# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2013**

**OR**

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

**For the transition period from to**

**Commission File Number 000-33043**

# Omnicell, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **94-3166458** |
| (State or other jurisdiction 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 ☒ No ☐

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

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

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

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

The number of shares of Registrant's common stock (par value $0.001) outstanding as of August 1, 2013 was 34,840,670.

**OMNICELL, INC.**

**FORM 10-Q**

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**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**OMNICELL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands)**

| | June 30, 2013 (unaudited) | December 31, 2012 (1) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 87,334 | $ 62,313 |
| Accounts receivable, net of allowances of $560 and $722 at June 30, 2013 and December 31, 2012, respectively | 63,840 | 55,116 |
| Inventories | 26,360 | 26,903 |
| Prepaid expenses | 15,928 | 15,392 |
| Deferred tax assets | 11,860 | 11,860 |
| Other current assets | 7,899 | 9,172 |
| Total current assets | 213,221 | 180,756 |
| Property and equipment, net | 34,114 | 34,107 |
| Non-current net investment in sales-type leases | 13,222 | 13,228 |
| Goodwill | 111,343 | 111,407 |
| Other intangible assets | 83,468 | 85,550 |
| Non-current deferred tax assets | 985 | 993 |
| Other assets | 15,775 | 15,778 |
| Total assets | $ 472,128 | $ 441,819 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 17,459 | $ 18,255 |
| Accrued compensation | 11,239 | 11,613 |
| Accrued liabilities | 14,053 | 11,988 |
| Deferred service revenue | 20,434 | 20,449 |
| Deferred gross profit | 25,350 | 20,772 |
| Total current liabilities | 88,535 | 83,077 |
| Non-current deferred service revenue | 18,598 | 19,892 |
| Non-current deferred tax liabilities | 26,225 | 26,491 |
| Other long-term liabilities | 5,039 | 4,809 |
| Total liabilities | 138,397 | 134,269 |
| Stockholders' equity: | | |
| Total stockholders' equity | 333,731 | 307,550 |
| Total liabilities and stockholders' equity | $ 472,128 | $ 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.*

**OMNICELL, INC.**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Product revenues | $ 75,581 | $ 59,269 | $ 144,817 | $ 107,793 |
| Services and other revenues | 18,105 | 16,115 | 35,979 | 31,734 |
| Total revenues | 93,686 | 75,384 | 180,796 | 139,527 |
| Cost of revenues: | | | | |
| Cost of product revenues | 36,286 | 28,600 | 69,833 | 48,896 |
| Cost of services and other revenues | 8,032 | 7,408 | 16,228 | 15,506 |
| Total cost of revenues | 44,318 | 36,008 | 86,061 | 64,402 |
| Gross profit | 49,368 | 39,376 | 94,735 | 75,125 |
| Operating expenses: | | | | |
| Research and development | 7,150 | 5,499 | 15,104 | 11,993 |
| Selling, general and administrative | 32,859 | 31,446 | 66,104 | 57,066 |
| Total operating expenses | 40,009 | 36,945 | 81,208 | 69,059 |
| Income from operations | 9,359 | 2,431 | 13,527 | 6,066 |
| Interest and other income (expense), net | 63 | (73) | (159) | 23 |
| Income before provision for income taxes | 9,422 | 2,358 | 13,368 | 6,089 |
| Provision for income taxes | 3,406 | 983 | 3,967 | 2,363 |
| Net income | $ 6,016 | $ 1,375 | $ 9,401 | $ 3,726 |
| Net income per share-basic | $ 0.17 | $ 0.04 | $ 0.28 | $ 0.11 |
| Net income per share-diluted | $ 0.17 | $ 0.04 | $ 0.27 | $ 0.11 |
| Weighted average shares outstanding: | | | | |
| Basic | 34,450 | 33,390 | 34,177 | 33,377 |
| Diluted | 35,374 | 34,316 | 35,099 | 34,329 |

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

**OMNICELL, INC.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(In thousands)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Net income | $ 6,016 | $ 1,375 | $ 9,401 | $ 3,726 |
| Other comprehensive income (loss) and reclassification adjustments: | | | | |
| Unrealized holding (losses) gains on securities arising during the period | — | (3) | — | (1) |
| Changes in fair value of foreign currency forward hedges | — | 65 | (65) | 65 |
| Foreign currency translation adjustment | 5 | (16) | (198) | (16) |
| Other comprehensive income (loss) | 5 | 46 | (263) | 48 |
| Comprehensive income | $ 6,021 | $ 1,421 | $ 9,138 | $ 3,774 |

*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)**

| | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 9,401 | $ 3,726 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,244 | 5,333 |
| Loss on disposal of fixed assets | 141 | 19 |
| Impairment of software development costs | 1,759 | — |
| Provision for (recovery of) receivable allowance | 63 | 335 |
| Share-based compensation expense | 5,613 | 4,420 |
| Income tax benefits from employee stock plans | 739 | (156) |
| Excess tax benefits from employee stock plans | (1,258) | (901) |
| Provision for excess and obsolete inventories | 742 | 254 |
| Foreign currency remeasurement loss | — | (23) |
| Deferred income taxes | (258) | (535) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (8,757) | (287) |
| Inventories | (199) | 4,409 |
| Prepaid expenses | (536) | (1,114) |
| Other current assets | 94 | 799 |
| Net investment in sales-type leases | 160 | (780) |
| Other assets | (129) | (27) |
| Accounts payable | (796) | (817) |
| Accrued compensation | (374) | 5,995 |
| Accrued liabilities | 2,065 | (3,320) |
| Deferred service revenue | (1,294) | 449 |
| Deferred gross profit | 4,578 | 268 |
| Other long-term liabilities | 230 | 711 |
| Net cash provided by operating activities | 21,228 | 18,758 |
| **Cash flows from investing activities:** | | |
| Purchases of short-term investments | — | — |
| Maturities of short-term investments | — | 8,122 |
| Acquisition of intangible assets and intellectual property | (64) | (249) |
| Software development for external use | (3,194) | (1,414) |
| Purchases of property and equipment | (5,711) | (4,087) |
| Business acquisition, net of cash acquired | — | (156,312) |
| Net cash used in investing activities | (8,969) | (153,940) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock under employee stock purchase and stock option plans | 11,549 | 3,627 |
| Stock repurchases | — | (7,060) |
| Excess tax benefits from employee stock plans | 1,258 | 901 |
| Net cash provided by (used in) from financing activities | 12,807 | (2,532) |
| Effect of exchange rate changes on cash and cash equivalents | (45) | 23 |
| Net increase (decrease) in cash and cash equivalents | 25,021 | (137,691) |
| Cash and cash equivalents at beginning of period | 62,313 | 191,762 |
| Cash and cash equivalents at end of period | $ 87,334 | $ 54,071 |
| | | |
| Acquisition consideration accrued but not paid | $ — | $ (1,833) |

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

**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 June 30, 2013, the results of their operations and comprehensive income for the three and six months ended June 30, 2013 and 2012 and their cash flows for the six months ended June 30, 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 six months ended June 30, 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.

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

*Fair value of financial instruments.* We value our financial assets and liabilities on a recurring basis using the fair value hierarchy established in Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*. ASC 820 describes three levels of inputs that may be used to measure fair value, as follows:

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

Level 2 inputs, which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets 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 June 30, 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 June 30, 2013 and December 31, 2012, we held $53.0 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.

*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 value 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 June 30, 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.
- **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 equipment 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. We allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. This method requires us to determine the selling price at which each deliverable could be sold if it were sold regularly on a standalone basis. When available, we use vendor-specific objective evidence ("VSOE") of fair value as the selling price. VSOE represents the price charged for a deliverable when it is sold separately or for a deliverable not yet being sold separately, the price established by management with the relevant authority. We consider VSOE to exist when approximately 80% or more of our standalone sales of an item are priced within a reasonably narrow pricing range (plus or minus 15% of the median rates). We have established VSOE of fair value for our post-installation technical support services and professional services. When VSOE of fair value is not available, third-party evidence ("TPE") of fair value for similar products and services is acceptable; however, our offerings and market strategy differ from those of our competitors, such that we cannot obtain sufficient comparable information about third parties' prices. If neither VSOE nor TPE are available, we use our best estimates of selling prices ("BESP"). We determine BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. We regularly review and update our VSOE, TPE and BESP information and obtain formal approval by appropriate levels of management.

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

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

A portion of our sales are made through multi-year lease agreements. Under sales-type leases, we recognize revenue for our hardware and software products net of lease execution costs such as post-installation product maintenance and technical support, at the net present value of the lease payment stream once our installation obligations have been met. We optimize cash flows by selling a majority of our non-U.S. government leases to third-party leasing finance companies on a non-recourse basis. We have no obligation to the leasing company once the lease has been sold. Some of our sales-type leases, mostly those relating to U.S. government hospitals, are retained in-house. Interest income in these leases is recognized in product revenue using the 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 June 30, 2013 and 2012, we transferred non-recourse accounts receivable totaling $10.6 million and $15.7 million, respectively, which approximated fair value, to third-party leasing companies. During the six months ended June 30, 2013 and 2012, we transferred non-recourse accounts receivable totaling $20.9 million and $27.8 million, respectively, which approximated fair value, to third-party leasing companies. At June 30, 2013 and December 31, 2012, accounts receivable included $0.8 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 and six months ended June 30, 2013. Additionally, there was no single customer accounting for 10% or more of accounts receivable at June 30, 2013 or December 31, 2012. At June 30, 2013, we believe that we have no significant concentrations 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 $1.6 million and $0.8 million for the three months ended June 30, 2013 and 2012, respectively. Shipping and handling expenses totaled $3.0 million and $1.5 million for the six months ended June 30, 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 June 30, 2013 and 2012 totaled approximately $6.7 million and $5.2 million, respectively. Purchases from this supplier for the six months ended June 30, 2013 and 2012 totaled approximately $13.9 million and $11.5 million, respectively.

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

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

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

We provide for income taxes for each interim period based on the estimated annual effective tax rate for the year, adjusting for discrete items in the quarter in which they arise. The annual effective tax rate before discrete items was 38.7% and 40.9% for the six months ended June 30, 2013 and 2012, respectively. The 2013 annual effective tax rate differed from the statutory rate of 35.0% primarily due to the unfavorable impact of state income taxes, non-deductible equity charges, and other non-deductible expenditures, which were partially offset by the federal research and development credit claimed and the domestic production activities deduction. The 2012 annual effective tax rate differed from the statutory rate of 35.0% primarily due to the unfavorable impact of state income taxes, non-deductible equity charges, and other non-deductible expenditures, which were partially offset by the domestic production activities deduction.

