior Credit Facilities will be consistent with the terms anticipated by the commitment letter or will otherwise be favorable to us. In the event that Senior Credit Facilities contemplated by the commitment letter are not available at the required time, in order to complete the Aesynt Acquisition, we would be required to raise capital through an alternative transaction or transactions, which could include an alternative loan facility, public or private debt or equity financings or other arrangements, and we may be unable to raise such additional funds in a timely manner or at all. Any equity financing could be dilutive to our stockholders.

Cash Flows

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The following table summarizes, for the periods indicated, selected items in our Condensed Consolidated Statements of Cash Flows:

	Nine Months Ended	
	September 30, 2015	September 30, 2014
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$5,932	$34,315
Investing activities	(41,312)	(38,061)
Financing activities	(32,699)	3,538
Effect of exchange rate changes on cash and cash equivalents	(52)	(136)
Net increase (decrease) in cash and cash equivalents	$(68,131)	$(344)

Operating activities

We expect cash from our operating activities to fluctuate in future periods as a result of a number of factors, including the timing of our billings and collections, our operating results and the timing of other liability payments.

Net cash provided by operating activities was $5.9 million for the nine months ended September 30, 2015, primarily as a result of $23.1 million in net income adjusted for non-cash items and changes in assets and liabilities. The non-cash items primarily consisted of depreciation and amortization expense of $18.5 million, share-based compensation expense, of $11.3 million and $3.4 million from our investment gain. This was offset by $42.1 million cash outflow from changes in assets and liabilities resulting primarily from i) an increase in accounts receivable of $26.1 million due to increased product shipments late in the quarter, ii) an increase in inventories of $13.2 million to support forecasted sales, iii) a decrease in deferred gross margin of $1.2 million due to timing of orders, shipments, and revenue being recognized for installed product, and iv) a decrease in accrued compensation of $5.0 million primarily due to lower sales commissions. These amounts were partially offset by a decrease in the prepaid expenses of $5.9 million primarily due to commissions driven by higher bookings in the fourth quarter of 2014 compared to the current year to date period, and an increase in accrued liabilities of $4.6 million primarily due to potential earn-out and contingent payment of $2.9 million related to the Avantec Acquisition.

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. 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. This increase was 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.

Investing activities

Net cash used in investing activities was $41.3 million for the nine months ended September 30, 2015, $25 million of which was attributable to the acquisitions of Mach4 and Avantec, and capital expenditures related to purchases of property and equipment and software development of software costs for external use of $6.1 million and $9.4 million, respectively.

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.
Financing activities

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Net cash used by financing activities was $32.7 million for the nine months ended September 30, 2015 as a result of $50.0 million in cash used for stock repurchases under our 2012 and 2014 Stock Repurchase Programs and $2.3 million in employees taxes paid in relation to restricted stock units, partially offset by $15.7 million in proceeds from employee stock option exercises and employee stock plan purchases and $3.9 million in excess tax benefits from employee stock plans.

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 and, $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 employee' taxes paid related to restricted stock units.

Contractual Obligations

There have been no significant changes during the nine months ended September 30, 2015 to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our annual report on Form 10-K for the year ended December 31, 2014.

We had $69.2 million in contractual commitments to third parties for non-cancelable operating leases, commitments to contract manufacturers and suppliers and other purchase commitments as of September 30, 2015 as follows:

	Payments due by period				
	Total	Remainder of 2015	2016 and 2017	2018 and 2019	2020 and Thereafter
	(In thousands)				
Operating leases [1]	$40,349	$1,751	$12,411	$10,971	$15,216
Purchase obligations [2]	28,846	28,846	—	—	—
Total [3]	$69,195	$30,597	$12,411	$10,971	$15,216

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

(2) We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. These amounts are associated with agreements that are enforceable and legally binding. The amounts under such contracts are included in the table above because we believe that cancellation of these contracts is unlikely and we expect to make future cash payments according to the contract terms or in similar amounts for similar materials.

(3) We have recorded $7.1 million for uncertain tax positions under long-term liabilities as of September 30, 2015 in accordance with U.S. GAAP. As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, $7.1 million in uncertain tax position liabilities have not been included in the table above.

