OMNICELL, Inc
Form 10-Q
May 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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 Number 000-33043

Omnicell, Inc.
(Exact name of registrant as specified in its charter)

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

590 East Middlefield Rd.
Mountain View, CA 94043
(650) 251-6100
(Address, including zip code, of registrant's principal executive offices and registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x

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

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

The number of shares of Registrant's common stock (par value $0.001) outstanding as of May 1, 2013 was 34,331,531.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2013 (unaudited)	December 31, 2012 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$69,817	$62,313
Accounts receivable, net of allowances of $838 and $722 at March 31, 2013 and December 31, 2012, respectively	65,703	55,116
Inventories	26,125	26,903
Prepaid expenses	16,049	15,392
Deferred tax assets	11,860	11,860
Other current assets	7,532	9,172
Total current assets	197,086	180,756
Property and equipment, net	34,697	34,107
Non-current net investment in sales-type leases	12,943	13,228
Goodwill	111,343	111,407
Other intangible assets	84,529	85,550
Non-current deferred tax assets	1,126	993
Other assets	15,633	15,778
Total assets	$457,357	$441,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$18,379	$18,255
Accrued compensation	6,948	11,613
Accrued liabilities	12,525	11,988
Deferred service revenue	20,821	20,449
Deferred gross profit	26,938	20,772
Total current liabilities	85,611	83,077
Non-current deferred service revenue	19,463	19,892
Non-current deferred tax liabilities	25,548	26,491
Other long-term liabilities	4,942	4,809
Total liabilities	135,564	134,269
Stockholders' equity:		
Total stockholders' equity	321,793	307,550
Total liabilities and stockholders' equity	$457,357	$441,819

(1) Information derived from our December 31, 2012 audited Consolidated Financial Statements.

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Product revenues	$69,236	$48,524
Services and other revenues	17,874	15,619
Total revenues	87,110	64,143
Cost of revenues:		
Cost of product revenues	33,547	20,296
Cost of services and other revenues	8,196	8,098
Total cost of revenues	41,743	28,394
Gross profit	45,367	35,749
Operating expenses:		
Research and development	7,954	6,494
Selling, general and administrative	33,244	25,620
Total operating expenses	41,198	32,114
Income from operations	4,169	3,635
Interest and other income (expense), net	(223)	96
Income before provision for income taxes	3,946	3,731
Provision for income taxes	561	1,380
Net income	$3,385	$2,351
Net income per share-basic	$0.10	$0.07
Net income per share-diluted	$0.10	$0.07
Weighted average shares outstanding:		
Basic	33,900	33,365
Diluted	34,820	34,341

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Net income	$3,385	$2,351
Other comprehensive income, net of tax and reclassification adjustments:		
Unrealized gains on securities:		
Unrealized holding (losses) gains arising during the period	—	2
Changes in fair value of foreign currency forward hedges	(65)	—
Foreign currency translation adjustment	(203)	—
Other comprehensive income	(268)	2
Comprehensive income	$3,117	$2,353

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	$3,385	$2,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,472	2,335
Loss on disposal of fixed assets	41	10
Impairment of software development costs	1,759	—
Provision for (recovery of) receivable allowance	129	(75)
Share-based compensation expense	2,926	2,207
Income tax benefits from employee stock plans	342	171
Excess tax benefits from employee stock plans	(555)	(571)
Provision for excess and obsolete inventories	451	159
Foreign currency remeasurement loss	—	(81)
Deferred income taxes	(1,076)	(124)
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,706)	(264)
Inventories	327	955
Prepaid expenses	(657)	591
Other current assets	1,061	(167)
Net investment in sales-type leases	443	(2,329)
Other assets	(463)	(32)
Accounts payable	124	(390)
Accrued compensation	(4,665)	399
Accrued liabilities	537	(648)
Deferred service revenue	(42)	731
Deferred gross profit	6,166	1,667
Other long-term liabilities	133	394
Net cash provided by operating activities	4,132	7,289
Cash flows from investing activities:		
Purchases of short-term investments	—	—
Maturities of short-term investments	—	—
Acquisition of intangible assets and intellectual property	(48)	(90)
Software development for external use	(1,899)	—
Purchases of property and equipment	(3,300)	(1,438)
Business acquisition, net of cash acquired	—	—
Net cash used in investing activities	(5,247)	(1,528)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase and stock option plans	8,104	3,245
Stock repurchases	—	—
Excess tax benefits from employee stock plans	555	571
Net cash provided from financing activities	8,659	3,816
Effect of exchange rate changes on cash and cash equivalents	(40)	81

Net increase in cash and cash equivalents	7,504	9,658
Cash and cash equivalents at beginning of period	62,313	191,762
Cash and cash equivalents at end of period	$69,817	$201,420

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

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OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Description of the Company. Omnicell, Inc. ("Omnicell," "our," "us," "we," or the "Company") was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our major products are automated medication and supply control systems which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States. On May 21, 2012, we completed our acquisition of MedPak Holdings, Inc. ("MedPak"). MedPak is the parent company of MTS Medication Technologies, Inc. ("MTS"), a worldwide provider of medication adherence packaging systems. This acquisition aligns us with the long-term trends of the healthcare market to manage the health of patients across the continuum of care. We can now serve both the acute care and non-acute care markets. Omnicell and MTS bring capabilities to each other that strengthen the product lines and expand the medication management coverage of both companies. Please refer to Note 14, "Business Acquisition" for more information regarding the transaction.

Basis of presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of March 31, 2013, the results of their operations and comprehensive income for the three months ended March 31, 2013 and 2012 and their cash flows for the three months ended March 31, 2013 and 2012. 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, 2012.

Our results of operations, comprehensive income and cash flows for the three months ended March 31, 2013 are not necessarily indicative of results that may be expected for the year ending December 31, 2013, or for any future period.

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

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

Reclassifications. Certain reclassifications have been made to the prior year consolidated balance sheet to conform to the current period presentation. None of these reclassifications are material to the consolidated financial statements.

Foreign currency translation. We translate the assets and liabilities of our non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recorded as foreign currency translation adjustments and included in accumulated other comprehensive income in stockholders' equity.

Fair value of financial instruments. We value our financial assets and liabilities on a recurring basis using the fair value hierarchy established in Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. ASC 820 describes three levels of inputs that may be used to measure fair value, as follows:
Level 1 inputs, which include quoted prices in active markets for identical assets or liabilities;

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Level 2 inputs, which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and

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

At March 31, 2013 and December 31, 2012, our financial assets, measured at fair value on a recurring basis, utilizing Level 1 inputs included money market funds, classified as cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. We do not currently have any material financial instruments, measured at fair value on a recurring basis, utilizing Level 2 or Level 3 inputs.

Classification of marketable securities. Securities held as investments for the indefinite future pending future spending requirements are classified as “Available-for-sale” and are carried at their fair value, with any unrealized gain or loss recorded to other comprehensive income until realized. At March 31, 2013 and December 31, 2012, we held $40.4 million and $38.9 million, respectively, of money market mutual funds classified as Available-for-sale cash equivalents. We do not hold securities for purposes of trading. Marketable securities for which we have the intent and ability to hold to maturity are classified as “Held-to-maturity” and are carried at their amortized cost, including accrued interest. We had no Held-to-maturity securities at March 31, 2013 and December 31, 2012.

Currency forward contracts. From time to time we enter into foreign currency forward contracts to protect our business from the risk that exchange rates may affect the eventual cash flows resulting from intercompany transactions between Omnicell and our foreign subsidiaries. These transactions primarily arise as a result of products manufactured in the U.S. and sold to foreign subsidiaries in U.S. dollars rather than the subsidiaries' functional currencies. These forward contracts are considered to be financial derivative instruments and are recorded at fair value in the balance sheet. Changes in fair values of these financial derivative instruments are either recognized in other comprehensive income (a component of stockholders' equity) or net income depending on whether the derivative has been designated and qualifies as a highly effective hedging instrument. At March 31, 2013 and December 31, 2012, we had no foreign currency forward contracts which qualify for hedge accounting.

Segment information. Prior to the acquisition of MTS, we managed our business on the basis of a single operating segment, and a single reporting unit within that segment per ASC 280, Segment Reporting. Beginning with the acquisition of MTS, which we completed in May 2012, we have organized our business into two operating business segments: Acute Care, which primarily includes products and services sold to hospital customers, and Non-Acute Care, which primarily includes products and services sold to customers outside of the hospital setting.

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

Revenue recognition. We earn revenues from sales of our medication control systems together with related consumables and services, and medical/surgical supply control systems with related services, which are sold in our principal market, which is the healthcare industry. Revenues related to consumable products are reported net of discounts provided to our customers. Our customer arrangements typically include one or more of the following

deliverables:

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

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- Post-installation technical support—Phone support, on-site service, parts and access to unspecified software upgrades and enhancements, if and when available.
- Professional services—Other customer services such as training and consulting.

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

- Persuasive evidence of an arrangement exists. We use signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, we use a signed services agreement and a statement of work to evidence an arrangement.
- Delivery has occurred. Equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter, providing evidence that we have delivered what a customer ordered. In instances of a customer self-installed installation, product delivery is deemed to have occurred upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on delivery of products to the customer, including transfer of title and risk of loss, assuming all other revenue criteria are met. We recognize revenue from sales of products to distributors upon delivery, when no contractual obligations for installation exists, assuming all other revenue criteria are met since we do not allow for rights of return or refund. For sales to distributors where we assume contractual installation obligations or new distributors whom we have not fully trained to install our products, the equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter. For the sale of consumable blister cards, we recognize revenue when title and risk of loss of the products shipped have transferred to the customer, which usually occurs upon shipment from our facilities. Assuming all other revenue criteria are met, we recognize revenue for support services ratably over the related support services contract period, and we recognize revenue on training and professional services as those services are performed.
- Fee is fixed or determinable. We assess whether a fee is fixed or determinable at the outset of the arrangement based on the payment terms associated with the transaction. We have established a history of collecting under the original contract without providing concessions on payments, products or services.
- Collection is probable. We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history and its current creditworthiness. If, in our judgment, collection of a fee is not probable, we defer the revenue until the uncertainty is removed, which generally means revenue is recognized upon our receipt of cash payment assuming all other revenue criteria are met. Our historical experience has been that collection from our customers is generally probable.