**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, we excluded 1,581,335 and 2,103,021 shares from the calculations of diluted net income per share for the six months ended June 30, 2013 and 2012, respectively.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Basic: | | | | |
| Net income | $ 6,016 | $ 1,375 | $ 9,401 | $ 3,726 |
| Weighted average shares outstanding — basic | 34,450 | 33,390 | 34,177 | 33,377 |
| Net income per share — basic | $ 0.17 | $ 0.04 | $ 0.28 | $ 0.11 |
| Diluted: | | | | |
| Net income | $ 6,016 | $ 1,375 | $ 9,401 | $ 3,726 |
| Weighted average shares outstanding — basic | 34,450 | 33,390 | 34,177 | 33,377 |
| Add: Dilutive effect of employee stock plans | 924 | 926 | 922 | 952 |
| Weighted average shares outstanding — diluted | 35,374 | 34,316 | 35,099 | 34,329 |
| Net income per share — diluted | $ 0.17 | $ 0.04 | $ 0.27 | $ 0.11 |

**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 June 30, 2013 and December 31, 2012 (in thousands):

| | June 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash / Cash Equivalents | Short-term Investments | Security Classification |
| Cash | $ 34,364 | $ — | $ — | $ 34,364 | $ 34,364 | $ — | N/A |
| Money market funds | 52,970 | — | — | 52,970 | 52,970 | — | Available for sale |
| Total cash, cash equivalents and short-term investments | $ 87,334 | $ — | $ — | $ 87,334 | $ 87,334 | $ — | |

| | 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 (in thousands):

| | 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 June 30, 2013 | | | | |
| Money market funds | $ 52,970 | $ — | $ — | $ 52,970 |
| Total | $ 52,970 | $ — | $ — | $ 52,970 |
| At December 31, 2012 | | | | |
| Money market funds | $ 38,891 | $ — | $ — | $ 38,891 |
| 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):

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Raw materials | $ 9,842 | $ 9,994 |
| Work in process | 848 | 385 |
| Finished goods | 15,670 | 16,524 |
| Total | $ 26,360 | $ 26,903 |

**Note 5. Property and Equipment**

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Equipment | $ 34,716 | $ 32,528 |
| Furniture and fixtures | 5,104 | 5,126 |
| Leasehold improvements | 7,139 | 6,992 |
| Purchased software | 19,735 | 19,870 |
| Capital in process | 2,812 | 2,693 |
| | 69,506 | 67,209 |
| Accumulated depreciation and amortization | (35,392) | (33,102) |
| Property and equipment, net | $ 34,114 | $ 34,107 |

Depreciation and amortization of property and equipment totaled approximately $2.9 million and $1.9 million for the three months ended June 30, 2013 and 2012, respectively. Depreciation and amortization of property and equipment totaled approximately $5.6 million and $3.5 million for the six months ended June 30, 2013 and 2012, respectively.

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

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Net minimum lease payments to be received | $ 19,919 | $ 19,665 |
| Less unearned interest income portion | 1,164 | 1,205 |
| Net investment in sales-type leases | 18,755 | 18,460 |
| Less current portion(1) | 5,533 | 5,232 |
| Non-current net investment in sales-type leases(2) | $ 13,222 | $ 13,228 |

(1) A component of other current assets. This amount is net of allowance for doubtful accounts of $0.1 million as of June 30, 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 June 30, 2013 and $0.1 million as of December 31, 2012.

The minimum lease payments under sales-type leases as of June 30, 2013 were as follows (in thousands):

| | |
|---|---|
| 2013 (remaining six months) | $ 3,165 |
| 2014 | 5,589 |
| 2015 | 4,499 |
| 2016 | 3,238 |
| 2017 | 2,493 |
| Thereafter | 935 |
| Total | $ 19,919 |

The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest (in thousands):

| | Allowance for Credit Losses | Recorded Investment in Sales-type Leases Gross | Recorded Investment in Sales-type Leases Net |
|---|---|---|---|
| Credit loss disclosure for June 30, 2013: | | | |
| Accounts individually evaluated for impairment | $ 47 | $ 47 | $ — |
| Accounts collectively evaluated for impairment | 137 | 18,892 | 18,755 |
| Ending balances: June 30, 2013 | $ 184 | $ 18,939 | $ 18,755 |
| 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 and six months ended June 30, 2013 and 2012 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Allowance for credit losses, beginning of period | $ 190 | $ 257 | $ 607 | $ 284 |
| Current period provision (reversal) | 6 | 422 | 19 | 422 |
| Direct write-downs charged against the allowance | — | — | (413) | — |
| Recoveries of amounts previously charged off | (12) | (20) | (29) | (47) |
| Allowance for credit losses, end of period | $ 184 | $ 659 | $ 184 | $ 659 |

**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 six months ended June 30, 2013 consists of the following (in thousands):

| | Goodwill at December 31, 2012 | Adjustments to Goodwill | Goodwill at June 30, 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 approximately $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 June 30, 2013 or December 31, 2012. Finite-life intangible assets consist of the following (in thousands):

| | June 30, 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 | $ 4,159 | $ 50,571 | $ 54,730 | $ 3,081 | $ 51,649 | 5-30 years |
| Acquired technology | 27,580 | 1,863 | 25,717 | 27,580 | 1,128 | 26,452 | 3-20 years |
| Patents | 1,216 | 219 | 997 | 1,217 | 259 | 958 | 20 years |
| Trade name | 6,890 | 712 | 6,178 | 6,890 | 414 | 6,476 | 3-12 years |
| Non-compete agreements | 60 | 55 | 5 | 60 | 45 | 15 | 3 years |
| Total finite-lived intangibles | $ 90,476 | $ 7,008 | $ 83,468 | $ 90,477 | $ 4,927 | $ 85,550 | |

Amortization expense totaled $1.1 million and $0.6 million for the three months ended June 30, 2013 and 2012, respectively. Amortization expense totaled $2.1 million and $0.7 million for the six months ended June 30, 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 June 30, 2013 was as follows (in thousands):

| | | |
|---|---|---|
| 2013 (remaining six months) | $ | 2,129 |
| 2014 | | 4,228 |
| 2015 | | 4,204 |
| 2016 | | 3,854 |
| 2017 | | 3,818 |
| 2018 | | 3,712 |
| Thereafter | | 61,523 |
| Total | $ | 83,468 |

**Note 8. Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

| | | June 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| Rebates and lease buyouts | $ | 3,657 | $ | 3,179 |
| Advance payments from customers | | 3,686 | | 2,829 |
| Accrued Group Purchasing Organization (GPO) fees | | 2,304 | | 2,278 |
| Technology license purchase obligation, current portion | | 1,500 | | 1,750 |
| Taxes payable | | 1,196 | | 555 |
| Other | | 1,710 | | 1,397 |
| Total | $ | 14,053 | $ | 11,988 |

**Note 9. Deferred Gross Profit**

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

| | | June 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| Sales of medication and supply dispensing systems and packaging equipment, which have been delivered and invoiced but not yet installed | $ | 38,481 | $ | 30,138 |
| Cost of revenues, excluding installation costs | | (13,131) | | (9,366) |
| Deferred gross profit | $ | 25,350 | $ | 20,772 |

**Note 10. Commitments**

At June 30, 2013, the minimum payments under our operating leases for each of the five succeeding fiscal years were as follows (in thousands):

| | | |
|---|---|---|
| 2013 (remaining six months) | $ | 2,922 |
| 2014 | | 5,688 |
| 2015 | | 5,439 |
| 2016 | | 5,139 |
| 2017 | | 4,458 |
| 2018 | | 4,289 |
| Thereafter | | 16,585 |
| Total | $ | 44,520 |

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.

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, with 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, Nashville, Tennessee, Waukegan, Illinois, 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 $8.0 million as of June 30, 2013.

At June 30, 2013, we have recorded $4.4 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. On May 13, 2013, Polanco filed an amended complaint. On May 31, 2013, Omnicell filed a motion to dismiss the complaint on the grounds that Polanco failed to satisfy constitutional standing requirements and that she failed to state a claim against Omnicell for violating state data breach notification statutes, consumer fraud, common law fraud, negligence and conspiracy. Omnicell also joined in the arguments of the other defendants seeking dismissal. On July 1, 2013, Polanco filed an opposition to the motions to dismiss. On July 15, 2013, Omnicell filed its reply to the opposition from Polanco. Omnicell is currently awaiting a decision from the court and intends to defend the matter vigorously.

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

**Guarantees**

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

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

From time to time, we may also warrant that our professional services will be performed in a good and workmanlike manner or in a professional manner consistent with industry standards. We generally seek to disclaim most warranties, including any implied or statutory warranties such as warranties of merchantability, fitness for a particular purpose, title, quality and non-infringement, as well as any liability with respect to incidental, consequential, special, exemplary, punitive or similar damages. In some states, such disclaimers may not be enforceable. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. We have not been subject to any significant claims for such losses and have not incurred any material costs in defending or settling claims related to these indemnification obligations. Accordingly, we believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations or potential warranty claims and, therefore, no material liabilities have been recorded for such indemnification obligations as of June 30, 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 and six months ended June 30, 2013 in connection with the 2008 Repurchase Program. During the three months ended June 30, 2012, we repurchased 505,137 shares through the stock repurchase program at an average cost of $13.98 per share, including commissions, compared to zero shares repurchased in the three months ended March 31, 2012.

From the inception of the 2008 Repurchase Program in February 2008 through June 30, 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 June 30, 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 June 30, 2013, we have not repurchased any shares through the 2012 Repurchase Program.

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

**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. On May 21, 2013, at our Annual 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 2,500,000 shares.

Options granted under the 2009 Plan generally become exercisable over periods of up to four 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 June 30, 2013, a total of 3,646,006 shares of common stock were reserved for future issuance under the 2009 Plan. At June 30, 2013, $6.4 million of total unrecognized compensation cost related to non-vested stock options was expected to be recognized over a weighted average period of 2.6 years .

A summary of aggregate option activity for the six months ended June 30, 2013 is presented below:

| **Options:** | **Number of Shares** | **Weighted-Average Exercise Price** |
|---|---|---|
| | **(in thousands)** | |
| Outstanding at December 31, 2012 | 4,470 | $ 14.06 |
| Granted | 243 | $ 17.21 |
| Exercised | (849) | $ 11.18 |
| Forfeited | (59) | $ 14.21 |
| Expired | (51) | $ 14.98 |
| Outstanding at June 30, 2013 | 3,754 | $ 14.90 |
| Exercisable at June 30, 2013 | 2,686 | $ 14.84 |

**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 June 30, 2013 was approximately $0.8 million and is expected to be recognized over a weighted-average period of 0.9 years . Expected future compensation expense relating to RSUs outstanding on June 30, 2013 is $5.2 million over a weighted-average period of 2.5 years .

A summary of activity of both restricted stock and RSUs for the six months ended June 30, 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 | 55 | $ | 18.20 | 103 | $ | 17.46 |
| Vested | (61) | $ | 14.23 | (80) | $ | 13.95 |
| Forfeited | — | $ | — | (19) | $ | 13.88 |
| Non-vested, June 30, 2013 | 52 | $ | 18.43 | 393 | $ | 15.01 |

**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 based on 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 based on the achievement of a certain level of stockholder return for 2012 as described below.

Our unrecognized compensation cost related to non-vested performance-based restricted stock units at June 30, 2013 was approximately $1.9 million and is expected to be recognized over a weighted-average period of 1.6 years . For the three months ended June 30, 2013 and 2012, we recognized $0.4 million and $0.3 million, respectively of compensation expense for the performance-based restricted stock units. For the six months ended June 30, 2013, we recognized $0.8 million and $0.5 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 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 stockholder return for Omnicell stock over the performance period relative to the total stockholder 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 stockholder 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 Stockholder 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.

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. These 2011 PSUs had a time-based vesting on June 15, 2013. The 120% payout caused an additional 2,500 shares to be deemed granted and vested on June 15, 2013, which is reflected in the six months ended June 30, 2013 PSU activity table presented below.

On February 5 and March 5 2013, the Compensation Committee approved PSU awards of 125,000 shares and 12,500 shares, respectively. If the minimum performance threshold is met as determined by the Compensation Committee of the Board of Directors in 2014, the eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible shares will vest immediately, with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year period beginning on June 15th and December 15th of the year after the date of grant and each subsequent year. Vesting is contingent upon continued service.

A summary of activity of the PSUs for the six months ended June 30, 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 | 140 | $ 14.74 |
| Vested | (38) | $ 11.02 |
| Forfeited | (24) | $ — |
| Non-vested, June 30, 2013 | 253 | $ 13.07 |

**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 June 30, 2013, 4,039,838 shares had been issued under the ESPP. As of June 30, 2013 there were a total of 1,291,717 shares reserved for future issuance under the ESPP. For the three months and six months ended June 30, 2013, zero and 256,994 shares respectively, of common stock were purchased under the ESPP.