See Note 9, Commitments, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

Off-Balance Sheet Arrangements

As of September 30, 2015, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Fluctuation Risk

We do not have any long-term borrowings. Our investments consist of cash and money market funds. The primary objective of our investment activities is to preserve principal and ensure liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our

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investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 1% change in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

Foreign Currency Exchange Risk

We operate in foreign countries which expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which is the British Pound. In order to manage foreign currency risk, we enter into foreign exchange forward contracts to mitigate risks associated with changes in spot exchange rates of mainly non-functional currency denominated assets or liabilities of our foreign subsidiaries. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. By working only with major banks and closely monitoring current market conditions, we seek to limit the risk that counterparties to these contracts may be unable to perform. We do not enter into derivative contracts for trading purposes. The aggregate notional amounts of the Company’s outstanding foreign exchange contracts as of September 30, 2015 was $1.8 million.

There have been no significant changes in our market risk exposures during the three and nine months ended September 30, 2015 as compared to the market risk exposures disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7A, of our annual report on Form 10-K for the year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this report. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in this report was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements for external purposes in accordance with U.S. GAAP. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the internal control system are met.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the three months ended September 30, 2015.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under "Legal Proceedings" in Note 10, Contingencies, of the Notes to Condensed Consolidated Financial Statements included in this quarterly report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

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

In assessing these risks, you should also refer to other information contained in this quarterly report on Form 10-Q, including our Condensed Consolidated Financial Statements and related Notes. We have marked with an asterisk (*) those risks 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, 2014.

Failure to consummate the proposed Aesynt Acquisition could negatively impact our share price and our future business and financial results.*

On October 29, 2015, we entered into the Securities Purchase Agreement, pursuant to which we have agreed to acquire all of the outstanding interests of Aesynt on the closing date. The closing of the Aesynt Acquisition is subject to certain closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended. If the proposed Aesynt Acquisition is not consummated, our ongoing business may be adversely affected and, without realizing any of the benefits of having consummated the Aesynt Acquisition, we will be subject to a number of risks, including the following:

- we may be required to pay to the Sellers a reverse termination fee of $15.0 million;
- the current price of our common stock may reflect a market assumption that the Aesynt Acquisition will occur, such that a failure to complete the Aesynt Acquisition could result in a decline in the price of our common stock; and
- matters relating to the Aesynt Acquisition have required and will continue to require substantial commitments of time and resources by our management and other employees, which could otherwise have been devoted to other opportunities that may have been beneficial to us.

We also could be subject to litigation related to any failure to consummate the Aesynt Acquisition or to perform our obligations under the Securities Purchase Agreement or related to any enforcement proceeding commenced against us. If the Aesynt Acquisition is not consummated, these risks may materialize and may adversely affect our business, financial results and share price.

Aesynt’s business relationships may be subject to disruption due to uncertainty associated with the Aesynt Acquisition.*

Parties with which Aesynt currently conducts business or may conduct business in the future, including customers and suppliers, may experience uncertainty associated with the Aesynt Acquisition, including with respect to current or future business relationships with us or Aesynt. As a result, Aesynt’s business relationships may be subject to disruptions if customers, suppliers and others attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us or Aesynt. These disruptions could have an adverse effect on our businesses, financial condition, results of operations or prospects following the closing. The adverse effect of such disruptions could be exacerbated by any delay in the consummation of the Aesynt Acquisition.

Loss of key personnel could impair the integration of the two businesses, lead to loss of customers and a decline in revenues, or otherwise adversely affect our operations and the operations of Aesynt.*

Our success after the completion of the Aesynt Acquisition will depend, in part, upon our ability to retain key employees, especially during the integration phase of the two businesses. Current and prospective employees of ours and Aesynt might experience uncertainty about their future roles with us following completion of the Aesynt Acquisition, which might adversely affect our ability to retain key managers and other employees. In addition, competition for qualified personnel in the health care

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industry is very intense. If we or Aesynt lose key personnel or we are unable to attract, retain and motivate qualified individuals or the associated costs to us increase significantly, our business could be adversely affected.

Obtaining required approvals necessary to satisfy the conditions to the completion of the Aesynt Acquisition may delay or prevent completion of this acquisition, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the Aesynt Acquisition.*

The Aesynt Acquisition is subject to customary closing conditions. These closing conditions include, among others, the expiration or termination of the waiting period under the HSR Act. The governmental agencies from which the parties will seek approvals have broad discretion in administering the governing regulations. As a condition to their approval, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of our business after the closing. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the Aesynt Acquisition or may reduce the anticipated benefits of this acquisition. If we and Aesynt agree to any material requirements, limitations, costs or restrictions in order to obtain any approvals required to consummate the Aesynt Acquisition, these requirements, limitations, costs or restrictions could adversely affect the anticipated benefits of this acquisition. This could result in a failure to consummate these transactions or have a material adverse effect on our business and results of operations.