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

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

We also use the residual method of allocating the arrangement consideration in certain circumstances. We use the residual method to allocate total arrangement consideration between delivered and undelivered items for any arrangements

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

A portion of our sales are made through multi-year lease agreements. Under sales-type leases, we recognize revenue for our hardware and software products net of lease execution costs such as post-installation product maintenance and technical support, at the net present value of the lease payment stream once our installation obligations have been met. We optimize cash flows by selling a majority of our non-U.S. government leases to third-party leasing finance companies on a non-recourse basis. We have no obligation to the leasing company once the lease has been sold. Some of our sales-type leases, mostly those relating to U.S. government hospitals, are retained in-house. Interest income in these leases is recognized in product revenue using the effective interest method.

Accounts receivable and notes receivable (net investment in sales type leases). We actively manage our accounts receivable to minimize credit risk. We typically sell to customers for which there is a history of successful collection. New customers are subject to a credit review process, which evaluates that customer's financial position and ability to pay. We continually monitor and evaluate the collectability of our trade receivables based on a combination of factors. We record specific allowances for doubtful accounts when we become aware of a specific customer's impaired ability to meet its financial obligation to us, such as in the case of bankruptcy filings or deterioration of financial position. Uncollectible amounts are charged off against trade receivables and the allowance for doubtful accounts when we make a final determination that there is no reasonable expectation of recovery. Estimates are used in determining our allowances for all other customers based on factors such as current trends, the length of time the receivables are past due and historical collection experience. While we believe that our allowance for doubtful accounts receivable is adequate and that the judgment applied is appropriate, such estimated amounts could differ materially from what will actually be uncollectible in the future.

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

Sales of accounts receivable. We record the sale of our accounts receivables as “true sales” in accordance with accounting guidance for transfers and servicing of financial assets. During the three months ended March 31, 2013 and 2012, we transferred non-recourse accounts receivable totaling $10.2 million and $12.1 million, respectively, which approximated fair value, to third-party leasing companies. At March 31, 2013 and December 31, 2012, accounts receivable included $0.7 million and $0.7 million, respectively, due from third-party leasing companies for transferred non-recourse accounts receivable.

Concentration in revenues and in accounts receivable. There was no single customer accounting for 10% or more of revenues in the three months ended March 31, 2013 or 2012. At March 31, 2013, one customer accounted for 12.9% of our total gross accounts receivable, and there was no single customer accounting for 10% or more of accounts receivable at December 31, 2012. At March 31, 2013, we believe that we have no significant concentration of credit risk.

Accounting policy for shipping costs. Outbound freight billed to customers is recorded as product revenue. The related shipping and handling cost is expensed as part of selling, general and administrative expense. Such shipping and handling expenses totaled $1.4 million and $0.7 million for the three months ended March 31, 2013 and 2012, respectively.

Dependence on suppliers. We have a supply agreement with one primary supplier for construction and supply of several sub-assemblies and inventory management of sub-assemblies used in our hardware products. There are no minimum purchase requirements. The contract may be terminated by either the supplier or by us without cause and at any time upon delivery of two months' notice. Purchases from this supplier for the three months ended March 31, 2013 and 2012 totaled approximately $7.2 million and $6.2 million, respectively.

Income taxes. We record an income tax provision for the anticipated tax consequences of the reported results of operations. In accordance with GAAP, the provision for income taxes is computed using the liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the

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financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply in the periods in which those tax assets and liabilities are expected to be realized. In the event that we determine all or part of the net deferred tax assets are not realizable in the future, we will record a valuation allowance that would be charged to earnings in the period such determination is made.

In accordance with ASC 740, Tax Provisions, we recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our financial condition and operating results.

We provide for income taxes for each interim period based on the estimated annual effective tax rate for the year, adjusting for discrete items in the quarter in which they arise. The annual effective tax rates before discrete items were 37.4% and 39.6% for the three months ended March 31, 2013 and 2012, respectively. The 2013 annual effective tax rate differed from the statutory rate of 35% primarily due to the unfavorable impact of state income taxes, non-deductible equity charges, and other non-deductible expenditures, which were partially offset by the federal research and development credit claimed and the domestic production activities deduction. The income tax provision for the three months ended March 31, 2013 also reflected a discrete net benefit of $0.7 million, or 18.0% of pre-tax income, related to 2012 federal research and development ("R&D") credit which was retroactively reinstated in the three months ended March 31, 2013. No federal R&D credit benefit was recorded in the income tax provision for the three months ended March 31, 2012.

The 2012 annual effective tax rate differed from the statutory rate of 35%, primarily due to the unfavorable impact of state income taxes, non-deductible equity charges, and other non-deductible expenditures, which were partially offset by the domestic production activities deduction.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI), which aims to improve the reporting of reclassifications out of AOCI. This update requires an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance in the first quarter of 2013. This update did not have any significant impact on our financial position, operating results or cash flows.

Note 2. Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares, less shares subject to repurchase, plus, if dilutive, potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. Since their impact is anti-dilutive, the total number of shares excluded from the calculations of diluted net income per share for the three months ended March 31, 2013 and 2012 were 1,865,589 and 2,065,842, respectively.

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

	Three Months Ended March 31,	
	2013	2012
Basic:		
Net income	$3,385	$2,351
Weighted average shares outstanding — basic	33,900	33,365
Net income per share — basic	$0.10	$0.07
Diluted:		
Net income	$3,385	$2,351
Weighted average shares outstanding — basic	33,900	33,365
Add: Dilutive effect of employee stock plans	920	976
Weighted average shares outstanding — diluted	34,820	34,341
Net income per share — diluted	$0.10	$0.07

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

Cash and cash equivalents and short-term investments consist of the following significant investment asset classes, with disclosure of amortized cost, gross unrealized gains and losses, and fair value as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash / Cash Equivalents	Short-term Investments	Security Classification
Cash	$29,449	$—	$—	$29,449	$29,449	$—	N/A
Money market funds	40,368	—	—	40,368	40,368	—	Available for sale
Total cash, cash equivalents and short-term investments	$69,817	$—	$—	$69,817	$69,817	$—	

c	December 31, 2012						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash / Cash Equivalents	Short-term Investments	Security Classification
Cash	$23,422	$—	$—	$23,422	$23,422	$—	N/A
Money market funds	38,892	—	1	38,891	38,891	—	Available for sale
Total cash, cash equivalents and short-term investments	$62,314	$—	$1	$62,313	$62,313	$—	

The money market fund is a daily-traded cash equivalent with a price of $1.00, making it a Level 1 asset class, and its carrying cost closely approximates fair value. As demand deposit (cash) balances vary with the timing of collections and payments, the money market fund can cover any surplus or deficit, and thus is considered Available-for-sale.
The following table displays the financial assets measured at fair value, on a recurring basis, with money market funds recorded within cash and cash equivalents and non-U.S Government securities in short-term investments (in thousands):

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	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
At March 31, 2013				
Money market funds	$40,368	$—	—	$40,368
Total	$40,368	$—	—	$40,368
At December 31, 2012				
Money market funds	$38,891	—	—	$38,891
Non U.S. Government securities	—	$—	—	—
Total	$38,891	$—	$—	$38,891

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

Note 4. Inventories

Inventories consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Raw materials	$9,350	$9,994
Work in process	562	385
Finished goods	16,213	16,524
Total	$26,125	$26,903

Note 5. Property and Equipment

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

	March 31, 2013	December 31, 2012
Equipment	$35,849	$32,528
Furniture and fixtures	5,231	5,126
Leasehold improvements	7,048	6,992
Purchased software	20,445	19,870
Capital in process	1,562	2,693
	70,135	67,209
Accumulated depreciation and amortization	(35,438)	(33,102)
Property and equipment, net	$34,697	$34,107

Depreciation and amortization of property and equipment totaled approximately $2.7 million and $1.6 million for the three months ended March 31, 2013 and 2012, respectively.

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Note 6. Net Investment in Sales-Type Leases

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

	March 31, 2013	December 31, 2012
Net minimum lease payments to be received	$19,538	$19,665
Less unearned interest income portion	1,185	1,205
Net investment in sales-type leases	18,353	18,460
Less current portion(1)	5,410	5,232
Non-current net investment in sales-type leases(2)	$12,943	$13,228

(1) A component of other current assets. This amount is net of allowance for doubtful accounts of $0.1 million as of March 31, 2013 and $0.5 million as of December 31, 2012.
(2) This amount is net of allowance for doubtful accounts of $0.1 million as of March 31, 2013 and $0.1 million as of December 31, 2012.

The minimum lease payments under sales-type leases as of March 31, 2013 were as follows (in thousands):

2013 (remaining nine months)	$4,571
2014	5,245
2015	4,158
2016	2,899
2017	2,165
Thereafter	500
Total	$19,538

The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest, as of March 31, 2013 and December 31, 2012 (in thousands):

	Allowance for Credit Losses	Recorded Investment in Sales-type Leases Gross	Recorded Investment in Sales-type Leases Net
Credit loss disclosure for March 31, 2013:			
Accounts individually evaluated for impairment	$ 59	$59	$—
Accounts collectively evaluated for impairment	131	18,484	18,353
Ending balances: March 31, 2013	$ 190	$18,543	$18,353
Credit loss disclosure for December 31, 2012:			
Accounts individually evaluated for impairment	$ 489	$489	$—
Accounts collectively evaluated for impairment	118	18,578	18,460
Ending balances: December 31, 2012	$ 607	$19,067	$18,460

The following table summarizes the activity for the allowance for credit losses for the investment in sales-type leases for the three months ended March 31, 2013 and 2012 (in thousands):

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	Three Months Ended March 31,	
	2013	2012
Allowance for credit losses, beginning of period	$607	$284
Current period provision (reversal)	13	—
Direct write-downs charged against the allowance	(413)	—
Recoveries of amounts previously charged off	(17)	(27)
Allowance for credit losses, end of period	$190	$257

Note 7. Goodwill and Other Intangible Assets

Under ASC 350, Intangibles—Goodwill and Other, goodwill is not subject to amortization. We evaluate goodwill for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable.