**Share-based Compensation**

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

The impact on our results for share-based compensation for the three and six months ended June 30, 2013 and 2012 was as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of product and service revenues | $ 324 | $ 233 | $ 629 | $ 501 |
| Research and development expenses | 326 | 211 | 615 | 454 |
| Selling, general and administrative expenses | 2,037 | 1,769 | 4,369 | 3,465 |
| Total share-based compensation expenses | $ 2,687 | $ 2,213 | $ 5,613 | $ 4,420 |

**Note 14. Business Acquisition**

**MTS Medication Technologies, Inc.**

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 have accounted 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 was allocated as follows (in thousands):

| | Fair value acquired |
|---|---|
| Cash including restricted cash | $ 2,000 |
| Accounts receivable | 7,403 |
| Inventory | 11,726 |
| Deferred tax assets and other current assets | 2,894 |
| 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 current customers while expanding our international presence. We consider these factors as supporting the amount of goodwill recorded.

For three and six months ended June 30, 2013, we did not incur any acquisition-related costs in connection with the MTS acquisition. For the three and six months ended June 30, 2012, we incurred approximately $3.2 million in acquisition related costs related to the MTS acquisition. These costs are included in selling, general and administrative expenses on our Condensed Consolidated Statement of Operations.

**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.

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 and six months ended June 30, 2013.

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.

Effective in the second quarter of fiscal 2013, management changed its methodology for allocating certain expenses to its reportable segments. We have reclassified segment operating results for the three and six months ended June 30, 2012 to conform to the fiscal 2013 presentation. For the three and six months ended June 30, 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 June 30, 2013 | | | Three Months Ended June 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Acute Care | Non-Acute Care | Total | Acute Care | Non-Acute Care (1) | Total |
| Net revenues from external customers | $ 68,112 | $ 25,574 | $ 93,686 | $ 64,309 | 11,075 | $ 75,384 |
| Cost of revenues | 29,819 | 14,499 | 44,318 | 28,249 | 7,759 | 36,008 |
| Gross profit | $ 38,293 | $ 11,075 | $ 49,368 | $ 36,060 | $ 3,316 | $ 39,376 |
| Gross margin % | 56.2% | 43.3% | 52.7% | 56.1% | 29.9 % | 52.2% |
| | | | | | | |
| Operating expenses | 31,206 | 8,803 | 40,009 | 33,249 | 3,696 | 36,945 |
| Income from operations | $ 7,087 | $ 2,272 | $ 9,359 | $ 2,811 | (380) | $ 2,431 |
| Operating margin % | 10.4% | 8.9% | 10.0% | 4.4% | (16.7)% | 3.2% |
| | | | | | | |
| Interest and other income (expense), net | | | 63 | | | (73) |
| Income before provision for income taxes | | | 9,422 | | | 2,358 |
| Provision for income taxes | | | 3,406 | | | 983 |
| Net income | | | $ 6,016 | | | $ 1,375 |

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

| | Six Months Ended June 30, 2013 | | | Six Months Ended June 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Acute Care | Non-Acute Care | Total | Acute Care | Non-Acute Care (1) | Total |
| Net revenues from external customers | $ 134,110 | $ 46,686 | $ 180,796 | $ 126,900 | $ 12,627 | $ 139,527 |
| Cost of revenues | 59,122 | 26,939 | 86,061 | 55,938 | 8,464 | 64,402 |
| Gross profit | $ 74,988 | $ 19,747 | $ 94,735 | $ 70,962 | $ 4,163 | $ 75,125 |
| Gross margin % | 55.9% | 42.3% | 52.4% | 55.9% | 33.0 % | 53.8% |
| Operating expenses | 63,140 | 18,068 | 81,208 | 65,098 | 3,961 | 69,059 |
| Income from operations | $ 11,848 | $ 1,679 | $ 13,527 | $ 5,864 | 202 | $ 6,066 |
| Operating margin % | 8.8% | 3.6% | 7.5% | 4.6% | (16.7)% | 4.3% |
| Interest and other income (expense), net | | | (159) | | | 23 |
| Income before provision for income taxes | | | 13,368 | | | 6,089 |
| Provision for income taxes | | | 3,967 | | | 2,363 |
| Net income | | | $ 9,401 | | | $ 3,726 |

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

At June 30, 2013, segment assets were as follows (amounts in thousands):

| | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Acute Care | Non-Acute Care | Total | Acute Care | Non-Acute Care (1) | Total |
| Segment Assets | $ 256,858 | $ 215,270 | $ 472,128 | $ 235,186 | $ 206,633 | $ 441,819 |

At three and six months ended June 30, 2013 and 2012, segment depreciation/amortization, and capital expenditures were as follows (amounts in thousands):

| | Three Months Ended June 30, 2013 | | | Three Months Ended June 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Acute Care | Non-Acute Care | Total | Acute Care | Non-Acute Care (1) | Total |
| Depreciation/Amortization | $ 2,804 | $ 1,968 | $ 4,772 | $ 2,131 | $ 867 | $ 2,998 |
| Capital Expenditures | 1,018 | 1,395 | 2,413 | $ 2,569 | $ 80 | $ 2,649 |

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

| | Six Months Ended June 30, 2013 | | | Six Months Ended June 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Acute Care | Non-Acute Care | Total | Acute Care | Non-Acute Care (1) | Total |
| Depreciation/Amortization | $ 5,546 | $ 3,698 | $ 9,244 | $ 4,466 | $ 867 | 5,333 |
| Capital Expenditures | 2,018 | 3,733 | 5,751 | $ 4,007 | $ 80 | $ 4,087 |

(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:*

- *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;*
- *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 use 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 use our medication adherence packaging solutions.

The medical industry has become increasingly aware that human factors inevitably create the risk of medication administration errors in the course of patient care.

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.

**Acute Care**

In acute care facilities, our solutions use 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 material 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 use 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 solutions are aligned with the long-term trends of the healthcare market to assist in the management of patient health across the continuum of care.

Our key business strategies include:

- Further penetrating the existing market through providing differentiated, innovative solutions, which includes:
  - Consistently innovating our product and service offerings; and
  - Maintaining our flexibility in customer product design and in the installation process to provide solutions tailored to our customers.
- Increasing penetration of new markets by:
  - Bringing new products and technologies to market that are specific to international markets;
  - Bringing new products and technologies to market that address currently unsolved problems;
  - 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; and
  - Increasing customer awareness of safety issues in the administration of medications.
- Expanding our product offering through acquisitions and partnerships.

**Operations During the Three and Six Months Ended June 30, 2013**

The consolidated operating results presented for the six months ended June 30, 2013 and the six months ended June 30, 2012, reflect the impact of the acquisition of MTS since May 21, 2012 as a part of the Non-Acute Care segment.

Revenues grew year-over-year for both product and services, with overall revenue growth of 24.3%, comparing $93.7 million for the second quarter of 2013 with $75.4 million for the second quarter of 2012. Overall revenue growth was 29.6% for the six months ended June 30, 2013 comparing $180.8 million with $139.5 million for the same period in 2012. Much of the growth was a result of the acquisition of MTS, which now comprises a substantial portion of the Non-Acute Care segment, and whose prior year operating results were not included in our consolidated operating results prior to the date of acquisition, May 21, 2012.

For the three months ended June 30, 2013, the Non-Acute Care segment contributed $24.3 million and $1.2 million to the overall product and service revenue, respectively as compared to $10.3 million and $0.7 million during the same period in 2012. The Acute Care segment contributed revenues of $51.2 million and $16.9 million to product and service revenue respectively, for the three months ended June 30, 2013 as compared to $48.9 million and $15.4 million during the same period in 2012. Overall product and service margins increased by $10.0 million, or 25.4% for the three months ended June 30, 2013 as compared to the same period in 2012.

For the six months ended June 30, 2013, the Non-Acute Care segment contributed $44.2 million and $2.5 million to the overall product and service revenue, respectively as compared to $11.5 million and $1.1 million during the same period in 2012. The Acute Care segment contributed revenues of $100.6 million and $33.5 million to product and service revenue, respectively, for the six months ended June 30, 2013 as compared to $96.3 million and $30.6 million during the same period in 2012. Overall product and service margins increased by $19.6 million, or 26.1% for the six months ended June 30, 2013 as compared to the same period in 2012.

During the three months ended June 30, 2013, we recognized an increase of $6.6 million, or 7.5% in total revenues from the three months ended March 31, 2013. Product revenue increased by $6.3 million, or 9.2%, while service revenue increased slightly, by 1.3%. Overall gross margins for the second quarter of 2013 increased slightly to 52.7% from 52.1% in the three months ended March 31, 2013. Product gross margins increased to 52.0% on revenue of $75.6 million for the three months ended June 30, 2013 as compared with 51.5% on revenue of $69.2 million during the first quarter of 2013. Service gross margins also increased, to 55.6% on revenue of $18.1 million as compared to 54.1% margins on $17.9 million in revenue during the first quarter of 2013.

Cash, cash equivalents and short-term investments increased by $25.0 million during the six months ended June 30, 2013, to $87.3 million from $62.3 million at December 31, 2012 primarily due to increased profitability, increased collection activity and cash received for shares issued under our stock option and employee stock purchase plans.

During the six months ended June 30, 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 in the three months ended March 31, 2013. This reorganization is intended to promote a stronger integration strategy, customer and segment focus, and future growth. As part of this reorganization, we are reassessing the current composition of our operating segments which could result in future modifications to the current segment presentation.

**Critical Accounting Policies and Estimates**

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

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

- Inventory;
- Valuation of share-based awards; and
- Accounting for income taxes.

During the six months ended June 30, 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**

Effective in the second quarter of fiscal 2013, management changed its methodology for allocating certain expenses to its reportable segments. We have reclassified segment operating results for the three and six months ended June 30, 2012 to conform to the fiscal 2013 presentation. The table below shows the components of our consolidated results of operations as percentages of total revenues for the three months and six months ended June 30, 2013 and 2012 (in thousands, except percentages):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | $ | % of Revenue | $ | % of Revenue |
| Revenues: | | | | |
| Product revenue | $ 75,581 | 80.7% | $ 59,269 | 78.6 % |
| Service and other revenues | 18,105 | 19.3% | 16,115 | 21.4 % |
| Total revenues | 93,686 | 100.0% | 75,384 | 100.0 % |
| Cost of revenues: | | | | |
| Cost of product revenues | 36,286 | 38.7% | 28,600 | 38.0 % |
| Cost of service and other revenues | 8,032 | 8.6% | 7,408 | 9.8 % |
| Total cost of revenues | 44,318 | 47.3% | 36,008 | 47.8 % |
| Gross profit | 49,368 | 52.7% | 39,376 | 52.2 % |
| Operating expenses: | | | | |
| Research and development | 7,150 | 7.6% | 5,499 | 7.3 % |
| Selling, general and administrative | 32,859 | 35.1% | 31,446 | 41.7 % |
| Total operating expenses | 40,009 | 42.7% | 36,945 | 49.0 % |
| Income from operations | 9,359 | 10.0% | 2,431 | 3.2 % |
| Interest and other income (expense), net | 63 | 0.1% | (73) | (0.1)% |
| Income before provision for income taxes | 9,422 | 10.1% | 2,358 | 3.1 % |
| Provision for income taxes | 3,406 | 3.6% | 983 | 1.3 % |
| Net income | $ 6,016 | 6.5% | $ 1,375 | 1.8 % |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | $ | % of Revenue | $ | % of Revenue |
| Revenues: | | | | |
| Product revenue | $ 144,817 | 80.1 % | $ 107,793 | 77.3% |
| Service and other revenues | 35,979 | 19.9 % | 31,734 | 22.7% |
| Total revenues | 180,796 | 100.0 % | 139,527 | 100.0% |
| Cost of revenues: | | | | |
| Cost of product revenues | 69,833 | 38.6 % | 48,896 | 35.0% |
| Cost of service and other revenues | 16,228 | 9.0 % | 15,506 | 11.1% |
| Total cost of revenues | 86,061 | 47.6 % | 64,402 | 46.1% |
| Gross profit | 94,735 | 52.4 % | 75,125 | 53.9% |
| Operating expenses: | | | | |
| Research and development | 15,104 | 8.4 % | 11,993 | 8.6% |
| Selling, general and administrative | 66,104 | 36.6 % | 57,066 | 40.9% |
| Total operating expenses | 81,208 | 45.0 % | 69,059 | 49.5% |
| Income from operations | 13,527 | 7.5 % | 6,066 | 4.4% |
| Interest and other income (expense), net | (159) | (0.1)% | 23 | —% |
| Income before provision for income taxes | 13,368 | 7.4 % | 6,089 | 4.4% |
| Provision for income taxes | 3,967 | 2.2 % | 2,363 | 1.7% |
| Net income | $ 9,401 | 5.2 % | $ 3,726 | 2.7% |

The consolidated results presented above include the operating results of MTS since May 21, 2012, the date of acquisition and are included as part of the Non-Acute Care segment.