We may not complete our anticipated debt financing prior to the contractually required time for closing of the proposed Aesynt Acquisition or otherwise secure favorable terms for such financing.*

We do not currently have sufficient capital to complete the Aesynt Acquisition. In connection with the Securities Purchase Agreement, we entered into a commitment letter with Wells Fargo Bank and Wells Fargo Securities, pursuant to which Wells Fargo Bank has committed to provide $300.0 million of Senior Credit Facilities. The commitment to provide the loans under the Senior Credit Facilities is subject to certain conditions, including the negotiation of definitive documentation for the Senior Credit Facilities and other customary closing conditions. The funding under the Senior Credit Facilities is not a condition to our obligations under the terms of the Securities Purchase Agreement. We cannot assure you that either the Senior Credit Facilities will be available prior to the contractually required time for the closing of the proposed Aesynt Acquisition or that the terms of the definitive documentation for the Senior Credit Facilities will be consistent with the terms anticipated by the commitment letter or will otherwise be favorable to us. In the event that Senior Credit Facilities contemplated by the commitment letter are not available at the required time, in order to complete the Aesynt Acquisition, we would be required to raise capital through an alternative transaction or transactions, which could include an alternative loan facility, public or private debt or equity financings or other arrangements, and we may be unable to raise such additional funds in a timely manner or at all. Any equity financing could be dilutive to our stockholders.

We expect to incur a substantial amount of debt to finance the Aesynt Acquisition, which could impair our flexibility and access to capital and adversely affect our financial position.*

In connection with the Aesynt Acquisition, we entered into a commitment letter with Wells Fargo Bank and Wells Fargo Securities, pursuant to which Wells Fargo Bank has committed to provide $300.0 million of Senior Credit Facilities. The debt we expect to incur under the Senior Credit Facilities may:

- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Our ability to meet our debt service obligations will depend on our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If we do not have sufficient funds to meet our debt service obligations, we may be required to refinance or restructure all or part of our existing debt, sell assets, borrow more money or sell securities, none of which we can assure you that we would be

able to do in a timely manner, or at all.

In addition, the terms of our anticipated Senior Credit Facilities are expected to include customary restrictive covenants that would impose operating and financial restrictions on us, including restrictions on our ability to take actions that could be in

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our best interests. These restrictive covenants are expected to include operating covenants restricting, among other things, our ability to incur additional indebtedness, effect certain acquisitions or make other fundamental changes. The anticipated Senior Credit Facilities are also expected to include financial covenants relating to maximum total leverage ratio of 3.00:1 and minimum fixed charge ratio of 1.50:1. Our failure to comply with any of the covenants that are included in our anticipated loan facilities could result in a default under the terms of the facilities, which could permit the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the anticipated revolving loan facility, which could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions.

If goodwill or other intangible assets that we record in connection with the Aesynt Acquisition, or have recorded in connection with prior acquisitions, become impaired, we could be required to take significant charges against earnings.*

In connection with the accounting for the Aesynt Acquisition, it is expected that we will record a significant amount of goodwill and other intangible assets, and we maintain significant goodwill and other intangible assets relating to prior acquisitions, such as our acquisition of MTS. Under the U.S. generally accepted accounting principles, or GAAP, we must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect our results of operations and shareholders' equity in future periods.

Unfavorable economic and market conditions, a decreased demand in the capital equipment market and uncertainty regarding the rollout of government legislation in the healthcare industry could adversely affect our operating results.

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

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

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

The medication management and supply chain solutions market is intensely competitive. We expect continued and increased competition from current and future competitors, many of which have significantly greater financial, technical, marketing and other resources than we do. Our current direct competitors in the medication management and supply chain solutions market include Becton Dickinson and Co. (through its acquisition of CareFusion Corporation, which includes Pyxis, Rowa, and PhACTs), Aesynt Inc. (through the acquisition of McKesson Hospital Automation, Inc. by Francisco Partners), ARxIUM (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Talyst, Inc., Emerson Electronic Co. (through its acquisition of medDispense, L.P.), Swisslog Holding AG (which was acquired by KUKA), WaveMark Inc., ParExcellence Systems, Inc., Vanas N.V., Lawson Software, Inc., Willach Pharmacy Solutions, DIH Technologies Co., Yuyama Co., Ltd, Robopharma B.V., Apostore GmbH, KlS Steuerungstechnik GmbH and Suzhou Iron Technology (China). Our current direct competitors in the medication packaging solutions market include Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of now part of ARxIUM), 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;