Activity in goodwill by reporting units, which are the same as our operating segments, for the three months ended March 31, 2013 consists of the following (in thousands):

	Goodwill at December 31, 2012	Adjustments to Goodwill	Goodwill at March 31, 2013
Reporting units:			
Acute Care	$28,543	$—	$28,543
Non-Acute Care	82,864	(64)	82,800
Total	$111,407	$(64)	$111,343

Goodwill acquired reflects the May 21, 2012 acquisition of MedPak by Omnicell. MedPak is the parent company of MTS, a worldwide provider of medication adherence packaging systems. The acquired goodwill was assigned to the new reporting unit called Non-Acute Care, created as a result of the MTS acquisition. During the first quarter of 2013, we reduced goodwill by $0.1 million due to the adjustment to the fair value of an acquired foreign currency forward contract previously carried in a component of stockholder's equity.

There were no indefinite-life intangibles at either March 31, 2013 or December 31, 2012. Finite-life intangible assets at these dates consist of the following (in thousands):

	March 31, 2013			December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Finite-lived intangibles:							
Customer relationships	$54,730	$3,620	$51,110	$54,730	$3,081	$51,649	5-30 years
Acquired technology	27,580	1,495	26,085	27,580	1,128	26,452	3-20 years
Patents	1,265	268	997	1,217	259	958	20 years
Trade name	6,890	563	6,327	6,890	414	6,476	3-12 years
Non-compete agreements	60	50	10	60	45	15	3 years
Total finite-lived intangibles	$90,525	$5,996	$84,529	$90,477	$4,927	$85,550	

Amortization expense totaled $1.1 million and $0.2 million for the three months ended March 31, 2013 and 2012, respectively. The amortization of acquired technology is included within product cost of sales; other acquired intangibles are usually amortized within selling, general and administrative expenses.

Estimated annual expected amortization expense of the finite-lived intangible assets at March 31, 2013 was as follows (in thousands):

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2013 (remaining nine months)	3,195
2014	4,224
2015	4,200
2016	3,850
2017	3,814
2018	927
Thereafter	64,319
Total	$84,529

Note 8. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Rebates and lease buyouts	$4,097	$3,179
Advance payments from customers	2,555	2,829
Accrued Group Purchasing Organization (GPO) fees	2,431	2,278
Technology license purchase obligation, current portion	1,250	1,750
Taxes payable	972	555
Other	1,220	1,397
Total	$12,525	$11,988

Note 9. Deferred Gross Profit

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

	March 31, 2013	December 31, 2012
Sales of medication and supply dispensing systems and packaging equipment, which have been delivered and invoiced but not yet installed	$39,937	$30,138
Cost of revenues, excluding installation costs	(12,999)	(9,366)
Deferred gross profit	$26,938	$20,772

Note 10. Commitments

At March 31, 2013, the minimum payments under our operating leases for each of the five succeeding fiscal years were as follows (in thousands):

2013 (remaining nine months)	$4,256
2014	5,433
2015	5,204
2016	4,907
2017	4,215
2018	1,003
Thereafter	19,289
Total	$44,307

In October 2011, we entered into a lease agreement for approximately 100,000 square feet of office space. Pursuant to the lease agreement, the landlord constructed a single, three-story building of rentable space in Mountain View, California which we now lease and which serves as our headquarters. The term of the lease agreement, which

commenced in November 2012, is for a period of 10 years, with a base lease commitment of approximately $40.0 million. We have two options to extend the term of the lease agreement at market rates. Each extension is for an additional 60 month term.

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

In connection with the acquisition of MTS, we assumed responsibility for 132,500 square feet of manufacturing, warehousing and office space in St. Petersburg, Florida. The remaining term of the original twelve year lease agreement, which expires in September 2016 and at the time of the MTS acquisition, has a base lease commitment of approximately $3.9 million. We have two options to extend the term of the lease agreement at market rates. Each extension is for an additional 60 month term.

In Leeds, United Kingdom, we lease an office and distribution center of approximately 16,500 square feet. The remaining term of the original ten year lease agreement is through June 8, 2021, with no extension options. The base lease commitment at the time of the MTS acquisition, converted from British Pounds at the conversion rate then in effect, was approximately $1.2 million.

We also have smaller rented offices in Strongsville, Ohio, the United Arab Emirates, the People's Republic of China and the Federal Republic of Germany.

We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. Our near-term commitments to our contract manufacturers and suppliers totaled $6.9 million as of March 31, 2013.

At March 31, 2013, we have recorded $3.8 million for uncertain tax positions under long term liabilities in accordance with GAAP, summarized under Note 1, “Organization and Summary of Significant Accounting Policies.” As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, we do not present this in a commitments table.

Note 11. Contingencies

Legal Proceedings

On March 8, 2013, Bobbi Polanco (“Polanco”) filed a putative class action complaint in the United States District Court for the District of New Jersey against Omnicell and certain of our customers (Case No. 1:13-cv-01417-NLH-KLM) 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, and subsequent notification of this unauthorized disclosure of personal health information. Polanco is seeking an injunction against the defendants to prevent each of them from committing the acts complained of in the future and monetary damages, costs and expenses.On May 2, 2013, the United States District Court for the District of New Jersey entered an order to show cause which provided, in relevant part, that Polanco is required to show cause as to why the case should not be dismissed for lack of subject matter jurisdiction. Omnicell is currently evaluating a response to this complaint and intends to defend the matter vigorously.

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

Guarantees

As permitted under Delaware law and our certificate of incorporation and bylaws, we have agreed to indemnify our directors and officers against certain losses that they may suffer by reason of the fact that such persons are, were or become our directors or officers. The term of the indemnification period is for the director’s or officer’s lifetime and

there is no limit on the potential amount of future payments that we could be required to make under these indemnification agreements. We have purchased a directors' and officers' liability insurance policy that may enable us to recover a portion of any future payments that we may be required to make under these indemnification agreements. Assuming the applicability of coverage and the willingness of the insurer to assume coverage and subject to certain retention, loss limits and other policy provisions, we

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believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations. However, no assurances can be given that the insurers will not attempt to dispute the validity, applicability or amount of coverage without expensive and time-consuming litigation against the insurers.
Additionally, we undertake indemnification obligations in our ordinary course of business in connection with, among other things, the licensing of our products and the provision of our support services. In the ordinary course of our business, we have in the past and may in the future agree to indemnify another party, generally our business affiliates or customers, against certain losses suffered or incurred by the indemnified party in connection with various types of claims, which may include, without limitation, claims of intellectual property infringement, certain tax liabilities, our gross negligence or intentional acts in the performance of support services and violations of laws. The term of these indemnification obligations is generally perpetual. In general, we attempt to limit the maximum potential amount of future payments that we may be required to make under these indemnification obligations to the amounts paid to us by a customer, but in some cases the obligation may not be so limited. In addition, we have in the past and may in the future warrant to our customers that our products will conform to functional specifications for a limited period of time following the date of installation (generally not exceeding 30 days) or that our software media is free from material defects. Sales contracts for certain of our medication packaging systems often include limited warranties for up to six months, but the periodic activity and ending warranty balances we record have historically been immaterial.
From time to time, we may also warrant that our professional services will be performed in a good and workmanlike manner or in a professional manner consistent with industry standards. We generally seek to disclaim most warranties, including any implied or statutory warranties such as warranties of merchantability, fitness for a particular purpose, title, quality and non-infringement, as well as any liability with respect to incidental, consequential, special, exemplary, punitive or similar damages. In some states, such disclaimers may not be enforceable. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. We have not been subject to any significant claims for such losses and have not incurred any material costs in defending or settling claims related to these indemnification obligations. Accordingly, we believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations or potential warranty claims and, therefore, no material liabilities have been recorded for such indemnification obligations as of March 31, 2013 or December 31, 2012.

Note 12. Stockholders' Equity

Treasury Stock

2008 Stock Repurchase Program

In February 2008, our Board of Directors authorized a stock repurchase program (the "2008 Repurchase Program") for the repurchase of up to $90.0 million of our common stock. The timing, price and volume of the repurchases have been based on market conditions, relevant securities laws and other factors.

There were no shares repurchased during both the three months ended March 31, 2013 and 2012 in connection with the 2008 Repurchase Program.

From the inception of the 2008 Repurchase Program in February 2008 through March 31, 2013, we have repurchased a total of 5,853,975 shares at an average cost of $15.37 per share through open market purchases. As of March 31, 2013, we have completed the 2008 Repurchase Program having repurchased $90.0 million of our common stock.

2012 Stock Repurchase Program

On August 1, 2012, our Board of Directors established a new stock repurchase program (the "2012 Repurchase Program") authorizing share repurchases of up to $50.0 million of our common stock, with no termination date. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors.

The stock repurchases may be made from time to time on the open market, in privately negotiated transactions or pursuant to a Rule 10b-18 plan. The stock repurchase program does not obligate Omnicell to repurchase any specific number of shares, and Omnicell may terminate or suspend the repurchase program at any time.

Through March 31, 2013, we have not repurchased any shares through the 2012 Repurchase Program and therefore had $50.0 million of authorized funds to repurchase shares under the 2012 Repurchase Program as of March 31, 2013.

Note 13. Stock Option Plans and Share-Based Compensation

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Stock Option Plans

Description of Share-Based Plans

Equity Incentive Plan. On May 19, 2009, at our 2009 Annual Meeting of Stockholders (the "2009 Annual Meeting") our stockholders approved the Omnicell, Inc. 2009 Equity Incentive Plan (the "2009 Plan") which authorized 2,100,000 shares to be issued. The 2009 Plan provides for the issuance of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards and other stock awards to our employees, directors and consultants.

The 2009 Plan succeeded the 1999 Equity Incentive Plan, as amended, the 2003 Equity Incentive Plan, as amended, and the 2004 Equity Incentive Plan (collectively, the "Prior Plans"). No additional awards will be granted under any of the Prior Plans; however, all outstanding stock awards granted under the Prior Plans continue to be subject to the terms and conditions as set forth in the agreements evidencing such stock awards. For purposes of determining future common shares available for grant, for each share granted as a full-value award, including restricted stock and restricted stock units ("RSUs") performance stock awards, the shares available for grant were reduced by 1.4 shares. Equity awards granted as stock options and stock appreciation rights reduce the shares available for grant by one share.