**Product Revenues, Cost of Product Revenues and Gross Profit**

The table below shows our consolidated product revenues, cost of product revenues and gross profit for the three months and six months ended June 30, 2013 and 2012 and the percentage changes between those periods (in thousands, except percentages):

| | Three Months Ended June 30, | | |
|---|---|---|---|
| | 2013 | 2012 | % Change |
| Product revenues | $ 75,581 | $ 59,269 | 27.5% |
| Cost of product revenues | 36,286 | 28,600 | 26.9% |
| Gross profit | $ 39,295 | $ 30,669 | 28.1% |
| Gross margin | 52.0% | 51.7% | 0.3% |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | 2013 | 2012 | % Change |
| Product revenues | $ 144,817 | $ 107,793 | 34.3 % |
| Cost of product revenues | 69,833 | 48,896 | 42.8 % |
| Gross profit | $ 74,984 | $ 58,897 | 27.3 % |
| Gross margin | 51.8% | 54.6% | (2.8)% |

Product revenues increased by $16.3 million, or 27.5%, in the three months ended June 30, 2013 as compared to the same period in 2012. Product revenues increased by $37.0 million, or 34.3%, in the six months ended June 30, 2013 as compared to the same period in 2012. The overall increase in product revenues for the three months ended June 30, 2013 was primarily driven by a combination of increased installations of our automation products and a full three month contribution of MTS sales as a part of our Non-Acute Care segment. The Non-Acute Care segment contributed $24.3 million, of which $5.3 million was from medication cabinet sales. Our Acute Care segment contributed $51.2 million in product revenue for the three months ended June 30, 2013 and $48.9 million as compared to the same period in 2012. The overall increase in product revenues for the six months ended June 30, 2013 was primarily driven by a full six month contribution of MTS activities as a part of our Non-Acute Care segment. The Non-Acute Care segment contributed $44.2 million, of which $7.6 million of revenues was from medication cabinet sales. This compares to $11.5 million in the same six month period last year. Our Acute Care segment contributed $100.6 million in product revenue for the six months ended June 30, 2013 compared to $96.3 million in the same six month period last year.

We anticipate our revenues will continue to increase in 2013 compared to the same periods in 2012, 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, including those of MTS, which we began to consolidate on May 21, 2012. Our ability to grow revenue is dependent on our ability to continue to obtain orders from customers, our ability to produce quality consumables to fulfill customer demand, the volume of installations we are able to complete and our ability to meet customer needs by providing a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues for equipment is primarily dependent on when our customers' schedules allow for installations.

Cost of product revenues increased by $7.7 million, or 26.9%, in the three months ended June 30, 2013 as compared to the same period in 2012. Cost of product revenues increased by $20.9 million, or 42.8%, in the six months ended June 30, 2013 as compared to the same period in 2012. These increases were primarily a result of the previously discussed full three months of MTS sales as part of our Non-Acute Care segment. The Non-Acute Care segment contributed product costs of $13.9 million for the three months ended June 30, 2013, of which $2.1 million was from costs associated with the Non-Acute Care medication cabinets noted above. Our Acute Care product cost increased $1.4 million, which is primarily a function of revenue and product mix. The increase in cost of product revenues for the six months ended June 30, 2013 was primarily a result of six full months of Non-Acute Care product costs of $25.8 million, of which $3.2 million of costs related to the Non-Acute Care medication cabinets. Our Acute Care product cost increased by $3.4 million for the six months ended June 30, 2013 as a result of revenue and product mix.

Gross profit on product revenue increased by $8.6 million, or 28.1%, in the three months ended June 30, 2013 as compared to the same period in 2012. Gross profit on product revenue increased by $16.1 million, or 27.3%, in the six months ended June 30, 2013 as compared to the same period in 2012.This increase was primarily a result of the contribution from our Non-Acute Care segment of $10.4 million, and $18.4 million for the three months and six months ended June 30, 2013, respectively. Our Acute Care gross profit on product revenue increased by $0.9 million for both the three months and six months ended June 30, 2013 as compared to the same period in 2012.

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

The table below shows our service and other revenues, cost of service and other revenues and gross profit for the three months and six months ended June 30, 2013 and 2012 and the percentage change between those periods (in thousands, except percentages):

| | Three Months Ended June 30, | | |
|---|---|---|---|
| | 2013 | 2012 | % Change |
| Service and other revenues | $ 18,105 | $ 16,115 | 12.3% |
| Cost of service and other revenues | 8,032 | 7,408 | 8.4% |
| Gross profit | $ 10,073 | $ 8,707 | 15.7% |
| Gross margin | 55.6% | 54.0% | 1.6% |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | 2013 | 2012 | % Change |
| Service and other revenues | $ 35,979 | $ 31,734 | 13.4% |
| Cost of service and other revenues | 16,228 | 15,506 | 4.7% |
| Gross profit | $ 19,751 | $ 16,228 | 21.7% |
| Gross margin | 54.9% | 51.1% | 3.8% |

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 $2.0 million, or 12.3%, in the three months ended June 30, 2013 as compared to the same period in 2012. Service and other revenues increased by $4.2 million, or 13.4%, in the six months ended June 30, 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 higher training revenues and service revenues attributable to three full months of 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 June 30, 2013. Our Acute Care segment contributed $16.9 million in services and other revenues for the three months ended June 30, 2013 and $15.4 million as compared to the same period in 2012. Our Non-Acute Care segment contributed six full months in services and other revenues of $2.5 million for the six months ended June 30, 2013 of which $0.9 million was from medication cabinet revenues. Our Acute Care segment contributed $33.5 million in service and other revenues for the six months ended June 30, 2013 and $30.6 million for the same period in 2012.

Cost of service and other revenues increased by $0.6 million, or 8.4%, in the three months ended June 30, 2013 as compared to the same period in 2012, primarily driven by a full three months of costs attributable to our Non-Acute Care segment of $0.6 million. Our Acute Care cost of service and other revenues increased $0.2 million in support of the expanded installed base. Cost of service and other revenues increased by $0.7 million, or 4.7%, in the six months ended June 30, 2013 as compared to the same period in 2012, primarily driven by a full six months of costs attributable to our Non-Acute Care segment of $1.1 million, offset by a decrease in costs attributable to our Acute Care segment of $0.2 million as a result of cost reduction efforts.

Gross profit on service and other revenues increased by $1.4 million, or 15.7%, in the three months ended June 30, 2013 as compared to the same period in 2012. Gross profit on service and other revenues increased by $3.5 million, or 21.7%, in the six months ended June 30, 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 $0.6 million and $9.4 million from our Acute Care segment in the three months ended June 30, 2013. Our Acute Care gross profit on service and other revenues increased by $1.4 million and $3.5 million for the three months and six months ended June 30, 2013, respectively as compared to the same period in 2012.

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 and six months ended June 30, 2013 and 2012 and the percentage changes between those periods (in thousands, except percentages):

| | Three Months Ended June 30, | | |
|---|---|---|---|
| | 2013 | 2012 | % Change |
| Research and development | $ 7,150 | $ 5,499 | 30.0% |
| Selling, general and administrative | 32,859 | 31,446 | 4.4% |
| Total operating expenses | $ 40,009 | $ 36,945 | 8.3% |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | 2013 | 2012 | % Change |
| Research and development | $ 15,104 | $ 11,993 | 25.9% |
| Selling, general and administrative | 66,104 | 57,066 | 15.8% |
| Total operating expenses | $ 81,208 | $ 69,059 | 17.6% |

**Research and Development.** Research and development expenses increased by $1.7 million, or 30.0%, in the three months ended June 30, 2013 as compared to the same period in 2012 and represented 7.6% and 7.3% of total revenues in the three months ended June 30, 2013 and 2012, respectively. The overall increase in research and development expenses is primarily due to a $1.3 million increase in research and development expenses attributable to the Non-Acute Care segment including an increase of $0.7 million related to medication cabinets and an additional $0.7 million increase in headcount and consulting related expenses primarily due to the inclusion of MTS for a full three months in the 2013 period as compared with activities since May 21, 2012, the date of acquisition, in the same period in 2012.

Research and development expenses increased by $3.1 million, or 25.9%, in the six months ended June 30, 2013 as compared to the same period in 2012 and represented 8.4% and 8.6% of total revenues in the six months ended June 30, 2013 and 2012, respectively. The overall increase in research and development expenses reflects a $4.2 million increase in research and development expenses attributable to the Non-Acute Care segment, of which $1.8 million is due to the write-off of previously capitalized software development costs, discussed further in Note 16, "Asset Impairment", a $0.3 million charge related to the previously mentioned reorganization, and the inclusion of MTS headcount, consulting and other related activities for a full six months in the 2013 period as compared with, the inclusion of less than two months in the same period in 2012. These increases were offset by a $1.1 million decrease in the Acute Care segment which was comprised of an increase of capitalization software effort of $2.0 million in connection with a higher level of post-feasibility beta testing offset by approximately $1.0 million increases in headcount and consulting related expenses. The overall decrease as a percentage of revenue is primarily a reflection of the overall growth in revenue without a corresponding increase in research and development spending.

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 $1.4 million, or 4.4%, in the three months ended June 30, 2013 as compared to the same period in 2012. Selling, general and administrative expenses represented 35.1% and 41.7% of total revenues in the three months ended June 30, 2013 and 2012, respectively. The increase in expenses was primarily due to the increase of Non-Acute Care selling, general and administrative expenses of $3.8 million of which $2.0 million relates to the medication cabinet costs and the balance the result of overall expenses incurred due to the inclusion of MTS for a full three months in the 2013 period as compared to less than two months in the same period in 2012. These expenses include headcount-related expenses, travel and entertainment expenses, and other normal operating expenses. The increase was offset by a decrease of $2.4 million from the Acute Care segment primarily attributable to $3.2 million of MTS acquisition related costs incurred in the year-ago period, $0.6 million of bad debt, and $0.5 million in commission expense offset by increases in facilities and depreciation of $1.2 million due to our new office buildings and increases in freight of $0.7 million.

Selling, general and administrative expenses increased by $9.0 million, or 15.8%, in the six months ended June 30, 2013 as compared to the same period in 2012. Selling, general and administrative expenses represented 36.6% and 40.9% of total revenues in the six months ended June 30, 2013 and 2012, respectively. The increase was primarily due to an increase in the Non-Acute Care selling, general and administrative expenses of $9.9 million, of which of which $2.5 million relates to the medication cabinet costs and primarily the result of overall expenses incurred due to the inclusion of MTS activities for a full six months in the 2013 period as compared to less than two months in the same period in 2012. These expenses included headcount and consulting related expenses, travel and entertainment expenses, and other normal operating expenses. These increases were offset by a $0.8 million decrease from the Acute Care segment primarily comprised of the aforementioned decreases of $3.2 million of MTS acquisition related costs, $1.0 million in commissions due to changes in our 2013 commission plans coupled with the attainment of certain sales incentives in the same period in 2012, $0.3 million of bad debt, offset by increases in facilities and depreciation of $2.8 million due to our new office buildings and increases in freight of $1.4 million.