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- certain competitors may develop new features or capabilities for their products not previously offered that could compete directly with our products;
- competitive pressures could result in increased price competition for our products and services, fewer customer orders and reduced gross margins, any of which could harm our business;
- current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, including larger, more established healthcare supply companies, such as the acquisition of CareFusion Corporation by Becton Dickenson Corporation, thereby increasing their ability to develop and offer a broader suite of products and services to address the needs of our prospective customers;
- our competitive environment is currently experiencing a significant degree of consolidation which could lead to competitors developing new business models that require us to adapt how we market, sell or distribute our products;
- other established or emerging companies may enter the medication management and supply chain solutions market with products and services that are preferred by our current and potential customers based on factors such as features, capabilities or cost;
- our competitors may develop, license or incorporate new or emerging technologies or devote greater resources to the development, promotion and sale of their products and services than we do;
- certain competitors have greater brand name recognition and a more extensive installed base of medication and supply dispensing systems or other products and services than we do, and such advantages could be used to increase their market share;
- certain competitors may have existing business relationships with our current and potential customers, which may cause these customers to purchase medication and supply dispensing systems or automation solutions from these competitors; and
- our competitors may secure products and services from suppliers on more favorable terms or secure exclusive arrangements with suppliers or buyers that may impede the sales of our products and services.

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

Our medication and supply dispensing systems represent only one approach to managing the distribution of pharmaceuticals and supplies at acute healthcare facilities and our medication packaging systems represent only one way of managing medication distribution at non-acute care facilities. 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

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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.

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

The healthcare industry has faced, and will likely continue to face, significant financial constraints. U.S. government legislation such as the American Recovery and Reinvestment Act of 2009, the Patient Protection and Affordable Care Act of 2010, the Budget Control Act of 2011, and other health reform legislation may cause customers to postpone purchases of our products due to reductions in federal healthcare program reimbursement rates and/or needed changes to their operations in order to meet the requirements of legislation. Our automation solutions often involve a significant financial commitment from our customers and, as a result, our ability to grow our business is largely dependent on our customers' capital and operating budgets. To the extent legislation promotes spending on other initiatives or healthcare providers spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

Many healthcare providers have consolidated to create larger healthcare delivery organizations in order to achieve greater market power. If this consolidation continues, it would increase the size of certain target customers, which could increase the cost, effort and difficulty in selling our products to such target customers, or could cause our existing customers or potential new customers to begin utilizing our competitors' products if such customers are acquired by healthcare providers that prefer our competitors' products to ours. In addition, the resulting organizations could have greater bargaining power, which may lead to price erosion.

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, in August 2014, we acquired Surgichem Limited. in April 2015, we acquired Mach4 and the entire remaining issued share capital of Avantec not previously owned by us and, on October 29, 2015, we entered into the Securities Purchase Agreement to acquire Aesynt. We cannot provide assurance that any acquisition or any future transaction we complete will result in long-term benefits to us or our stockholders, or that our management will be able to integrate or manage the acquired business effectively. Acquisitions entail numerous risks, including difficulties associated with the integration of operations, technologies, products and personnel that, if realized, could harm our operating results. Risks related to potential acquisitions include, but are not limited to:

- difficulties in combining previously separate businesses into a single unit and the complexity of managing a more dispersed organization as sites are acquired;
- complying with international labor laws that may restrict our ability to right-size organizations and gain synergies across acquired operations;
- the substantial costs that may be incurred and the substantial diversion of management's attention from day-to-day business when evaluating and negotiating such transactions and then integrating an acquired business;
- discovery, after completion of the acquisition, of liabilities assumed from the acquired business or of assets acquired that are broader in scope and magnitude or are more difficult to manage than originally assumed;
- failure to achieve anticipated benefits such as cost savings and revenue enhancements;
- difficulties related to assimilating the products or key personnel of an acquired business;
- failure to understand and compete effectively in markets in which we have limited previous experience; and
-

difficulties in integrating newly acquired products and solutions into a logical offering that our customers understand and embrace.