On December 16, 2010, at a Special Meeting of Stockholders, our stockholders approved an amendment to increase the number of shares of common stock authorized for issuance under the 2009 Plan by 2,600,000 shares and to provide that the number of common stock shares available for issuance under the 2009 Plan be reduced by 1.8 shares for each share granted as a full-value award granted on and after October 1, 2010. For each share granted as a full-value award granted prior to October 1, 2010, future shares available for grants under the 2009 Plan were reduced by 1.4 shares. Awards granted as stock options and stock appreciation rights continue to reduce the number of shares available for issuance under the 2009 Plan on a one-for-one basis.

Options granted under the 2009 Plan generally become exercisable over periods of up to 4 years, generally with one-fourth of the shares vesting one year from the vesting commencement date with respect to initial grants, and the remaining shares vesting in 36 equal monthly installments thereafter; however our board of directors may impose different vesting terms at its discretion on any award. Options under the 2009 Plan generally expire 10 years from the date of grant. We also grant both restricted stock and restricted stock units to participants under the 2009 Plan. The Board of Directors determines the award amount, the vesting provisions and the expiration period (not to exceed ten years) for each grant. Grants of restricted stock to non-employee directors are granted on the date of our annual meeting of stockholders and vest in full on the date of our next annual meeting of stockholders, provided such non-employee director remains a director on such date. The fair value of the stock on the date of issuance is amortized to expense from the date of grant to the date of vesting. RSUs granted to employees generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. We consider the dilutive impact of options, restricted stock and restricted stock units in our diluted net income per share calculation.

The Board of Directors shall administer the 2009 Plan unless and until the board of directors delegates administration to a committee. Our board of directors has delegated administration of the 2009 Plan to the compensation committee of the board and the 2009 Plan is generally administered by such committee. The Board of Directors may suspend or terminate the 2009 Plan at any time. The Board of Directors may also amend the 2009 Plan at any time or from time to time. However, no amendment will be effective unless approved by our stockholders after its adoption by the board of directors to the extent stockholder approval is necessary to satisfy the applicable listing requirements of NASDAQ. If we sell, lease or dispose of all or substantially all of our assets, or we are acquired pursuant to a merger or consolidation, then the surviving entity may assume or substitute all outstanding awards under the 2009 Plan. If the surviving entity does not assume or substitute these awards, then generally the stock awards will immediately and fully vest.

At March 31, 2013, a total of 1,107,858 shares of common stock were reserved for future issuance under the 2009 Plan. At March 31, 2013, $7.0 million of total unrecognized compensation cost related to non-vested stock options was expected to be recognized over a weighted average period of 2.8 years.

A summary of aggregate option activity for the three months ended March 31, 2013 is presented below:

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Options:	Number of Shares	Weighted-Average Exercise Price
	(in thousands)	
Outstanding at December 31, 2012	4,470	$14.06
Granted	204	$17.06
Exercised	(470)	$10.67
Forfeited	(12)	$14.26
Expired	(23)	$22.44
Outstanding at March 31, 2013	4,169	$14.54
Exercisable at March 31, 2013	2,971	$14.44

Restricted Stock and Time-based Restricted Stock Units

The non-employee members of our Board of Directors are granted restricted stock on the day of our annual meeting of stockholders and such shares of restricted stock vest on the date of the subsequent year's annual meeting of stockholders, provided such non-employee director remains a director on such date. Restricted stock units ("RSUs") are granted to certain of our employees and generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. The fair value of both restricted stock and RSUs granted pursuant to our stock option plans is the product of the number of shares granted and the grant date fair value of our common stock. Our unrecognized compensation cost related to non-vested restricted stock at March 31, 2013 was approximately $0.1 million and is expected to be recognized over a weighted-average period of 0.1 years. Expected future compensation expense relating to RSUs outstanding on March 31, 2013 is $5.7 million over a weighted-average period of 2.3 years.

A summary of activity of both restricted stock and RSUs for the three months ended March 31, 2013 is presented below:

	Restricted Stock		Restricted Stock Units	
	Number of Shares	Weighted - Average Grant Date Fair Value Per Share	Number of Shares	Weighted - Average Grant Date Fair Value Per Share
	(in thousands)		(in thousands)	
Non-vested, December 31, 2012	58	$14.19	389	$14.09
Granted	3	$14.87	94	$17.45
Vested	—	$—	(15)	$12.79
Forfeited	—	$—	(19)	$13.84
Non-vested, March 31, 2013	61.00	$14.23	449	$14.84

Performance-Based Restricted Stock Units

In 2011, we began incorporating performance-based restricted stock units ("PSUs") as an element of our executive compensation plans. For 2011, we granted 100,000 PSUs; however, pursuant to their terms, 120,000 PSUs ultimately became eligible for vesting upon the achievement of a certain level of shareholder return for 2011 as described below. In 2012, we granted 125,000 PSUs of which 62,500 became eligible for vesting upon the achievement of a certain level of shareholder return for 2012 as described below.

Our unrecognized compensation cost related to non-vested performance-based restricted stock units at March 31, 2013 was approximately $2.3 million and is expected to be recognized over a weighted-average period of 1.7 years. For the three months ended March 31, 2013, we recognized $0.4 million of compensation expense for the performance-based

restricted stock units. For the three months ended March 31, 2012, we recognized $0.2 million of compensation expense for the performance-based restricted stock units.

The accounting guidance for awards with market conditions differs from that for awards with service conditions only or service and performance conditions. Because the grant date fair value of an award containing market conditions is calculated

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as the expected value, averaging over all possible outcomes, the measured expense is amortized over the service period, regardless of whether the market condition is ever actually met.

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

Vesting for the PSU awards is based on the percentile placement of our total shareholder return among the companies listed in the Index and time-based vesting. We calculate total stockholder return based on the one year annualized rates of return reflecting price appreciation plus reinvestment of dividends. For PSU awards granted on February 5, 2013 and on March 5, 2013, stock price appreciation is calculated based on the average closing prices of our common stock for the last 20 trading days leading to February 28, 2014.For PSU awards granted in 2011 and 2012, stock price appreciation is calculated based on the average closing prices of the applicable company's common stock for the 20 trading days ending on the last trading day of the year prior to the date of grant as compared to the average closing prices for the 20 trading days ended on the last trading day of the year of grant.

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

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

(1) The actual percentage of PSUs eligible for further time-based vesting is based on straight-line interpolation, where, for example, if the ranking is the 70th percentile, then the vesting percentage is 115%.

On January 17, 2012, the Compensation Committee of our Board of Directors confirmed 76.3% as the percentile rank of Omnicell’s 2011 total stockholder return. This resulted in 120% of the 2011 PSU awards, or 120,000 shares, becoming eligible for further time-based vesting. The eligible PSU awards will vest as follows: 25% of the eligible awards for the first year vested immediately on January 17, 2012 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year period beginning on June 15th and December 15th of the year after the date of grant and each subsequent year. Vesting is contingent upon continued service.

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

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

On January 22, 2013, the Compensation Committee of our Board of Directors confirmed 35.3% as the percentile rank of Omnicell's 2012 total stockholder return. This resulted in 50% of the 2012 PSU awards, or 62,500 shares, as eligible for further time-based vesting. The eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible shares vested immediately on January 22, 2013 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year period beginning on June 15th and December 15th of the year after the date of grant and each subsequent year. Vesting is contingent upon continued service.

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For the year ended December 31, 2012, in addition to the 125,000 PSUs granted in 2012, an additional 10,000 PSUs were deemed granted and vested as a result of Omnicell's 2011 total stockholder return which caused 120% of the 2011 PSUs to become eligible for further time-based vesting.

On February 5, 2013, the Compensation Committee of our Board of Directors awarded 125,000 shares, as eligible for further time-based vesting for PSU awards granted in 2012 and awarded an additional 12,500 shares on March 5, 2013. The eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible shares vested immediately with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year period beginning on June 15th and December 15th of the year after the date of grant and each subsequent year. Vesting is contingent upon continued service.

A summary of activity of the PSUs for the three months ended March 31, 2013 is presented below:

Performance-based Stock Units	Number of Units	Weighted-Average Grant Date Fair Value Per Unit
	(in thousands)	
Non-vested, December 31, 2012	175	$11.00
Granted	138	$17.40
Vested	(16)	$15.66
Forfeited	(16)	$—
Non-vested, March 31, 2013	281	$14.48

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan ("ESPP") under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of $25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of March 31, 2013, 4,039,838 shares had been issued under the ESPP. As of March 31, 2013 there were a total of 1,291,717 shares reserved for future issuance under the ESPP. For the three months ended March 31, 2013, 256,994 shares of common stock were purchased under the ESPP.

Share-based Compensation

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

The impact on our results for share-based compensation for the three months ended March 31, 2013 and 2012 was as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cost of product and service revenues	$305	$268
Research and development expenses	289	243
Selling, general and administrative expenses	2,332	1,696
Total share-based compensation expenses	$2,926	$2,207

Note 14. Business Acquisition

MTS Medication Technologies, Inc.

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

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

We are accounting for the transaction under the acquisition method of accounting in accordance with the provisions of FASB ASC Topic 805, Business Combinations. Under the acquisition method, the estimated fair value of the consideration transferred to purchase the acquired company is allocated to the assets acquired and the liabilities assumed based on their fair values. We have made significant estimates and assumptions in determining the allocation of the acquisition consideration.

Pursuant to the terms of the Merger Agreement, we paid approximately $158.3 million in cash after adjustments provided for in the Merger Agreement, of which approximately $13.5 million was placed in an escrow fund, which will be distributed to MedPak's stockholders (subject to claims that we may make against the escrow fund for indemnification and other claims following the closing). The revised acquisition consideration of $158.3 million is comprised entirely of cash at closing.