The decrease in selling, general and administrative expenses as a percentage of total revenue for both the three months and six months ended June 30, 2013 as compared to the same period in 2012 is a reflection of revenue growth out pacing corresponding increases in spending in this area.

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.

**Share-based Compensation.** The effect of share-based compensation on functional expenses within our operating results for the three months and six months ended June 30, 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 38.7% and 40.9% for the six months ended June 30, 2013 and 2012, respectively. The decrease in the estimated annual effective tax rate for the six months ended June 30, 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.

**Liquidity and Capital Resources**

We had cash and cash equivalents of $87.3 million at June 30, 2013, as compared to $62.3 million 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 June 30, 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 six months ended June 30, 2013 and 2012 consisted of the following (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| Net cash provided by operating activities | $ 21,228 | $ 18,758 |
| Net cash used in investing activities | (8,969) | (153,940) |
| Net cash provided by (used in) financing activities | 12,807 | (2,532) |
| Effect of exchange rate changes on cash and cash equivalents | (45) | 23 |
| Net increase in cash and cash equivalents | $ 25,021 | $ (137,691) |

Operating activities provided $21.2 million of cash during the six months ended June 30, 2013 as compared to $18.8 million for the same period in 2012. The main drivers of this increase were a $5.7 million increase in net income, a $5.4 million increase in accrued liabilities, a $4.3 million increase in deferred gross profit, and $1.2 million increase in share-based compensation expense. These amounts were partially offset by a $8.5 million increase in accounts receivable, a $6.4 million decrease in accrued compensation, and a $4.6 million increase in inventory. Also impacting operating cash flows are non-cash adjustments which include a $3.9 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 $9.0 million during the six months ended June 30, 2013, as compared to $153.9 million cash used in investing activities during the same period in 2012. This $145.0 million decrease in cash used primarily reflects a decrease of $156.3 million of net cash used to acquire MTS in May of 2012. This is offset in part by an increase of $1.8 million of capitalized software development costs and $1.6 million for purchases of property and equipment during the six months ended June 30, 2013.

Cash provided by financing activities was $12.8 million during the six months ended June 30, 2013, as compared to $2.5 million used during the same period in 2012, resulting in a difference of $15.3 million. The increase is primarily due to an increase of $7.9 million in cash generated from shares issued under stock option and employee stock purchase plans during the six months ended June 30, 2013 as compared to the same period in 2012 and no stock repurchases made during the six months ended June 30, 2013 compared to $7.1 million of stock repurchase activity during the six months ended June 30, 2012.

**Contractual Obligations**

There have been no material changes to our contractual obligations during the six months ended June 30, 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.

The following table summarizes our contractual obligations at June 30, 2013 (in thousands):

| | Total | Less than one year | One to three years | Three to five years | More than five years |
|---|---|---|---|---|---|
| Operating leases (1) (2) | $ 44,520 | $ 5,790 | $ 10,812 | $ 9,172 | $ 18,746 |
| Commitments to contract manufacturers and suppliers (3) | 7,972 | 7,972 | — | — | — |
| Total (4) | $ 52,492 | $ 13,762 | $ 10,812 | $ 9,172 | $ 18,746 |

(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 June 30, 2013, we have recorded $4.4 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 June 30, 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 June 30, 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 June 30, 2013. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 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 June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## 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 June 30, 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:

- 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

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

***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;

- failure to achieve anticipated benefits such as cost savings and revenue enhancements;
- difficulties related to assimilating the products or key personnel of an acquired business; and
- failure to understand and compete effectively in markets in which we have limited previous experience.

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

***Demand for our consumable medication packages is time-sensitive and if we are not able to supply the demand from our institutional and retail pharmacy customers on schedule and with quality packaging products, they may utilize alternative means to distribute medications to their customers.***

Approximately 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 quality packaging to our customers in a timely manner, that demand will be met via alternative distribution methods, including consumable medication packaging sold by our competitors, and our revenue will decline. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages and would reduce our revenue.

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

We currently have operations outside of the United States, including sales efforts centered in Canada, Europe, the Middle East and Asia-Pacific regions and supply chain efforts in Asia. 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 privacy, 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, 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, a putative class action complaint was filed against us and certain of our customers in the United States District Court for the District of New Jersey 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. This matter is further described under "Legal Proceedings" in Note 11 of Notes to Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q and Omnicell 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 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 obtained approval at our 2013 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals in the future. Any failure to receive approval for current or future proposed increases could prevent us from granting equity compensation at competitive levels and make it more difficult to attract, retain and motivate employees. Further, to the extent that we expand our business or product lines through the acquisition of other businesses, any failure to receive any such approvals could prevent us from securing employment commitments from such newly acquired employees. Failure to attract and retain key personnel could harm our competitive position, results of operations and financial condition.

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

Our ability to adjust to fluctuations in our revenue while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If 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.

***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.

***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 June 30, 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 six months ended June 30, 2013, our common stock traded between $14.68 and $20.88 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. 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 June 30, 2013, the balance of our unsold leases to U.S. government customers was $12.6 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 delays in the installation of our products and unfavorable publicity or negatively impact system shipments, any of which could harm our business, financial condition and results of operations.

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

Our products provide medication management and supply chain management solutions for the healthcare industry. Despite the presence of healthcare professionals as intermediaries between our products and patients, if our products fail to provide accurate and timely information or operate as designed, customers, patients or their family members could assert claims against us for product liability. Moreover, failure of health-care facility employees to use our products for their intended purposes could result in product liability claims against us. Litigation with respect to product liability claims, regardless of any outcome, could result in substantial cost to us, divert management's attention from operations and decrease market acceptance of our products. We possess a variety of insurance policies that include coverage for general commercial liability, 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 certain of our employees as incentives to join Omnicell or as an on-going reward and retention vehicle. At June 30, 2013, we had options outstanding to purchase approximately 3.8 million shares of our common stock at exercise prices ranging from $6.40 to $29.16 per share, at a weighted-average exercise price of $14.90 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, 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

None.

## Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

## Item 5. OTHER INFORMATION

None.

Table of Contents

Item 6. **EXHIBITS**

| Exhibit 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 |
| 10.1+ | Third Amendment to Lease, dated July 1, 2013, by and between PR Amhurst Lake LLC and Omnicell, Inc. to that certain Lease, dated as of April 28, 1999, as amended | | | | |
| 10.2+ | 2009 Equity Incentive Plan, as amended | | | | |
| 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 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.

**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: August 9, 2013

/s/ ROBIN G. SEIM

Robin G. Seim

Chief Financial Officer and Executive Vice President Finance, Administration and Manufacturing

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(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.

# THIRD AMENDMENT TO LEASE

**THIS THIRD AMENDMENT TO LEASE** (this "**Amendment**") is made as of the 1st day of July, 2013, by and between **PR AMHURST LAKE LLC**, a Delaware limited liability company ("**Landlord**"), and **OMNICELL, INC.**, a Delaware corporation, f/k/a Omnicell Technologies, Inc. ("**Tenant**").

**W I T N E S S E T H**:

**WHEREAS**, Landlord, by its predecessors-in-interest (The Prudential Insurance Company of America and Amli Commercial Properties Limited Partnership), and Tenant entered into that certain Lease dated as of April 28, 1999 (the "**Original Lease**"), that certain First Amendment to Lease dated as of September 30, 1999 (the "**First Amendment**"), and that certain Second Amendment to Lease made as of June 30, 2006 (the "**Second Amendment**") (the Original Lease as amended by the First Amendment and Second Amendment is hereinafter collectively referred to as the "**Lease**"), demising certain industrial space more particularly described therein in the building located at 3661 Burwood Drive, Waukegan, Illinois;

**WHEREAS**, Landlord has succeeded to the interest of landlord in and to the Lease; and

**WHEREAS**, Landlord and Tenant desire to amend the Lease so as to extend the term thereof and otherwise amend the Lease as herein provided.

**NOW, THEREFORE**, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant hereby amend the Lease as follows:

1. **Definitions**. Unless the context otherwise requires, any capitalized term used herein shall have its respective meaning as set forth in the Lease.

2. **Integration of Amendment and Lease**. This Amendment and the Lease shall be deemed to be, for all purposes, one instrument. In the event of any conflict between the terms and provisions of this Amendment and the terms and provisions of the Lease, the terms and provisions of this Amendment shall, in all instances, control and prevail.

3. **Extension**. The Term of the Lease is currently scheduled to expire July 31, 2013. The Term of the Lease is hereby extended for a period of eighty-one (81) months, commencing on August 1, 2013, and expiring on April 30, 2020, unless the Lease shall be further extended or sooner terminated as provided therein and herein.

4. **Base Rent**. Effective as of May 1, 2013 (the "**Effective Date**"), Base Rent for the Premises shall be as set forth below and shall be paid in accordance with Article 4 of the Lease:

| Period | Annual Base Rent | Monthly Base Rent |
|---|---|---|
| 5/1/13 - 4/30/14 | $223,062.20 | $18,588.52 |
| 5/1/14 - 4/30/15 | $228,638.76 | $19,053.23 |
| 5/1/15 - 4/30/16 | $234,354.72 | $19,529.56 |
| 5/1/16 - 4/30/17 | $240,213.59 | $20,017.80 |
| 5/1/17 - 4/30/18 | $246,218.93 | $20,518.24 |
| 5/1/18 - 4/30/19 | $252,374.41 | $21,031.20 |
| 5/1/19 - 4/30/20 | $258,683.77 | $21,556.98 |

5. **Controllable Expenses**. Tenant shall continue to pay Additional Rent in accordance with Article 4 of the Lease. Notwithstanding the foregoing, however, effective as of the Effective Date, the total amount of Controllable Expenses (as hereinafter defined) used to determine the Operating Expense Amount shall be capped as described below. For Operating Expense Amounts due and payable for periods from and after the Effective Date, Controllable Expenses for each calendar year of the Term beginning in calendar year 2014 shall not exceed the Cap Amount (defined below) for such calendar year. Controllable Expenses shall not exceed 105% of the actual Controllable Expenses incurred by Landlord in the previous calendar year (the "**Cap Amount**"). For purposes hereof, "**Controllable Expenses**" shall mean all Operating Expenses except those Operating Expenses that are not within the control of Landlord including, but not limited to, Taxes and the cost of insurance, ice and snow removal, utility charges and union labor and contract costs and benefits.

6. **Condition of Premises**. Tenant acknowledges that it is in possession of the Premises and that it accepts the Premises in their "as is" condition. No agreement of Landlord to alter, remodel, decorate, clean or improve the Premises or the Building (or to provide Tenant with any credit or allowance for the same), and no representation regarding the condition of the Premises or the Building, have been made by or on behalf of Landlord or relied upon by Tenant, except, as set forth in Section 7 below.

7. **<u>Tenant's Work</u>**.

(a) Subject to the provisions of Section 7(b) below, Tenant shall, at its sole cost and expense, Tenant shall improve the Premise as set forth on **Exhibit A** attached hereto, all subject to and in accordance with the provisions of the Lease, as amended hereby, including, without limitation, the provisions of Article 11 thereof. All work referred to in this subparagraph, which work is to be completed no later than May 1, 2014, is hereinafter referred to as "**Tenant's Work** ". Tenant shall pay Landlord a supervisory fee equal to 5% of the total cost of Tenant's Work and shall reimburse Landlord for all reasonable actual out-of-pocket costs and expenses incurred by Landlord in connection with Tenant's Work. Without limitation of the requirements of Article 11 of the Lease that plans and specifications shall be subject to Landlord's reasonable approval, Tenant shall submit full and detailed architectural and engineering plans and specifications to Landlord for Landlord's reasonable approval prior to the commencement of Tenant's Work. Tenant shall not permit noise from construction of Tenant's Work to unreasonably disturb other tenants in the Building. Tenant's Work which does so disturb other tenants shall be performed after regular working hours. Tenant's Work shall be performed in accordance with all Building construction rules and regulations.