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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 use alternative means to distribute medications to their customers.

Approximately 16% of our revenue is generated from the sale of consumable medication packages, which are produced in our St. Petersburg, Florida facilities on a continuous basis and shipped to our institutional pharmacy and retail pharmacy customers shortly before they are required by those customers. The demands placed on institutional pharmacies and retail pharmacies by their customers represent real time requirements of those customers. Our customer agreements for the sale of consumable medication packages are typically short-term in nature and typically do not include any volume commitments on the part of the customer. Although our packaging may be considered the preferred method of maintaining control of medications during the medication distribution and administration process, institutional and retail pharmacies have alternative methods of distributing medications, including bulk and alternative packaging, and medication adherence packaging may be supplied by our competitors. To the extent that we are unable to supply quality packaging to our customers in a timely manner, that demand will be met via alternative distribution methods, including consumable medication packaging sold by our competitors, and our revenue will decline. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages and would reduce our revenue.

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

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

- our reliance on distributors for the sale and post-sale support of our automated dispensing systems outside the United States and Canada;
- the difficulty of managing an organization operating in various countries;
- political sentiment against international outsourcing of production;
- reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;
- changes in foreign regulatory requirements;
- the requirement to comply with a variety of international laws and regulations, including privacy, labor, import, export, environmental standards, tax, anti-bribery and employment laws and changes in tariff rates;
- fluctuations in currency exchange rates and difficulties in repatriating funds from certain countries;
- additional investment, coordination and lead-time necessary to successfully interface our automation solutions with the existing information systems of our customers or potential customers outside of the United States; and
- political unrest, terrorism and the potential for other hostilities in areas in which we have facilities.

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

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

The purchase of our medication and supply dispensing systems or our more complex medication packaging systems is often part of a customer's larger initiative to re-engineer its pharmacy and their distribution and materials management systems. As a result, our sales cycles are often lengthy. The purchase of our systems often entail larger strategic purchases by customers that frequently require more complex and stringent contractual requirements and generally

involve a significant commitment of management attention and resources by prospective customers. These larger and more complex transactions often require the input and approval of many decision-makers, including pharmacy directors, materials managers, nurse managers, financial managers, information systems managers, administrators, lawyers and boards of directors. 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.

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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, or the Drug Enforcement Administration ("DEA"). However, our current products, and any future products, 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 ("HIPAA"). Among other things, this legislation required the Secretary of Health and Human Services to adopt national standards governing the conduct of certain electronic health information transactions and protecting the privacy and security of personally identifiable health information maintained or transmitted by "covered entities," which include pharmacies and other healthcare providers with which we do business.

The standards adopted to date include, among others, the "Standards for Privacy of Individually Identifiable Health Information," which restrict the use and disclosure of personally identifiable health information by covered entities, and the "Security Standards," which require covered entities to implement administrative, physical and technical safeguards to protect the integrity and security of certain electronic health information. Under HIPAA, we are considered a "business associate" in relation to many of our customers that are covered entities, and as such, most of these customers have required that we enter into written agreements governing the way we handle and safeguard certain patient health information we may encounter in providing our products and services and may impose liability on us for failure to meet our contractual obligations. Further, pursuant to changes in HIPAA under the American Recovery and Reinvestment Act of 2009 ("ARRA"), we are now also covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties and other sanctions.

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

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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. As of the date of this Form 10-Q filing, the Company has not received correspondence from the Office for Civil Rights of the U.S. Department of Health & Human Services with respect to this matter.

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.

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 $75.0 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 (“Credit Agreement”). In November 2014, we amended the Credit Agreement to increase the number of shares of common stock that may be repurchased pursuant to stock repurchase programs authorized by our Board of Directors. 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

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to continue granting equity compensation at competitive levels, we must seek stockholder approval for any increases to the number of shares reserved for issuance under our equity incentive plans, such as the share increase that was approved at our 2015 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals in the future. Any failure to receive approval for current or future proposed increases could prevent us from granting equity compensation at competitive levels and make it more difficult to attract, retain and motivate employees. Further, to the extent that we expand our business or product lines through the acquisition of other businesses, any failure to receive any such approvals could prevent us from securing employment commitments from such newly acquired employees. Failure to attract and retain key personnel could harm our competitive position, results of operations and financial condition.