At date of acquisition, we also recorded a $1.8 million liability based on expected additional working capital adjustments. In October 2012, a portion of the escrow fund set aside for the working capital adjustment was disbursed, with Omnicell receiving $0.3 million and MedPak's former stockholders receiving the remainder. As of December 31, 2012, the working capital adjustment was reversed, with a resulting reduction in goodwill of $1.8 million and a corresponding reduction in accrued liabilities. Accounts receivable acquired were recorded at their estimated fair value, comprised of total contractual obligations due of $7.6 million, of which $0.2 million was not expected to be collected. Based on an acquisition date valuation, the preliminary estimated fair values of acquired inventory and property and equipment exceeded their historical carrying values. We recorded a preliminary step-up to the estimated fair value of acquired inventory in the amount of $1.6 million, which resulted in subsequent related charges of $1.6 million to cost of product revenues.

In the fourth quarter of 2012, subsequent to the initial acquisition price allocation, we revised our preliminary determination of the fair value of fixed assets and intangible assets acquired from MTS, resulting in a decrease in the carrying value of acquired fixed assets of $1.3 million, and increase in the carrying value of intangibles of $0.4 million and a net increase in recorded goodwill of $0.9 million. During the first quarter of 2013, we reduced goodwill by $0.1 million due to an adjustment in stockholder's equity.

The total revised acquisition price was approximately $158.3 million and, except for the fair value of acquired other non-current liabilities which is still preliminary pending the completion of an analysis of potential contingent payroll tax withholding obligations, the allocation is comprised of the following (in thousands):

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	Fair value acquired
Cash including restricted cash	$2,000
Accounts receivable	7,403
Inventory	11,726
Deferred tax assets and other current assets	2,894
Total current assets	24,023
Property and equipment	9,807
Intangible assets	83,900
Goodwill	82,800
Other non-current assets	308
Total assets	200,838
Current liabilities	(7,917)
Non-current deferred tax liabilities	(33,386)
Other non-current liabilities	(1,223)
Net assets acquired	$158,312
Cash consideration, fair value	$158,312

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

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

For income tax purposes, the historical tax bases of the acquired assets and assumed liabilities, along with the tax attributes of the MTS companies, will carry over. Because the transaction was a cash-for-stock transaction, there is no tax basis in the newly acquired intangible assets. Accordingly, the acquisition accounting includes the establishment of net deferred tax liabilities of $33.4 million, resulting from book tax basis differences related to the intangible assets acquired, as well as to the step up in the value of fixed assets and inventory to their estimated fair values at the time of acquisition.

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

	Fair value acquired	Useful Life (years)	First year amortization expense
Trade name	$6,800	12	$567
Customer relationships	50,500	28 to 30	1,707
Acquired technology	26,600	20	1,330
Intangibles acquired	$83,900		$3,604
Weighted average life of intangibles		25.14	

Goodwill. Approximately $82.8 million has been allocated to goodwill. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the underlying net tangible and identifiable intangible assets on the acquisition date. In accordance with ASC Topic 350, Intangibles - Goodwill and Other, goodwill will not

be amortized, but instead will be tested for impairment at least annually or more frequently if certain indicators are present. We believe the MTS acquisition enhances our offerings and diversifies our revenue mix, providing a more robust product and service solution to our

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current customers while expanding Omnicell's international presence. We consider these factors as supporting the amount of goodwill recorded.

For three months ended March 31, 2013, we did not incur any acquisition-related costs in connection with the MTS acquisition.

During the three months ended March 31, 2013, the acquired MTS operations (consolidated since the May 21, 2012 acquisition date) generated revenue of approximately $18.4 million and a net loss of $1.0 million.

The following represents unaudited pro forma revenue and net income as if MTS had been included in our consolidated results from January 1, 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenues	$87,110	$83,066
Net income	$3,385	$2,485

The pro forma unaudited condensed consolidated operating results presented above were calculated after applying Omnicell's accounting policies and by adding together the historical operating statements of MTS and Omnicell, with certain adjustments, assuming an acquisition date of January 1, 2011. Based on the estimated fair values and useful lives determined from the allocation of total MTS acquisition consideration, MTS historical depreciation and amortization expense was replaced with acquisition-accounting depreciation and amortization expense. Also reflected is the interest expense elimination effect of MTS on its debt (since it would have been paid off at acquisition) and the elimination of certain management fees to an affiliated party, offset in part by interest income foregone by Omnicell, by no longer having the acquisition consideration available as interest-bearing cash, cash equivalents and short-term investments.

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

The pro forma operating results do not include any assumption of operating synergies for the combined companies.

These pro forma results are provided as required disclosures and should not be considered as a forecast for any future period, nor as representing what the actual operating results would have been if the acquisition, in fact, had occurred on January 1, 2011.

Note 15. Segments

Beginning with the acquisition of MTS, which we completed on May 21, 2012, we have organized our business into two operating business segments: Acute Care, which primarily includes products and services sold to hospital customers and Non-Acute Care, which primarily includes products and services sold to customers outside of hospital settings.

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

Since 1992, Omnicell has provided automation and business information solutions to acute care hospitals. We have developed product solutions that help optimize various workflows utilized in hospitals. We have also developed sophisticated sales, installation, and service capabilities to serve the specific and special needs of the acute care environment in hospitals. As the acute care market evolves, we see opportunities to provide medication adherence

solutions, which were added to our product line through the acquisition of MTS. A portion of our organization structure and management processes will continue to be structured to optimize sales and service of solutions to the acute care market.

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

During 2012, we realigned our management reporting structure to report sales of Omnicell's dispensing systems and other related business transactions into long-term care pharmacies and facilities. Accordingly, the operations of this portion of our activities are now being reflected as a part of the Non-Acute Care segment for three months ended March 31, 2013. The impact of this reporting structure change for the three months ended March 31, 2012 was immaterial to our overall reported results.

We believe that legislative changes and economic pressures to manage costs will cause healthcare organizations to manage the health of patients across the continuum of care regardless of the setting in which the care is provided. We believe we have the capabilities and market position to provide the tools needed by our customers to manage medications across the continuum of care. But we also believe that the inherent differences between medication management workflows in acute care settings and non-acute care settings will cause our product solutions and marketing strategies to be managed separately for these two customer segments.

For the three months ended March 31, 2013 and 2012, the contributions of our segments to net revenues and income from operations, and the reconciliation to total net income, were as follows (amounts in thousands):

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012	
	Acute Care	Non-Acute Care (1)	Total	Acute Care	Total
Net revenues from external customers	$65,998	$21,112	$87,110	$64,143	$64,143
Cost of revenues	29,303	12,440	41,743	28,394	28,394
Gross profit	$36,695	$8,672	$45,367	$35,749	$35,749
Gross margin %	55.6 %	41.1 %	52.1 %	55.7 %	55.7 %
Operating expenses	32,571	8,627	41,198	32,114	32,114
Income from operations	$4,124	$45	$4,169	$3,635	$3,635
Operating margin %	6.2 %	0.2 %	4.8 %	5.7 %	5.7 %
Interest and other income (expense), net			(223)		96
Income before provision for income taxes			3,946		3,731
Provision for income taxes			561		1,380
Net income			$3,385		$2,351

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

At March 31, 2013, segment assets were as follows (amounts in thousands):

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	March 31, 2012			December 31, 2012		
	Acute Care	Non-Acute Care	Total	Acute Care	Non-Acute Care	Total
Segment Assets	$247,846	$209,511	$457,357	$235,186	$206,633	$441,819

At March 31, 2013, segment depreciation/amortization, and capital expenditures were as follows (amounts in thousands):

	March 31, 2013			March 31, 2012	
	Acute Care	Non-Acute Care (1)	Total	Acute Care	Total
Depreciation/Amortization	$2,742	$1,730	$4,472	$2,335	$2,335
Capital Expenditures	1,000	2,338	3,338	$1,438	$1,438

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

Note 16. Asset Impairment

Impairment of Software Development Costs

As part of the continuing integration of MTS, during the first quarter of 2013, we reorganized our management team, including the software development department within the Non-Acute Care segment. The Non-Acute Care segment had capitalized approximately $1.8 million of software development costs through the end of the first quarter of 2013 associated with a software solution under development which was intended to assist pharmacies in manual packaging of prescriptions. In connection with its financial statement close process for the quarter ended March 31, 2013, management reassessed the viability of this project and the net realizable value of capitalized costs in light of its decision to change the related product road map and redesign this product based on evolving market demands. As part of this redesign process, new functionality and capabilities will need to be added to the product before commercialization. This redesign is intended to provide a more robust global platform providing larger scalability and significant functionality not contained in our current beta version. As such, we have determined we can no longer support the technological feasibility of this project in conjunction with our software capitalization policy. Therefore, we charged these costs, in the amount of $1.8 million ($0.03 per diluted share, net of tax), to expense as a component of research and development in the accompanying consolidated condensed statement of operations.

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

Forward-Looking Statements

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

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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 or emerging markets;
- our expectations regarding our future backlog levels;
- our ability to align our cost structure and headcount with our current business expectations;

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- the operating margins or earnings per share goals we may set;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our ability to generate cash from operations and our estimates regarding the sufficiency of our cash resources; and
- our ability to acquire companies, businesses, products or technologies on commercially reasonable terms and integrate such acquisitions effectively.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. We discuss many of these risks in this Quarterly Report on Form 10-Q in greater detail in Part II - Section 1A. “Risk Factors” below. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should also read our Annual Report on Form 10-K and the documents that we reference in the Annual Report on Form 10-K and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to "Omnicell, Inc.," "Omnicell," "our," "us," "we," or the "Company" collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Overview

We are a leading provider of automation and business information solutions enabling healthcare systems to streamline the medication administration process and manage costly medical supplies for increased operational efficiency and enhanced patient safety. Our automation, analytics and medication adherence solutions are designed to enable healthcare facilities to acquire, manage, dispense and administer medications and medical-surgical supplies and are intended to enhance patient safety, reduce medication errors, reduce operating costs, improve workflow and increase operational efficiency.

Approximately 2,800 hospitals utilize one or more of our products, of which more than 1,700 hospitals in the United States have installed our automated hardware/software solutions for controlling, dispensing, acquiring, verifying, tracking and analyzing medications and medical and surgical supplies. Approximately 6,000 institutional and retail pharmacies utilize our medication adherence packaging solutions.

The medical industry has become increasingly aware that the human element of patient care inevitably creates the risk of medication administration errors.