(b) Landlord shall make a contribution (the "**Allowance**") towards the cost of Tenant's Work (including the costs to prepare architectural and engineering drawings) in the amount of $250,000.00, to be disbursed in accordance with the terms hereof.

(i) Landlord shall disburse the Allowance, upon Tenant's request for payment and certification that the entire Tenant's Work has been performed and that the amounts for which payment is requested are due and owing, which disbursement shall be made to Tenant (or, at Landlord's option, by check payable jointly to Tenant and to Tenant's materialmen and contractors) within thirty (30) days after presentation by Tenant to Landlord of request for payment and appropriate, complete contractor's affidavits and waivers of lien showing that the work covered thereby has been performed in the Premises. Tenant shall be responsible for the appropriateness and completeness of the contractors' affidavits and waivers of lien and approval of any of such work; Landlord shall have no responsibility for any of the foregoing. Landlord has no obligation to disburse any portion of the Allowance if Tenant is in default under the Lease, as amended, beyond any applicable notice and cure period.

(ii) In the event that the cost of Tenant's Work should for any reason be less than the full amount of the Allowance or if the Allowance is not otherwise fully disbursed on or before, June 30, 2014 for any reason, then Tenant shall have no further right to the Allowance or any unused portion thereof.

(iii) In the event Landlord determines, at any time, in the exercise of its reasonable discretion based upon written estimates, that the cost of Tenant's Work is likely to be in excess of the Allowance, then Tenant, at Landlord's option, shall deposit such excess with Landlord (or provide Landlord with other security reasonably acceptable to Landlord with respect to such excess), and such requirement of Tenant shall be an express condition for Landlord's obligation to disburse any portion of the Allowance. For purposes of the foregoing, the estimated cost of Tenant's Work shall be reasonably determined by Landlord based on certified cost statements delivered by Tenant to Landlord from time to time, and, in any event, delivered by Tenant to Landlord promptly upon Landlord's written request therefor.

8. **Surrender** Notwithstanding anything contained in Section 16.1 of the Lease to the contrary, Landlord shall not require Tenant to remove any Alterations made to the Premises by Landlord or Tenant, it being acknowledged and agreed that Tenant shall only be obligated to remove Tenant's moveable furniture, equipment and trade fixtures as required under Section 16.1 of the Lease.

9. **Right to Extend**. All of Tenant's options to extend the Term of the Lease set forth in the Lease are hereby deleted and shall be of no further force and effect, including, without limitation, the rights set forth in Section 1 of the Second Amendment and the rights set forth in Section 25 of the Original Lease and, in lieu thereof, Tenant shall have the extension options hereinafter provided.

(a) Provided that this Lease is then in full force and effect, that Tenant is not then in default under the Lease, and that Tenant is then occupying all of the Premises having been leased to the Tenant in the Building, Landlord hereby grants to Tenant an option to extend the term of the Lease, on the same terms and conditions set forth in the Lease, except that Tenant shall have no right to exercise the second option if it has not exercised the first option and after the second option shall have no further right to extend, for two (2) additional consecutive five (5) year terms (each, an "**Option Period**"). Tenant's right to exercise an option to extend shall be conditioned upon Landlord's receipt, no later than nine (9) months prior to the then current expiration date of the Term of Tenant's then current certified financial statements showing a creditworthiness at least equal to the creditworthiness demonstrated to Landlord by Tenant prior to execution of the Amendment. Each such option to extend shall be exercised, if at all, by written notice ("**Option Notice**") to Landlord given not later than nine (9) months prior to the then current expiration date of the Term, time being of the essence. Once an Option Notice is given, Tenant's exercise of such option shall be irrevocable. If an option hereby granted is not so exercised, Tenant shall have no further right to extend the Term of this Lease. The Base Rent during the applicable Option Period shall be the greater of (i) the Base Rent in effect as of the then current expiration date of the Term, and (ii) the annual rate of Base Rent determined by Landlord in good faith to be the Market Rate of Base Rent (as hereinafter defined). Landlord's good faith determination of the Base Rent for an Option Period shall be conclusive. Tenant may request in writing that Landlord provide written notice to Tenant of Landlord's determination of Base Rent for an Option Period. Landlord shall provide Tenant with Landlord's determination of Base Rent for the applicable Option Period within thirty (30) days after receipt of Tenant's written request therefore, but in no event shall Landlord be required to provide such determination earlier than ten (10) months prior to the then current expiration date of the Term. Landlord shall have no obligation to make improvements, decorations, repairs, alterations or additions to the Premises as a condition to Tenant's obligation to pay rent for the applicable Option Period.

(b) **Market Rate of Base Rent**. As used in this Lease, the term "Market Rate of Base Rent" shall mean the then prevailing annual rental rate per square foot of rentable area of space in the Waukegan, Illinois, market area, comparable in area and location to the space for which the Market Rate of Base Rent is being determined and being renewed for a duration comparable to the period for which such space is to be renewed for periods commencing on or about the commencement of the term of such space, as determined by Landlord in good faith. The Market Rate of Base Rent shall be determined by taking into consideration comparable fact situations for lease renewals in comparable buildings in the Waukegan, Illinois, market area. In determining the Market Rate of Base Rent, the following shall be taken into consideration: use, location and floor level within the applicable building, the tenant improvements already in the space for which the Market Rate of Base Rent is being determined, the location, quality, age and reputation of the building, the definition of rentable area or net rentable area, as the case may be, with respect to which such rental rates are computed, leasehold improvements being provided (if any), rental concessions, abatements or other monetary inducements (if any), the term of the lease renewal under consideration and the extent of services provided thereunder, applicable distinctions between "gross" leases and "net" leases, base year figures (if any) for escalation purposes and other adjustments (including by way of indexes) to base rental (if any); and may take into consideration any other materially relevant term or condition in making such evaluation.

10. **ERISA**. Tenant hereby represents and warrants to Landlord and The Prudential Insurance Company of America ("**Prudential**") as of the date of this Amendment that:

(a) Neither Tenant nor any of its "affiliates" (within the meaning of Part VI(c) of Prohibited Transaction Exemption 84-14, 49 Fed. Reg. 9494 (1984), as amended ("**PTE 84-14**")) has, or during the immediately preceding year has exercised the authority to:

(i) appoint or terminate Prudential as investment manager over assets of any "employee benefit plan" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) invested in Landlord; or

(ii) negotiate the terms of a management agreement (including renewals or modifications thereof) with Prudential on behalf of any such plan invested in Landlord;

(b) Tenant is not "related" to Prudential (as determined under in Part VI(h) of PTE 84-14);

(c) Tenant has negotiated and determined the terms of this Lease at arm's length, as such terms would be negotiated and determined by the Tenant with unrelated parties; and

(d) Tenant is not an “employee benefit plan” as defined in Section 3(3) of ERISA, a “plan” as defined in Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended, or an entity deemed to hold “plan assets” within the meaning of 29 C.F.R. § 2510.3-101 of any such employee benefit plan or plan.

Notwithstanding any provision in the Lease, as amended, to the contrary, the representations, warranties, covenants and agreements set forth in this Section 10 are intended to inure to the benefit of both Landlord and Prudential and Prudential shall be entitled to rely hereon and enforce the provisions of this Section.

11. **Patriot Act**. Tenant hereby represents and warrants to Landlord and Prudential as of the date of this Amendment that:

(a) Neither Tenant nor any person, group, entity or nation that Tenant is acting, directly or indirectly for, or on behalf of, is named by any Executive Order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) or the United States Treasury Department as a terrorist, “Specially Designated National and Blocked Person,” or is otherwise a banned or blocked person, group, entity, or nation pursuant to any Law that is enforced or administered by the Office of Foreign Assets Control, and Tenant is not entering this Lease, directly or indirectly, on behalf of, or instigating or facilitating this transaction, directly or indirectly, on behalf of, any such person, group, entity or nation.

(b) Tenant is not entering this Lease, directly or indirectly, in violation of any Laws relating to drug trafficking, money laundering or predicate crimes to money laundering.

(c) None of the funds of Tenant have been or will be derived from any unlawful activity with the result that the investment of direct or indirect equity owners in Tenant is prohibited by Law or that this Lease is or will be in violation of Law.

Tenant has and will continue to implement procedures, and has consistently and will continue to consistently apply those procedures, to ensure the foregoing representations and warranties remain true and correct at all times during the Term of this Lease. Notwithstanding any provision in this Lease to the contrary, the representations, warranties, covenants and agreements set forth in this Section 11 are intended to inure to the benefit of both Landlord and Prudential and Prudential shall be entitled to rely hereon and enforce the provisions of this Section.

12. **Mutual Representations**. Tenant and Landlord represent and warrant to each other (a) it is not in default under any of the terms and provisions of the Lease, (b) to its knowledge, the other party is not in default in the performance of any of its obligations under the Lease, and (c) it has no defense, offset, lien, claims or counterclaim against the other party under the Lease or against

the obligations of the other under the Lease (including, without limitation, any rentals or other charges due or to become due under the Lease).

13. **No Broker**. Tenant represents that Tenant has not dealt with any broker (other than Paine/Wetzel Associates, Inc. and Colliers International) in connection with this Amendment and agrees to indemnify and hold Landlord harmless from all damages, liability and expense (including reasonable attorneys' fees) arising from any claims or demands of any other brokers or finders for any commission alleged to be due such brokers or finders in connection with their participation in the negotiation with Tenant of this Amendment.

14. **Lease in Full Force and Effect**. Except as expressly provided herein, all of the terms and provisions of the Lease shall remain in full force and effect. Without limiting the generality of the foregoing, Tenant acknowledges that Landlord's liability is limited as set forth in Section 23.14 of the Lease.

**[Signatures on Following Page]**

This Amendment is executed by the undersigned as of the date first above written.

**LANDLORD**

**PR AMHURST LAKE LLC**,
a Delaware limited liability company

By: PRISA LHC, LLC, a Delaware limited
company, its sole member

By: /s/ Susan Lehman as Agent for Owner
Name: Susan Lehman
Title: Sr. VP

**TENANT**

**OMNICELL, INC.**,
a Delaware company

By: /s/ Rob Seim
Name: Rob Seim
Title: CFO

## EXHIBIT A

## TENANT'S WORK

- Replace or repair the waste line from the restrooms
- Refurbish the restrooms
- Demo all of the offices and conference that are on windows on the room (see Demo PDF)
- Add approximately 18 hard wall offices and conference rooms (see proposed PDF)
- Update the HVAC to properly cool and heat all of the non-warehouse areas
- Repaint office all non-warehouse areas
- Re-carpet all non-warehouse areas
- Provided three (3) Cat 6 data cables, including patch panels and rj45 terminations, to each cubical workstation, office and conference room.

# OMNICELL, INC.

## 2009 EQUITY INCENTIVE PLAN

**ADOPTED BY THE BOARD OF DIRECTORS: MARCH 5, 2009**
**APPROVED BY THE STOCKHOLDERS: MAY 19, 2009**
**AMENDED BY THE BOARD OF DIRECTORS: NOVEMBER 17, 2010**
**APPROVED BY THE STOCKHOLDERS: DECEMBER 16, 2010**
**AMENDED BY THE BOARD OF DIRECTORS: MARCH 18, 2013**
**APPROVED BY THE STOCKHOLDERS: MAY 21, 2013**
**TERMINATION DATE: MARCH 4, 2019**

### 1. GENERAL.

**(a) Successor to and Continuation of Prior Plans.** The Plan is intended as the successor to and continuation of the Omnicell, Inc. 1999 Equity Incentive Plan, the 2003 Equity Incentive Plan and the 2004 Equity Incentive Plan (together, the "***Prior Plans***"). On and after the Effective Date, no additional stock awards shall be granted under the Prior Plans. All outstanding stock awards granted under the Prior Plans shall remain subject to the terms of the Prior Plans; *provided, however*, that after December 31, 2008, any shares subject to outstanding stock awards granted under the Prior Plans that expire or terminate for any reason prior to exercise or settlement or are forfeited because of the failure to meet a contingency or condition required to vest such shares (the "***Returning Shares***") shall become available for issuance pursuant to Awards granted hereunder. All Awards granted on or after the Effective Date of this Plan shall be subject to the terms of this Plan.