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

Our ability to adjust to fluctuations in our revenue while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If our revenue increases or decreases rapidly, we may not be able to manage these changes effectively. Future growth is dependent on the continued demand for our products, the volume of installations we are able to complete, our ability to continue to meet our customers' needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

Regarding our expenses, our ability to control expense is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our ability to gain efficiencies in our workforce through the local and worldwide labor markets and our ability to grow our outsourced vendor supply model. Our expense growth rate may equal or exceed our revenue growth rate if we are unable to streamline our operations, 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 experience a significant disruption in our information technology systems or breaches of data security, our business could be adversely affected.*

We rely on information technology systems to keep financial records and corporate records, communicate with staff and external parties and operate other critical functions, including sales and manufacturing processes. Our information technology systems are potentially vulnerable to disruption due to breakdown, malicious intrusion and computer viruses or environmental impact. If we were to experience a prolonged system disruption in our information technology systems, it could negatively impact the coordination of our sales, planning and manufacturing activities, which could adversely affect our business. In addition, in order to maximize our information technology efficiency, we have physically consolidated our primary corporate data and computer operations. This concentration, however, exposes us to a greater risk of disruption to our internal information technology systems. Although we maintain offsite back-ups of our data, if operations at our facilities were disrupted, it may cause a material disruption in our business if we are not capable of restoring function on an acceptable time frame.

In addition, our information technology systems are potentially vulnerable to data security breaches-whether by employees or others-which may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of sensitive and confidential information of our employees, customers, suppliers and others, any of which could have a material adverse effect on our business, financial condition and results of operations. Moreover, a security breach or privacy violation that leads to disclosure or modification of, or prevents access to, patient information, including personally identifiable information or protected health information, could harm our reputation, compel us to comply with federal and/or state breach notification laws, subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect personal data, resulting in increased costs or loss of revenue.

While we have implemented a number of protective measures, including firewalls, antivirus and malware detection tools, patches, log monitors, routine back-ups, system audits, routine password modifications and disaster recovery

procedures, such measures may not be adequate or implemented properly to prevent or fully address the adverse effect of such events, and in some cases we may be unaware of an incident or its magnitude and effects. If we are unable to prevent such security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties because of lost or misappropriated information, including sensitive patient data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

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

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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. In addition, hospital information systems providers may choose to develop their own solutions that could compete with ours. Furthermore, we expect the importance of interoperability to increase in the next few years. Regulations such as the HITECH Act Meaningful Use Stage 3 are expected to heavily focus on evidence and outcomes. Given our role in care delivery process, the data generated by our products may be a key input for assessing and reporting on clinical outcomes. This may elevate interoperability with information systems to a relative importance to our customers creating a business opportunity and risk.

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

Our success depends in part on our ability to obtain patent protection for technology and processes and our ability to preserve our trademarks, copyrights and trade secrets. We have pursued patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and for technology that offers us a potential competitive advantage for our products. We intend to continue to pursue such protection in the future. Our issued patents relate to various features of our medication and supply dispensing systems and our packaging systems. We cannot assure you that we will file any patent applications in the future, and that any of our patent applications will result in issued patents or that, if issued, such patents will provide significant protection for our technology and processes. As an example, in September 2014, an action was brought against us, to, among other matters, correct the inventorship of certain patents owned by us. For additional details, see Note 11, Contingencies, in this quarterly report. 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;
- 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

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- 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., Federal Supply Schedule, First Choice Management Services, Healthcare Purchasing Alliance, LLC, HealthTrust Purchasing Group, L.P., Magnet, MedAssets, Inc. Performance Management Solutions, Novation LLC, Premier Healthcare Alliance, L.P. and Resource 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 for the nine months ended September 30, 2015, they may, in some periods, comprise up to 16% of our consumables 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.*

Our common stock traded between $30.35 and $39.10 per share during the nine months ended September 30, 2015. 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;
- developments with respect to the proposed Aesynt Acquisition;
- changes in the ratings of our common stock by securities analysts;
- announcements by us or our competitors of technological innovations or new products;
- announcements by us or our competitors of acquisitions of businesses, products or technologies; or
- general economic and market conditions.