The Institute of Medicine, a non-profit, non-governmental arm of the National Academies, published a report in 2006 that estimated that 1.5 million medication errors are made each year in the United States. Acute care facilities are required to adhere to medication regulatory controls that we believe cannot be adequately supported by manual tracking systems or partially automated systems. Nursing shortages add an additional challenge to acute care facilities to meet regulatory controls and improve patient safety while still providing adequate patient care. Non-acute care facilities face similar safety challenges. According to "Adherence to Long-Term Therapies-Evidence for Action," the World Health Organization has stated, “Across diseases, adherence is the single most important modifiable factor that compromises treatment outcome.” U.S. health system thought leaders see medication adherence as a key requirement for closing the medication loop and delivering better clinical outcomes and financial results. Medication non-adherence is described as a critical problem creating approximately $290 billion in extra costs, according to the New England Healthcare Institute, resulting in approximately 125,000 deaths per year. In addition, the Centers for Medicare & Medicaid Services states that 11% of all hospital admissions are related to medication non-adherence. We provide solutions to help healthcare systems and caregivers address these problems. We believe that our patient-centric medication and supply management solutions help improve workflow efficiencies and patient outcomes.

Business Segments

Our business is organized into two operating business segments: Acute Care, which primarily includes products and services sold to hospital customers, and Non-Acute Care, which primarily includes products and services sold to customers outside of the hospital setting.

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Acute Care

In acute care facilities, our solutions utilize advanced, software based medication control and tracking algorithms that interact with hardware security features, resulting in a system that provides both the pharmacist and the nurse real-time safety controls. Our solutions also go a step further by providing medication bar code verification at every step of the medication administration process, from entry to the hospital through to administration to a patient. Our systems enable our customers to reduce or eliminate inefficiencies such as manual tracking and reconciliations, nursing time spent in obtaining medications and in performing inventory control and extraneous process steps.

Similar to our medication solutions, our medical and surgical supply systems provide acute care hospitals control over consumable supplies critical to providing quality healthcare. Our solutions provide inventory control software that is designed to ensure critical supplies are always stocked in the right locations. At the same time, usage tracking helps hospital administrators to ensure that money is not wasted on excessive stores of supplies and helps optimize reimbursement by improving charge capture. Our systems automate the tracking of activities in perioperative areas such as the operating room and catheter lab, including tracking implantable tissue grafts for additional patient safety and regulatory compliance.

Additionally, we offer analytics and reporting software for pharmacists and materials managers to more easily manage inventory flow, tracking and optimization. These reports are often used to identify hospital employees who may be improperly diverting pharmaceuticals stored in the automated dispensing cabinets. Such diversion or theft, especially of controlled substances, could result in black market sales or other illicit uses.

Non-Acute Care

Our Non-Acute Care product lines were primarily added to our solutions through the acquisition of MedPak Holdings, Inc. ("MedPak") in May 2012. MedPak is the parent company of MTS Medication Technologies, Inc. ("MTS"), a worldwide provider of medication adherence packaging systems, and a wholly-owned Omnicell subsidiary. MTS manufactures proprietary medication dispensing systems and related products for use by medication prescription providers: primarily institutional pharmacies servicing long-term care and correctional facilities. These systems utilize consumable medication punch cards and specialized machines that allow the pharmacies to automatically or semi-automatically assemble, fill and seal drugs into medication punch cards representing a weekly or monthly supply of a patient's medication. The use of these cards and machines provides a cost-effective customized package personalized to the patient. The punch card medication dispensing system provides tamper evident packaging and promotes medication compliance.

Our Non-Acute Care systems are used by institutional pharmacists to package medications into blister cards that form the backbone of medication control in non-acute care facilities. Our line of equipment provides solutions ranging from low cost semi-automated packaging systems to fully automated robotic systems that help eliminate human error and increase the efficiency of packaging medication for non-acute care facilities. Our OnDemand line of multi-medication packaging equipment can be used by retail pharmacies to provide enhanced packages that we believe increase the probability that patients will adhere to the medication regimen prescribed by their healthcare provider.

Our Non-Acute Care segment primarily manufactures and sells consumable medication blister cards, packaging equipment and ancillary products throughout the United States, Canada, Europe and Australia. This segment's customers are predominantly institutional and independent retail pharmacies that supply nursing homes, assisted living and correctional facilities with prescription medications for their patients. We manufacture our proprietary consumable blister cards and most of our packaging equipment in our own facilities. This manufacturing process uses integrated equipment for manufacturing the consumable medication blister cards. In addition, we utilize the services of contract manufacturers for some of our packaging equipment. We distribute products directly in the United Kingdom and in Germany through our subsidiaries in those countries.

Our acquisition of MTS aligns us with the long-term trends of the healthcare market to participate in the management of patient health across the continuum of care. Omnicell and MTS bring capabilities to each other that strengthen the product lines and expand the medication management coverage of both companies.

Our key business strategies include:

•Further penetrating the existing market through sustaining technological leadership in our products by:

•Consistently innovating our product and service offerings; and

•Maintaining our flexibility in customer product design and in the installation process.

- Increasing penetration of the international market by:

•Bringing new products and technologies to market that are specific to international markets;

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- Establishing direct sales, distribution or other capabilities when and where it is appropriate;
- Partnering with companies that have sales, distribution or other capabilities that we do not possess in non-U.S. geographies; and
- Increasing customer awareness of safety issues in the administration of medications.
- Expanding our product offering through acquisitions and partnerships.

Operations During the Three Months Ended March 31, 2013

The consolidated results presented for the three months ended March 31, 2013 reflect the impact of the acquisition of MTS since May 21, 2012 as a part of the Non-Acute Care segment.

Revenues grew year-over-year for both product and services, with overall revenue growth of 35.8%, comparing $87.1 million for the first quarter of 2013 with $64.1 million for the first quarter of 2012. Primarily as a result of the acquisition of MTS, the Non-Acute Care segment contributed $21.1 million of revenue for the three months ended March 31, 2013.

The Non-Acute Care segment for the first quarter of 2013 contributed $19.9 million and $1.2 million to the overall product and service revenue, respectively. The Acute Care segment contributed revenues of $49.3 million and $16.7 million to product and service revenue, respectively, for the three months ended March 31, 2013 as compared to $48.5 million and $15.6 million during the same period in 2012. Overall product and service margins increased by $9.6 million, or 26.9% for the three months ended March 31, 2013 as compared to the same period in 2012.

During the first quarter of 2013, we recognized a slight decrease of 3.4% in total revenues from the fourth quarter of 2012. Product revenue decreased by $3.2 million, or 4.4%, while service revenue increased slightly, by 0.7%. Overall gross margins for the first quarter of 2013 declined to 52.1% from 54.8% in the fourth quarter of 2012. Product gross margins declined to 51.5% on revenue of $69.2 million as compared with 54.7% on revenue of $72.4 million during the fourth quarter of 2012. Service gross margins increased slightly, to 54.1% on revenue of $17.9 million as compared to 53.2% margins on $17.8 million in revenue during the fourth quarter of 2012.

Cash, cash equivalents and short-term investments increased by $7.5 million during the three months ended March 31, 2013, to $69.8 million from $62.3 million at December 31, 2012. The change in cash, cash equivalents and short-term investments for the quarter was relatively flat from the prior quarter, with the increase primarily a result of cash received for shares issued under our stock option and employee stock purchase plans of approximately $5.0 million.

During the first quarter of 2013, we implemented a reorganization within our Non-Acute Care segment. This reorganization reduced headcount slightly and as a result, we incurred $0.7 million in severance and related expenses and an additional $0.4 million related to accelerated stock option vesting. This reorganization is intended to promote a stronger integration strategy, focus and growth.

Critical Accounting Policies and Estimates

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

preparation of our condensed consolidated financial statements:

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

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During the three months ended March 31, 2013, there were no significant changes in our critical accounting policies and estimates.

Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2012 for a more complete discussion of our other critical accounting policies and estimates.

Recently Adopted Accounting Standards

In February 2013, FASB issued 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI), which aims to improve the reporting of reclassifications out of AOCI. This update requires an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance in the first quarter of 2013. This update did not have any significant impact on our financial position, operating results or cash flows.

Results of Operations

The table below shows the components of our results of operations as percentages of total revenues for the three months ended March 31, 2013 and 2012 (in thousands, except percentages):

	Three Months Ended March 31,					
	2013			2012		
	$	% of Revenue		$	% of Revenue	
Revenues:						
Product revenue	$69,236	79.5	%	$48,524	75.6	%
Service and other revenues	17,874	20.5	%	15,619	24.4	%
Total revenues	87,110	100.0	%	64,143	100.0	%
Cost of revenues:						
Cost of product revenues	33,547	38.5	%	20,296	31.6	%
Cost of service and other revenues	8,196	9.4	%	8,098	12.6	%
Total cost of revenues	41,743	47.9	%	28,394	44.2	%
Gross profit	45,367	52.1	%	35,749	55.8	%
Operating expenses:						
Research and development	7,954	9.1	%	6,494	10.1	%
Selling, general and administrative	33,244	38.2	%	25,620	39.9	%
Total operating expenses	41,198	47.3	%	32,114	50.0	%
Income from operations	4,169	4.8	%	3,635	5.8	%
Interest and other income (expense), net	(223)	(0.3)	%	96	0.1	%
Income before provision for income taxes	3,946	4.5	%	3,731	5.9	%
Provision for income taxes	561	0.6	%	1,380	2.2	%
Net income	$3,385	3.9	%	$2,351	3.7	%

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

Product Revenues, Cost of Product Revenues and Gross Profit

The table below shows our product revenues, cost of product revenues and gross profit for the three months ended March 31, 2013 and 2012 and the percentage changes between those periods (in thousands, except percentages):

	Three Months Ended March 31,					
	2013		2012		% Change	
Product revenues	$69,236		$48,524		42.7	%
Cost of product revenues	33,547		20,296		65.3	%
Gross profit	$35,689		$28,228		26.4	%
Gross margin	51.5	%	58.2	%	(6.7	)%

Product revenues increased by $20.7 million, or 42.7%, in the three months ended March 31, 2013 as compared to the same period in 2012. The overall increase in product revenues was primarily driven by the contribution of our Non-Acute Care segment of $19.9 million for the three months ended March 31, 2013, of which $2.3 million was from medication cabinet revenues. Our Acute Care segment was relatively flat as compared to the same period in 2012. We anticipate our revenues will continue to increase in 2013 as we fulfill our existing orders. Additionally, year over year revenue growth for the remainder of 2013 will continue to benefit from the contribution of our Non-Acute Care segment established in May 2012. Our ability to grow revenue is dependent on our ability to continue to obtain orders from customers, our ability to produce consumables to fulfill customer demand, the volume of installations we are able to complete and our ability to meet customer needs by providing a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues for equipment is primarily dependent on when our customers' schedules allow for installations.