**(b) Eligible Award Recipients.** The persons eligible to receive Awards are Employees, Directors and Consultants.

**(c) Available Awards.** The Plan provides for the grant of the following Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Performance Stock Awards, (vii) Performance Cash Awards, and (viii) Other Stock Awards.

**(d) Purpose.** The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Awards as set forth in Section 1(b), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Stock Awards.

### 2. ADMINISTRATION.

**(a) Administration by Board.** The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

**(b) Powers of Board.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

**(i)** To determine from time to time (A) which of the persons eligible under the Plan shall be granted Awards; (B) when and how each Award shall be granted; (C) what type or combination of types of Award shall be granted; (D) the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive cash or Common Stock pursuant to a Stock Award; (E) the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person; and (F) the Fair Market Value applicable to a Stock Award.

**(ii)** To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan or Award fully effective.

**(iii)** To settle all controversies regarding the Plan and Awards granted under it.

**(iv)** To accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

**(v)** To suspend or terminate the Plan at any time. Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

**(vi)** To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or to bring the Plan or Awards granted under the Plan into compliance therewith, subject to the limitations, if any, of applicable law. However, except as provided in Section 9(a) relating to Capitalization Adjustments, to the extent required by applicable law or listing requirements, stockholder approval shall be required for any amendment of the Plan that either (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (D) materially extends the term of the Plan, or (E) expands the types of Awards available for issuance under the Plan. Except as provided above, rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

**(vii)** To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162

(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding "incentive stock options" or (C) Rule 16b-3.

**(viii)** To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided however*, that except with respect to amendments that disqualify or impair the status of an Incentive Stock Option, a Participant's rights under any Award shall not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent if necessary to maintain the qualified status of the Award as an Incentive Stock Option or to bring the Award into compliance with Section 409A of the Code.

**(ix)** Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

**(x)** To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States.

**(c) Delegation to Committee.**

**(i) General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated.

**(ii) Section 162(m) and Rule 16b-3 Compliance.** The Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3.

**(d) Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

**(e) Cancellation and Re-Grant of Stock Awards**. Neither the Board nor any Committee shall have the authority to: (i) reduce the exercise price of any outstanding Options or Stock Appreciation Rights under the Plan, or (ii) cancel any outstanding Options or Stock Appreciation Rights that have an exercise price or strike price greater than the current Fair Market Value of the Common Stock in exchange for cash or other Stock Awards under the Plan, unless the stockholders of the Company have approved such an action within twelve (12) months prior to such an event.

**3. SHARES SUBJECT TO THE PLAN.**

**(a) Share Reserve.** Subject to Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards from and after the Effective Date shall not exceed 7,200,000 shares (which consists of (i) 2,100,000 shares approved by the stockholders on May 19, 2009 and (ii) 2,600,000 shares approved by the stockholders on December 16, 2010, and (iii) 2,500,000 shares approved by the stockholders on May 21, 2013) *plus* the Returning Shares, if any, as such shares become available from time to time *less* one (1) share for each share of stock issued pursuant to an option or stock appreciation right granted after December 31, 2008 under the Prior Plans with respect to which the strike price is at least one hundred percent (100%) of the Fair Market Value of the underlying Common Stock on the date of grant and 1.4 shares for each share of stock issued pursuant to an award other than an option or stock appreciation right granted after December 31, 2008 under the Prior Plans (the "***Share Reserve***"). For clarity, the Share Reserve in this Section 3(a) is a limitation in the number of shares of the Common Stock that may be issued pursuant to the Plan and does not limit the granting of Stock Awards except as provided in Section 7(a). Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Marketplace Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, or AMEX Company Guide Section 711 or other applicable rule, and such issuance shall not reduce the number of shares available for issuance under the Plan. Furthermore, if a Stock Award or any portion thereof (i) expires or otherwise terminates without all of the shares covered by such Stock Award have been issued or (ii) is settled in cash (*i.e.*, the Participant receives cash rather than stock), such expiration, termination or settlement shall not reduce (or otherwise offset) the number of shares of Common Stock that may be available for issuance under the Plan.

**(b)** Subject to subsection 3(c), the number of shares available for issuance under the Plan shall be reduced by: (i) one (1) share for each share of stock issued pursuant to (A) an Option granted under Section 5, or (B) a Stock Appreciation Right granted under Section 5 with respect to which the strike price is at least one hundred percent (100%) of the Fair Market Value of the underlying Common Stock on the date of grant; (ii) prior to October 1, 2010, 1.4 shares for each share of Common Stock issued pursuant to a Restricted Stock Award, Restricted Stock Unit Award, Performance Stock Award or Other Stock Award; and (ii) on or after October 1, 2010, 1.8 shares for each share of Common Stock issued pursuant to a Restricted Stock Award, Restricted Stock Unit Award, Performance Stock Award or Other Stock Award..

**(c) Reversion of Shares to the Share Reserve.**

**(i) Shares Available For Subsequent Issuance.**

**(1)** If any shares of common stock issued pursuant to a Stock Award are forfeited back to the Company prior to October 1, 2010 because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares which are forfeited shall revert to and again become available for issuance under the Plan. Notwithstanding the provisions of this Section 3(c)(i)(1), any such shares shall not be subsequently issued pursuant to the exercise of Incentive Stock Options. To the extent (A) there is issued a share of Common Stock pursuant to a Stock Award that counted as 1.4 shares against the number of shares available for issuance under the Plan before October 1, 2010 pursuant to Section 3(b) or (B) any Returning Shares granted under the Prior Plan pursuant to an award other than an option or stock appreciation right, and such share of Common Stock becomes available for issuance under the Plan pursuant to Section 1(a), Section 3(a) or this Section 3(c)(i)(1), then the number of shares of Common Stock available for issuance under the Plan shall increase by 1.4 shares.

**(2)** If any shares of common stock issued pursuant to a Stock Award are forfeited back to the Company on or after October 1, 2010 because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares which are forfeited shall revert to and again become available for issuance under the Plan. Notwithstanding the provisions of this Section 3(c)(i)(2), any such shares shall not be subsequently issued pursuant to the exercise of Incentive Stock Options. To the extent (A) there is issued a share of Common Stock pursuant to a Stock Award that counted as 1.4 or 1.8 shares against the number of shares available for issuance under the Plan pursuant to Section 3(b) or (B) any Returning Shares granted under the Prior Plan pursuant to an award other than an option or stock appreciation right, and such share of Common Stock becomes available for issuance under the Plan on or after October 1, 2010 pursuant to Section 1(a), Section 3(a) or this Section 3(c)(i)(2), then the number of shares of Common Stock available for issuance under the Plan shall increase by 1.8 shares.

**(ii) Shares Not Available For Subsequent Issuance.** If any shares subject to a Stock Award are not delivered to a Participant because the Stock Award is exercised through a reduction of shares subject to the Stock Award ( *i.e.*, "net exercised"), the number of shares that are not delivered to the Participant shall not remain available for issuance under the Plan. Also, any shares reacquired by the Company pursuant to Section 8(g) or as consideration for the exercise of an Option shall not again become available for issuance under the Plan.

**(d) Incentive Stock Option Limit.** Notwithstanding anything to the contrary in this Section 3, subject to the provisions of Section 9(a) relating to Capitalization Adjustments the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options shall be the number of shares of Common Stock in the Share Reserve.

**(e) Source of Shares.** The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

**4. ELIGIBILITY.**

**(a) Eligibility for Specific Stock Awards**. Incentive Stock Options may be granted only to employees of the Company or a "parent corporation" or "subsidiary corporation" thereof (as such terms are defined in Sections 424(e) and (f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided, however*, Nonstatutory Stock Options and SARs may not be granted to Employees, Directors, and Consultants who are providing Continuous Services only to any "parent" of the Company, as such term is defined in Rule 405 promulgated under the Securities Act, unless such Stock Awards comply with the distribution requirements of Section 409A of the Code.

**(b) Ten Percent Stockholders.** A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

**(c) Section 162(m) Limitation on Annual Grants**. Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, no Participant shall be eligible to be granted during any calendar year Options, Stock Appreciation Rights and Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value on the date the Stock Award is granted covering more than 1,500,000 shares of Common Stock.

**5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.**

Each Option or SAR shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, then the Option shall be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Option Agreement or Stock Appreciation Right Agreement shall conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

**(a) Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR shall be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Award Agreement.

**(b) Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise price (or strike price) of each Option or SAR shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Option or SAR is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise price (or strike price) lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR if such Option or SAR is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Sections 409A and 424(a) of the Code (whether or not such awards are Incentive Stock Options). Each SAR will be denominated in shares of Common Stock equivalents.

**(c) Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option shall be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The permitted methods of payment are as follows:

**(i)** by cash, check, bank draft or money order payable to the Company;

**(ii)** pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

**(iii)** by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

**(iv)** if the option is a Nonstatutory Stock Option, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; *provided, further,* that shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are reduced to pay the exercise price pursuant to the "net exercise," (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

**(v)** in any other form of legal consideration that may be acceptable to the Board.

**(d) Exercise and Payment of a SAR.** To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right. The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (B) the strike price that will be determined by the Board at the time of grant of the Stock Appreciation Right. The appreciation distribution in respect to a Stock Appreciation Right may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

**(e) Transferability of Options and SARs.** The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board shall determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs shall apply:

**(i) Restrictions on Transfer.** An Option or SAR shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant; *provided, however*, that the Board may, in its sole discretion, permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws upon the Participant's request. Except as explicitly provided herein, neither an Option nor a SAR may be transferred for consideration.

**(ii) Domestic Relations Orders.** Notwithstanding the foregoing, an Option or SAR may be transferred pursuant to a domestic relations order; *provided, however*, that if an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

**(iii) Beneficiary Designation.** Notwithstanding the foregoing, the Participant may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect Option exercises, designate a third party who, in the event of the death of the Participant, shall thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, the executor or administrator of the Participant's estate shall be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise.

**(f) Vesting Generally.** The total number of shares of Common Stock subject to an Option or SAR may vest and therefore become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

**(g) Termination of Continuous Service.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, in the event that a Participant's Continuous Service terminates (other than for Cause or upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

**(h) Extension of Termination Date.** In the event that the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause or upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR shall terminate on the earlier of (i) the expiration of a period of three (3) months after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant's Award Agreement, if the sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR shall terminate on the earlier of (i) the expiration of a period equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

**(i) Disability of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, in the event that a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR (as applicable) shall terminate.

**(j) Death of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, in the event that (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement after the termination of the Participant's Continuous Service for a reason other than death, then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

**(k) Termination for Cause.** Except as explicitly provided otherwise in a Participant's Award Agreement, if a Participant's Continuous Service is terminated for Cause, the Option or SAR shall terminate upon the date on which the event giving rise to the termination occurred, and the

Participant shall be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

**(l) Non-Exempt Employees**. No Option or SAR granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended shall be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option or SAR. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant's death or Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Award Agreement or in another applicable agreement or in accordance with the Company's then current employment policies and guidelines) any such vested Options and SARs may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay.

**6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARS.**

**(a) Restricted Stock Awards.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. To the extent consistent with the Company's Bylaws, at the Board's election, shares of Common Stock may be (x) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (y) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical; *provided, however*, that each Restricted Stock Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration (including future services) that may be acceptable to the Board in its sole discretion and permissible under applicable law.