Furthermore, the stock market as a whole from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for technology companies. These broad market fluctuations may

cause the market price of our common stock to decline irrespective of our performance. In addition, sales of substantial amounts of our common stock in the public market could lower the market price of our common stock. In addition, stockholders have initiated class action lawsuits against companies following periods of volatility in the market prices of these companies' stock. For example, on March 19, 2015, a putative class action lawsuit was filed against Omnicell and two of our executive officers in the U.S. District Court for the Northern District of California purporting to assert

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claims on behalf of a class of purchasers of Omnicell stock between May 2, 2014 and March 2, 2015. The complaint alleged that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by purportedly making false and misleading statements regarding the existence of a "side letter" arrangement and the adequacy of internal controls that allegedly resulted in false and misleading financial statements. The Company and the individual defendants were not served with the complaint and on May 20, 2015, the plaintiff filed a notice of voluntary dismissal of the lawsuit without prejudice.

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

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

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

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

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. Due to our reliance on a few single source partners to build our hardware sub-assemblies and on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages, a reduction or interruption in supply from our partners or suppliers, or a significant increase in the price of one or more components could have an adverse impact on our business, operating results and financial condition. In certain circumstances, the failure of any of our suppliers or us to perform adequately could result in quality control issues affecting end users' acceptance of our products. These impacts could damage customer relationships and could harm our business.

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.

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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. The balance of our unsold leases to U.S. government customers was $12.0 million as of September 30, 2015.

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

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

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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 have to devote resources to independently develop, maintain and support the technologies ourselves, pay increased license costs, or transition to another vendor. Any independent development, maintenance or support of these technologies by us or the transition to alternative technologies could be costly, time consuming and could delay our product releases and upgrade schedules. These factors could negatively and materially affect our ability to market, sell or distribute our products.

Complications in connection with our ongoing business information system upgrades, including those required to transition acquired entities onto information systems already utilized, and those implemented to adopt new accounting standards, may impact our results of operations, financial condition and cash flows.

We continue to upgrade our enterprise-level business information system with new capabilities and transition acquired entities onto information systems already utilized in the company. In 2014, we replaced legacy Enterprise Requirements Planning systems utilized in the acquired MTS business with systems currently in use in other parts of Omnicell. In 2015, we intend to replace the legacy enterprise Requirements Planning systems utilized in Surgichem, Avantec and Mach4 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 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. We had options outstanding to purchase approximately 2.7 million shares of our common stock, at a weighted-average exercise price of $19.98 per share as of September 30, 2015. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

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

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

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

We rely on our network infrastructure, data centers, enterprise applications, and technology systems for the development, marketing, support and sales of our products, and for the internal operation of our business. These systems are susceptible to disruption or failure in the event of a major earthquake, fire, flood, cyber-attack, terrorist

attack, telecommunications failure, or other catastrophic event. Many of these systems are housed or supported in or around our corporate headquarters located in 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

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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.

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

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

Stock Repurchase Programs

During the three months September 30, 2015, we repurchased $0.7 million shares of our common stock under our stock repurchase programs.

In August 2012, our Board of Directors authorized a program (the "2012 Stock Repurchase Program") to repurchase up to $50.0 million of common stock, of which approximately $45.1 million had been repurchased as of December 31, 2014, and the remaining $4.9 million has been repurchased as of the second quarter of 2015 and the 2012 Stock Repurchase Program has concluded now. In November 2014, our Board of Directors authorized a program (the "2014 Stock Repurchase Program") to repurchase up to $50.0 million of common stock of which approximately $45.1 million had been repurchased as of September 30, 2015. The 2014 Stock Repurchase Program has a total of $4.9 million remaining for future repurchases as of September 30, 2015, and the program has no expiration date.

Refer to Note 12, Stock Repurchases, of the Notes to Condensed Consolidated Financial Statements in this quarterly report for information regarding our authorized stock repurchase programs.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

OMNICELL, INC.

Date: November 6, 2015

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

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated By Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Share Purchase Agreement, dated February 26, 2015, among Apotheka Imedisa 2001 S.A., Holger Wallat, Dirk Rolf Beils, Peter Jansen and Omnicell International, Inc.	8-K	000-33043	2.1	3/2/2015
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
10.1*	2009 Equity Incentive Plan as amended	S-8	333-205465	10.1	7/2/2015
10.2*	Amended and Restated 1997 Employee Stock Purchase Plan, as amended	S-8	333-205465	10.2	7/2/2015
10.3+*	Offer letter between Omnicell and Peter J. Kuipers dated August 11, 2015				
10.4+*	Amended and Restated Executive Officer Change of Control Letter Agreement				
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

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+ Filed herewith.

(*) Indicates a management contract, compensation plan or arrangement.

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