Cost of product revenues increased by $13.3 million, or 65.3%, in the three months ended March 31, 2013 as compared to the same period in 2012. This increase was primarily a result of Non-Acute Care product costs of $11.9 million for the three months ended March 31, 2013, of which $0.2 million was related to our recent reorganization and $1.0 million were costs associated with the Non-Acute Care medication cabinets noted above. Our Acute Care product cost increased $1.3 million, which is a function of product mix.

Gross profit on product revenue increased by $7.5 million, or 26.4%, in the three months ended March 31, 2013 as compared to the same period in 2012. This increase was primarily a result of the aforementioned contribution from our Non-Acute Care segment of $8.0 million, offset by a decrease in gross profits from our Acute Care segment of $0.5 million for the three months ended March 31, 2013, which was driven primarily by product mix.

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

The table below shows our service and other revenues, cost of service and other revenues and gross profit for the three months ended March 31, 2013 and 2012 and the percentage change between those periods (in thousands, except percentages):

	Three Months Ended March 31,					
	2013		2012		% Change	
Service and other revenues	$17,874		$15,619		14.4	%
Cost of service and other revenues	8,196		8,098		1.2	%
Gross profit	$9,678		$7,521		28.7	%
Gross margin	54.1	%	48.2	%	5.9	%

Service and other revenues include revenues from service and maintenance contracts, rentals of automation systems, and training and professional services. Service and other revenues increased by $2.3 million, or 14.4%, in the three months ended March 31, 2013 as compared to the same period in 2012. The increase in service and other revenues was primarily the result of an expansion in our installed base of automation systems and continued growth in the sales of our analytical software resulting in an increase in the number of support service contracts and higher training revenues and service revenues attributable to our Non-Acute Care segment of $1.2 million, of which $0.4 million was from medication cabinet services and other revenues for the three months ended March 31, 2013.

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Cost of service and other revenues were relatively flat in the three months ended March 31, 2013 as compared to the same period in 2012, driven by an increase in costs attributable to our Non-Acute Care segment of $0.5 million, offset by a decrease in costs attributable to our Acute Care segment of $0.4 million as a result of cost reduction efforts.

Gross profit on service and other revenues increased by $2.2 million, or 28.7%, in the three months ended March 31, 2013 as compared to the same period in 2012. The increase in gross profit on service and other revenues was primarily due to increased revenues from an expanded installed base with a decrease in service cost attributable to our Acute Care segment as a result of the service cost reduction efforts throughout the period. Gross profit on service and other revenues from our Non-Acute Care segment was $0.7 million and $1.5 million from our Acute Care segment for the three months ended March 31, 2013.

We expect our service and other revenues and the associated gross profit to continue to increase in 2013 with the continued expansion of our installed base of automation systems and service and maintenance contracts and the addition of our Non-Acute Care segment.

Operating Expenses

The table below shows our operating expenses for the three months ended March 31, 2013 and 2012 and the percentage changes between those periods (in thousands, except percentages):

	Three Months Ended March 31,			
	2013	2012	% Change	
Research and development	$7,954	$6,494	22.5	%
Selling, general and administrative	33,244	25,620	29.8	%
Total operating expenses	$41,198	$32,114	28.3	%

Research and Development. Research and development expenses increased by $1.5 million, or 22.5%, in the three months ended March 31, 2013 as compared to the same period in 2012 and represented 9.1% and 10.1% of total revenues in the three months ended March 31, 2013 and 2012, respectively. The overall increase in research and development expenses reflects a $2.7 million increase in research and development expenses attributable to the Non-Acute Care segment, of which 1.8 million is attributable to the write-off of previously capitalized software development costs, discussed further in Note 16, "Asset Impairment" and $0.3 million that relates to the reorganization previously mentioned. The increase was offset by a $1.3 million decrease in the Acute Care segment. The decrease in research and development expenses attributable to the Acute Care segment reflects an increase in capitalization software effort of $1.9 million due to the higher level of post-feasibility beta testing. The increase in capitalized software credit was partially offset by an increase of $0.6 million of labor and related costs due to an increase in staffing. The decrease as a percentage of revenue is primarily a reflection of the overall growth in revenue without a corresponding increase in research and development expenditures.

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

Selling, General and Administrative. Selling, general and administrative expenses increased by $7.6 million, or 29.8%, in the three months ended March 31, 2013 as compared to the same period in 2012. Selling, general and administrative expenses represented 38.2% and 39.9% of total revenues in the three months ended March 31, 2013 and 2012, respectively. The increase was primarily due to the addition of Non-Acute Care selling, general and administrative expenses of $5.9 million, of which $0.3 million relates to the previously mentioned reorganization, and an increase from the Acute Care segment of $1.7 million. The Acute Care increase was primarily due to $1.3 million in facility and depreciation expenses for the relocation of our headquarters and manufacturing buildings late in 2012, $0.5 million in GPO fees associated with higher collections and sales volume for GPO-affiliated customers, $0.3 million in professional fees and $0.3 million in travel, promotional and trade show expenses, partially offset by a $0.6

million decrease in costs associated with compensation and related benefits, primarily due to a significant portion of the variable compensation not being earned due to the fact that we did not achieve our company goals.

We expect selling, general and administrative expenses to grow at a nominal rate in order to support our anticipated growth as well as international expansion efforts, but anticipate that increased efficiencies will result in a lower selling, general and administrative expense relative to total revenue growth in 2013.

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Share-based Compensation. The effect of share-based compensation on functional expenses within our operating results for the three months ended March 31, 2013 and 2012 is presented in Note 13, “Stock Option Plans and Share-Based Compensation.”

Provision for Income Taxes

The annual effective tax rate before discrete items was 37.4% and 39.6% for the three months ended March 31, 2013 and 2012, respectively. The decrease in the estimated annual effective tax rate for the three months ended March 31, 2013 as compared to the same period in 2012 was primarily due to the reinstatement of the federal research and development credit in January of 2013 along with a decrease in other non-deductible expenditures. The income tax provision for the three months ended March 31, 2013 also reflected a discrete net benefit of $0.7 million, or 18.0% of pre-tax income, related to 2012 federal research and development (“R&D”) credit which was retroactively reinstated in the three months ended March 31, 2013. No federal R&D credit benefit was recorded in the income tax provision for the three months ended March 31, 2012.

Liquidity and Capital Resources

We had cash and cash equivalents of $69.8 million at March 31, 2013, as compared to $62.3 million in cash and cash equivalents at December 31, 2012. All of our cash is invested in short term money market funds or demand deposits. We did not hold any short or long term investments as of March 31, 2013. While in the future we may need to seek additional financing to meet our working capital needs and to finance capital expenditures, as well as to fund operations or potential acquisitions, we believe our current cash and cash equivalent balances and cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next twelve months.

Cash flows for the three months ended March 31, 2013 and 2012 consisted of the following (in thousands):

	Three Months Ended March 31,	
	2013	2012
Net cash provided by operating activities	$4,132	$7,289
Net cash used in investing activities	(5,247)	(1,528)
Net cash provided from financing activities	8,659	3,816
Effect of exchange rate changes on cash and cash equivalents	(40)	81
Net increase in cash and cash equivalents	$7,504	$9,658

Operating activities provided $4.1 million of cash during the three months ended March 31, 2013 as compared to $7.3 million for the same period in 2012. The main drivers of the $3.2 million decrease in cash generated from operations were a $10.4 million increase in accounts receivable, a $5.1 million decrease in accrued compensation, and a $1.2 million increase in prepaid expenses. These amounts were partially offset by a $4.5 million increase in deferred gross profit, and a $2.8 million increase in investment in sales-type leases. Also impacting operating cash flows are non-cash adjustments which include a $2.1 million increase in depreciation and amortization and a $1.8 million asset impairment charge related to a software development project.

Cash used in investing activities totaled $5.2 million during the three months ended March 31, 2013, as compared to $1.5 million cash used in investing activities during the same period in 2012. This $3.7 million increase in cash used primarily reflects an increase of $1.9 million for purchases of property and equipment and $1.9 million software development capitalization during the three months ended March 31, 2013.

Cash provided by financing activities was $8.7 million during the three months ended March 31, 2013, as compared to $3.8 million during the same period in 2012, resulting in a difference of $4.9 million in cash generated. The increase is primarily due to cash generated from shares issued under stock option and employee stock purchase plans.

Contractual Obligations

There have been no material changes to our contractual obligations during the three months ended March 31, 2013. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2012 for a description of our facility leases and contractual obligations and the Notes to the consolidated financial statements included therein.

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The following table summarizes our contractual obligations at March 31, 2013 (in thousands):

	Total	Less than one year	One to three years	Three to five years	More than five years
Operating leases (1) (2)	$44,307	$5,626	$10,486	$8,905	$19,290
Commitments to contract manufacturers and suppliers (3)	6,910	6,910	—	—	—
Total (4)	$51,217	$12,536	$10,486	$8,905	$19,290

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

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

(3) 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.

(4) At March 31, 2013, we have recorded $3.8 million for uncertain tax positions under long term liabilities, in accordance with GAAP, summarized under Note 1, “Organization and Summary of Significant Accounting Policies.” As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, the current balance of the uncertain tax position liabilities has not been included in the table of commitments above.

Off-Balance Sheet Arrangements

As of March 31, 2013, we had no off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2013, there were no material changes to our disclosures to market risk from the disclosures set forth under the caption, “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2013. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of March 31, 2013, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Legal Proceedings

The information set forth under "Legal Proceedings" in Note 11, "Contingencies," of the Notes to Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for the period ended March 31, 2013 is incorporated herein by reference.

Item 1A. RISK FACTORS

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

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

Customer demand for our products is significantly linked to the strength of the economy. If decreases in demand for capital equipment caused by weak economic conditions and decreased corporate and government spending, including any effects of fiscal budget balancing at the federal level effective in 2013, deferrals or delays of capital equipment projects, longer time frames for capital equipment purchasing decisions or generally reduced expenditures for capital solutions continues, we will experience decreased revenues and lower revenue growth rates and our operating results could be materially and adversely affected.

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

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

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

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

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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, thereby

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increasing their ability to develop and offer products and services to address the needs of our prospective customers;

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

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

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

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

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

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

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

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

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

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

We cannot provide assurance that we will be successful in marketing any new products or services that we introduce, that new products or services will compete effectively with similar products or services sold by our competitors, or that the level of market acceptance of such products or services will be sufficient to generate expected revenues and synergies with our other products or services. Deployment of new products or services often requires interoperability with other Omnicell products or services as well as with healthcare facilities' existing information management systems. If these products or services fail to

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

Many healthcare providers have consolidated to create larger healthcare delivery organizations in order to achieve greater market power. If this consolidation continues, it could reduce the number of our target customers or could cause our existing 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.

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

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

In addition, and in part as a result of the complexities inherent in larger transactions, the average time between the purchase and installation of our systems is generally between two weeks and one year. Delays in installation can occur for reasons that are often outside of our control. We have also experienced fluctuations in our customer and transaction size mix, which makes our ability to forecast our product backlog 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.

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 2012 we completed the acquisition of MTS. We cannot provide assurance that any acquisition or any future transaction we complete will result in long-term benefits to us or our stockholders, or that our management will be able to integrate or manage the acquired business effectively. Acquisitions entail numerous risks, including difficulties associated with the integration of operations, technologies, products and personnel that, if realized, could harm our operating results. Risks related to potential acquisitions include, but are not limited to:

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

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

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

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

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

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

Successful integration of 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, they may utilize alternative means to distribute medications to their customers.

Approximately 21% of our revenue is generated from the sale of consumable medication packages, which are produced in our St. Petersburg, Florida facilities on a continuous basis and shipped to our institutional pharmacies and retail pharmacy customers shortly before they are required by those customers. The demands placed on institutional pharmacies and retail pharmacies by their customers represent real time requirements of those customers. Our customer agreements for the sale of consumable medication packages are typically short-term in nature and typically do not include any volume commitments on the part of the customer. Although our packaging may be considered the preferred method of maintaining control of medications during the medication distribution and administration process, institutional and retail pharmacies have alternative methods of distributing medications, including bulk and alternative packaging, and medication adherence packaging may be supplied by our competitors. To the extent that we are unable to supply packaging to our customers in a timely manner, that demand will be met via alternative distribution methods 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. In 2011, we launched Mandarin-language versions of our G4 medication automation products for clinical use in China and entered into a partnership to distribute, install, and service our automated medication dispensing systems in China. 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;
- the difficulty of managing an organization operating in various countries;
- growing political sentiment against international outsourcing of production;
- reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;
- changes in foreign regulatory requirements;
- the requirement to comply with a variety of international laws and regulations, including labor, import, export, tax, anti-bribery and employment laws and changes in tariff rates;
- fluctuations in currency exchange rates and difficulties in repatriating funds from certain countries;
- 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.

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

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

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

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

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

During November 2012, an Omnicell electronic device containing medication dispensing cabinet log files from three health system customers was stolen from an Omnicell employee's locked vehicle. The files on this device contained certain protected patient health information related to medication dispensing transactions from our medication dispensing cabinets over a one to three-week period, downloaded by the employee while troubleshooting software for the hospitals. As a result of this unauthorized disclosure of personal health information, we may experience contractual indemnification obligations under business associate agreements with certain customers, 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.

On March 8, 2013, Bobbi Polanco (“Polanco”) filed a putative class action complaint in the United States District Court for the District of New Jersey against Omnicell and certain of our customers (Case No. 1:13-cv-01417-NLH-KLM) 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. Polanco is seeking an injunction against the defendants to prevent each of them from committing the acts complained of in the future and monetary damages, costs and expenses. Omnicell is currently evaluating a response to this complaint and intends to defend the matter vigorously.

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

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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.

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

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

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

Our success is highly dependent upon the continuing contributions of our key management, sales, technical and engineering staff. We believe that our future success will depend upon our ability to attract, train and retain highly skilled and motivated personnel. As more of our products are installed in increasingly complex environments, greater technical expertise will be required. As our installed base of customers increases, we will also face additional demands on our customer service and support personnel, requiring additional resources to meet these demands. We may experience difficulty in recruiting qualified personnel. Competition for qualified technical, engineering, managerial, sales, marketing, financial reporting and 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 may make it less favorable for us to grant stock options, restricted stock units or other forms of equity compensation, to employees in the future. In order to continue granting equity compensation at competitive levels, we must seek stockholder approval for any increases to the number of shares reserved for issuance under our equity incentive plans, such as the share increase for which we are seeking approval at our 2013 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals. 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 macroeconomic and general market conditions improve and return to historical levels, our ability to grow revenue and profitability will also be dependent on our ability to continue to manage costs and control expenses. If our revenue increases rapidly, we may not be able to manage this growth effectively. Future growth is dependent on the continued demand for our products, the volume of installations we are able to complete, our ability to continue to meet our customers' needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

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.

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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. 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;
- our ability to generate cash from our accounts receivable on a timely basis;
- the performance of our products;
- changes in our business strategy;
- macroeconomic and political conditions, including fluctuations in interest rates, tax increases and availability of credit markets; and
- volatility in our stock price and its effect on equity-based compensation expense.

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

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

A number of group purchasing organizations, including AmeriNet, Inc., Carolina Shared Services, LLC, Child Health Corporation of America, HealthTrust Purchasing Group, L.P., MedAssets, Inc. Supply Chain Systems, Novation, LLC, Premier Purchasing Partners, L.P. and Resources Optimization & Innovation, LLC have negotiated standard contracts for our products on behalf of their member healthcare organizations. Members of these group purchasing organizations may purchase under the terms of these contracts, which obligate us to pay the group purchasing organization a fee. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience

of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our revenue targets or increase our revenues. These organizations may not renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire, any of which could cause our revenues to decline.

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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 revenues as of March 31, 2013, they may, in some periods, comprise between 5% and 10% of our revenues. If these larger national suppliers were to purchase consumable blister card components from alternative sources, or if alternatives to blister cards were used for medication control, our revenues would decline.

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

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

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

During the year ended March 31, 2013, our common stock traded between $14.68 and $20.00 per share. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

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

Furthermore, the stock market as a whole from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for technology companies. These broad market fluctuations may cause the market price of our common stock to decline irrespective of our performance. In addition, sales of substantial amounts of our common stock in the public market could lower the market price of our common stock.

We depend on a limited number of suppliers for our products and our business may suffer if we were required to change suppliers to obtain an adequate supply of components, equipment and raw materials on a timely basis.

Although we generally use parts and components for our products with a high degree of modularity, certain components are presently available only from a single source or limited sources. We rely on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages. We have generally been able to obtain adequate supplies of all components and raw materials in a timely manner from existing sources, or where necessary, from alternative sources of supply. We engage multiple single source third-party manufacturers to build several of our sub-assemblies. The risk associated with changing to alternative vendors, if necessary, for any of the numerous components used to manufacture our products could limit our ability to manufacture our products and harm our business. Our reliance on a few single source partners to build our hardware sub-assemblies and on a limited number of suppliers for the raw materials that are necessary in the production of our consumable medication packages, a reduction or interruption in supply from our partners or suppliers, or a significant increase in the price of one or more components could have an adverse impact on our business, operating results and financial condition. In certain circumstances, the failure of any of our suppliers or us to perform adequately could result in quality control issues affecting end users' acceptance of our products. These impacts could damage customer relationships and could harm our business.

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.

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In our judgment and based on our history with these accounts, we believe these receivables are collectible. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. As of March 31, 2013, the balance of our unsold leases to U.S. government customers was $12.2 million.

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

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

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

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

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

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

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

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

We market products that contain software and 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 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

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

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

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

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

We continue to upgrade our enterprise-level business information system with new capabilities. Based upon the complexity of some of the upgrades, there is risk that we will not see the expected benefit from the implementation of these upgrades in accordance with their anticipated timeline and will incur costs in addition to those we have already planned for. In addition, in future years, we may need to begin efforts to comply with final converged accounting standards to be established by the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") for revenues, leases and other components of our financial reporting. These new standards could require us to modify our accounting policies, including our revenue recognition policy, which we modified in fiscal 2011. We further anticipate that integration of these and possibly other new standards may require a substantial amount of management's time and attention and require integration with our enterprise resource planning system. The implementation of the system and the adoption of future new standards, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to record certain business transactions timely. All of these 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 our employees as incentives to join Omnicell or as an on-going reward and retention vehicle. At March 31, 2013, we had options outstanding to purchase approximately 1.2 million shares of our common stock at exercise prices ranging from $3.30 to $20.95 per share, at a weighted-average exercise price of $11.85 per share. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

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

We are subject to taxes in the United States and other foreign jurisdictions. Our future effective tax rates could be affected by several factors, many of which are outside of our control, including; changes in the mix of earnings with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws, the timing of such changes, 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,

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

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

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

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

There were no common stock repurchases or unregistered sales of equity securities during the three months ended March 31, 2013.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

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Item 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
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
4.3	Rights Agreement, dated February 6, 2003, between Omnicell, Inc. and EquiServe Trust Company, N.A.	8-K	000-33043	99.2	2/14/2003
10.1	2013 Executive Officer Annual Base Salaries	8-K	000-33043	10.1	2/7/2013
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, 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)				
32.2+	Certification of 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(2)				
101.SCH+	XBRL Taxonomy Extension Schema Document(2)				
101.CAL+					

	XBRL Taxonomy Extension Calculation Linkbase Document[2]
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document[2]
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document[2]
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document[2]

+ Filed herewith

(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

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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.

(2) Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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SIGNATURES

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

OMNICELL, INC.

Date: May 8, 2013

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

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