**(ii) Vesting.** Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

**(iii) Termination of Participant's Continuous Service.** In the event a Participant's Continuous Service terminates, the Company may receive via a forfeiture condition or a repurchase right, any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

**(iv) Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board shall determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

**(b) Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical; *provided, however*, that each Restricted Stock Unit Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

**(vi) Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board in its sole discretion and permissible under applicable law.

**(vii) Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

**(viii) Payment**. A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

**(ix) Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

**(x) Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all the terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

**(xi) Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted

Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

**(c) Performance Awards**.

**(i) Performance Stock Awards**. A Performance Stock Award is a Stock Award that may vest or may be exercised contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee in its sole discretion. The maximum number of shares covered by an Award that may be granted to any Participant in a calendar year attributable to Stock Awards described in this Section 6(c)(i) (whether the grant, vesting or exercise is contingent upon the attainment during a Performance Period of the Performance Goals) shall not exceed 1,500,000 shares of Common Stock. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

**(ii) Performance Cash Awards**. A Performance Cash Award is a cash award that may be paid contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee in its sole discretion. In any calendar year, the Committee may not grant a Performance Cash Award that has a maximum value that may be paid to any Participant in excess of $1,500,000. The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a Participant to elect for, the payment of any Performance Cash Award to be deferred to a specified date or event. The Committee may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Board may specify, to be paid in whole or in part in cash or other property.

**(d) Other Stock Awards**. Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (e.g., options or stock rights with an exercise price or strike price less than 100% of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board shall have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

**7. COVENANTS OF THE COMPANY.**

**(a) Availability of Shares.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock reasonably required to satisfy such Stock Awards.

**(b) Securities Law Compliance.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

**(c) No Obligation to Notify.** The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

**8. MISCELLANEOUS.**

**(a) Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

**(b) Corporate Action Constituting Grant of Stock Awards.** Corporate action constituting a grant by the Company of a Stock Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant.

**(c) Stockholder Rights.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms, if applicable, and (ii) the issuance of the Common Stock subject to such Stock Award has been entered into the books and records of the Company.

**(d) No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(e) Incentive Stock Option $100,000 Limitation.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

**(f) Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(g) Withholding Obligations.** Unless prohibited by the terms of a Stock Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however,* that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

**(h) Electronic Delivery**. Any reference herein to a "written" agreement or document shall include any agreement or document delivered electronically or posted on the Company's intranet.

**(i) Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of employment or retirement, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(j) Compliance with Section 409A.** To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code, including without limitation any applicable guidance that may be issued or amended after the Effective Date.

**9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.**

**(a) Capitalization Adjustments**. In the event of a Capitalization Adjustment, the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(c), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Section 4(c) and 6(c)(i) , and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive.

**(b) Dissolution or Liquidation**. Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service, *provided, however*, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

**(c) Corporate Transaction.** The following provisions shall apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in the instrument evidencing the Stock Award or any other written agreement between the Company or any Affiliate and the holder of the Stock Award or unless otherwise expressly provided by the Board at the time of grant of a Stock Award.

**(i) Stock Awards May Be Assumed.** In the event of a Corporate Transaction, any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue any or all Stock Awards outstanding under the Plan or may substitute similar stock awards for Stock Awards outstanding under the Plan (including but not limited to, awards to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Stock Awards may be assigned by the Company to the successor of the Company (or the successor's parent company, if any), in connection with such Corporate Transaction. A surviving corporation or acquiring corporation (or its parent) may choose to assume or continue only a portion of a Stock Award or substitute a similar stock award for only a portion of a Stock Award, or may choose to assume or continue the Stock Awards held by some, but not all Participants. The terms of any assumption, continuation or substitution shall be set by the Board.

**(ii) Stock Awards Held by Current Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction (referred to as the "***Current Participants***"), the vesting of such Stock Awards (and, with respect to Options and Stock Appreciation Rights, the time when such Stock Awards may be exercised) shall be accelerated in full to a date prior to the effective time of such Corporate Transaction (contingent upon the effectiveness of the Corporate Transaction) as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five (5) days prior to the effective time of the Corporate Transaction), and such Stock Awards shall terminate if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction, and any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall lapse (contingent upon the effectiveness of the Corporate Transaction).

**(iii) Stock Awards Held by Persons other than Current Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by persons other than Current Participants, such Stock Awards shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction; *provided, however*, that any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall not terminate and may continue to be exercised notwithstanding the Corporate Transaction.

**(d) Change in Control.** A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration shall occur.

## 10. TERMINATION OR SUSPENSION OF THE PLAN.

**(a) Plan Term.** The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board pursuant to Section 2(b)(v), the Plan shall automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

**(b) No Impairment of Rights.** Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

## 11. EFFECTIVE DATE OF PLAN.

This Plan shall become effective on the Effective Date.

## 12. CHOICE OF LAW.

The law of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

**13. DEFINITIONS.** As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

**(a)** "***Affiliate***" means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405 of the Securities Act. The Board shall have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

**(b)** "***Award***" means a Stock Award or a Performance Cash Award.

**(c)** "***Award Agreement***" means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

**(d)** "***Board***" means the Board of Directors of the Company.

**(e)** "***Capitalization Adjustment***" means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or similar transaction). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

**(f)** "***Cause***" shall have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term shall mean, with respect to a Participant, the occurrence of any of the following events: (i) an intentional action or intentional failure to act by the Participant that was performed in bad faith; (ii) a Participant's intentional refusal or intentional failure to act in accordance with any lawful and proper direction or order of his or her superiors; (iii) a Participant's habitual neglect of the duties of employment, which may include a failure to perform his or her job duties satisfactorily; (iv) a Participant's indictment, charge, or conviction of a felony or any crime involving moral turpitude, or participation in any act of theft or dishonesty, regardless of whether such act has had or could reasonably be expected to have a material detrimental effect on the business of the Company or an Affiliate; or (v) a Participant's violation of any material provision of the Company's Proprietary Information and Inventions Agreement or violation of any material provision of any other written policy or procedure of the Company or an Affiliate. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause shall be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

**(g)** "***Change in Control***" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

**(i)** any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the **"*Subject Person*"**) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

**(ii)** there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

**(iii)** the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur, except for a liquidation into a parent corporation; or

**(iv)** there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition.

Notwithstanding the foregoing or any other provision of this Plan, the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

**(h)** "***Code***" means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

**(i)** "***Committee***" means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

**(j)** "***Common Stock***" means the common stock of the Company.

**(k)** "***Company***" means Omnicell, Inc., a Delaware corporation.

**(l)** "***Consultant***" means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a "Consultant" for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration

Statement under the Securities Act is available to register the sale of the Company's securities to such person.

**(m)** "***Continuous Service***" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, shall not terminate a Participant's Continuous Service; *provided, however,* if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board in its sole discretion, such Participant's Continuous Service shall be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of (i) any leave of absence approved by the Board or Chief Executive Officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

**(n)** "***Corporate Transaction***" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

**(i)** the consummation of a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

**(ii)** the consummation of a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

**(iii)** the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

**(iv)** the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

**(o)** "***Covered Employee***" shall have the meaning provided in Section 162(m)(3) of the Code.

**(p)** "***Director***" means a member of the Board.

**(q)** "***Disability***" means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and shall be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

**(r)** "***Effective Date***" means the effective date of this Plan document, which is the date after the annual meeting of stockholders of the Company held in 2009 provided this Plan is approved by the Company's stockholders at such meeting.

**(s)** "***Employee***" means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an "Employee" for purposes of the Plan.

**(t)** "***Entity***" means a corporation, partnership, limited liability company or other entity.

**(u)** "***Exchange Act***" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

**(v)** "***Exchange Act Person***" means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities.

**(w)** "***Fair Market Value***" means, as of any date, the value of the Common Stock determined as follows:

**(i)** If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

**(ii)** Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

**(iii)** In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

**(x)** "***Incentive Stock Option***" means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an "incentive stock option" within the meaning of Section 422 of the Code.

**(y)** "***Non-Employee Director***" means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("***Regulation S-K***")), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

**(z)** "***Nonstatutory Stock Option***" means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

**(aa)** "***Officer***" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

**(bb)** "***Option***" means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

**(cc)** "***Option Agreement***" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

**(dd)** "***Optionholder***" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

**(ee)** "***Other Stock Award***" means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

**(ff)** "***Other Stock Award Agreement***" means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(gg)** "***Outside Director***" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an "affiliated corporation," and does not receive remuneration from the Company or an "affiliated corporation," either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

**(hh)** "***Own,***" "***Owned,***" "***Owner,***" "***Ownership***" A person or Entity shall be deemed to "Own," to have "Owned," to be the "Owner" of, or to have acquired "Ownership" of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

**(ii)** "***Participant***" means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

**(jj)** "***Performance Cash Award***" means an award of cash granted pursuant to the terms and conditions of Section 6(c)(ii).

**(kk)** "***Performance Criteria***" means the one or more criteria that the Board shall select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Board: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder's equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) sales, backlog or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction, or other budgetary goals; (xvii) improvement in or attainment of working capital levels; (xiii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction, service, o r personal visitations; (xxvi) stockholders' equity; (xxvii) capital expenditures; (xxiii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxi) growth of net income or operating income; (xxxii) billings; (xxxiii) completion of strategic, business, development, financial, employee or integration plan (or equivalent type of plan); (xxxiv) manufacturing, production, research and development, product launch or product objective goals; (xxxvi) litigation, arbitration or other conflict achievements or resolutions; (xxxvii) hiring or reduction in headcount; (xxxviii) timely completion of internal and external analysis, or audits; (xxxix) completion of Performance Goals by direct reports; and (xl) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

**(ll)** "***Performance Goals***" means, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board in the Award Agreement at the time the Award is granted or other terms setting forth the Performance Goals at the time the Performance Goals are established, the Board shall appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (i) to exclude restructuring and/or other nonrecurring charges; (ii) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (iii) to exclude the effects of changes to generally accepted accounting principles; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; and (v) to exclude the effects of any "extraordinary items" as determined under generally accepted accounting principles. In addition, the Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for such Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

**(mm)** "***Performance Period***" means the period of time selected by the Board over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board.

**(nn)** "***Performance Stock Award***" means a Stock Award granted under the terms and conditions of Section 6(c)(i).

**(oo)** "***Plan***" means this Omnicell, Inc. 2009 Equity Incentive Plan.

**(pp)** "***Restricted Stock Award***" means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

**(qq)** "***Restricted Stock Award Agreement***" means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(rr)** "***Restricted Stock Unit Award***" means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

**(ss)** "***Restricted Stock Unit Award Agreement***" means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.

**(tt)** "***Rule 16b-3***" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

**(uu)** "***Securities Act***" means the Securities Act of 1933, as amended.

**(vv)** "***Stock Appreciation Right***" or "***SAR***" means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

**(ww)** "***Stock Appreciation Right Agreement***" means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.

**(xx)** "***Stock Award***" means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right, a Performance Stock Award or any Other Stock Award.

**(yy)** "***Stock Award Agreement***" means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(zz)** "***Subsidiary***" means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

**(aaa)** "***Ten Percent Stockholder***" means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

**Exhibit 31.1**

**CERTIFICATION**

I, Randall A. Lipps, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omnicell, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2013

/s/ Randall A. Lipps

Randall A. Lipps
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Robin G. Seim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Omnicell, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2013

/s/ Robin G. Seim

Robin G. Seim

Chief Financial Officer and Executive Vice President Finance, Administration and Manufacturing

**Exhibit 32.1**

**CERTIFICATION**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Randall A. Lipps, the President and Chief Executive Officer of Omnicell, Inc. (the “Company”) and Robin G. Seim, the Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2013, to which this Certification is attached as Exhibit 32.1 ("the Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 9th day of August, 2013.

| /s/ Randall A. Lipps | /s/ Robin G. Seim |
|---|---|
| Randall A. Lipps | Robin G. Seim |
| President and Chief Executive Officer | Chief Financial Officer and Executive Vice President Finance, Administration and Manufacturing |

"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 Omnicell, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing."