

OMNICELL, Inc  
Form 10-K  
February 26, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
(Mark One)

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

For the fiscal year ended December 31, 2015

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 No. 000-33043

OMNICELL, INC.

(Exact name of Registrant as specified in its charter)

Delaware

94-3166458

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

590 East Middlefield Road

Mountain View, CA 94043

(Address of registrant's principal executive offices, including zip code)

(650) 251-6100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

Edgar Filing: OMNICELL, Inc - Form 10-K

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

---

Table of Contents

The aggregate market value of the registrant's common stock, \$0.001 par value, held by non-affiliates of the registrant as of June 30, 2015 was \$1.3 billion (based upon the closing sales price of such stock as reported on The NASDAQ Global Select Market on such date) which excludes an aggregate of 1,103,882 shares of the registrant's common stock held by officers, directors and affiliated stockholders. For purposes of determining whether a stockholder was an affiliate of the registrant at June 30, 2015, the registrant has assumed that a stockholder was an affiliate of the registrant at June 30, 2015 if such stockholder (i) beneficially owned 10% or more of the registrant's common stock and/or (ii) was affiliated with an executive officer or director of the registrant at June 30, 2015. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 18, 2016 there were 35,831,683 shares of the registrant's common stock, \$0.001 par value, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

---

Table of Contents

OMNICELL, INC.

2015 Form 10-K Annual Report

## TABLE OF CONTENTS

	Page No.
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	<u>5</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>22</u>
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	<u>36</u>
<u>Item 2.</u> <u>Properties</u>	<u>37</u>
<u>Item 3.</u> <u>Legal Proceedings</u>	<u>37</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>37</u>
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>38</u>
<u>Item 6.</u> <u>Selected Financial Data</u>	<u>40</u>
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>56</u>
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>56</u>
<u>Item 9A.</u> <u>Controls and Procedures</u>	<u>57</u>
<u>Item 9B.</u> <u>Other Information</u>	<u>57</u>
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	<u>58</u>
<u>Item 11.</u> <u>Executive Compensation</u>	<u>58</u>
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>58</u>
<u>Item 13.</u> <u>Certain Relationships, Related Transactions and Director Independence</u>	<u>58</u>
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	<u>59</u>
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	<u>60</u>
	<u>1</u>
<u>OTHER</u>	
<u>Signatures</u>	<u>S- 1</u>

Table of Contents

**FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS**

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

- our expectations regarding our future product bookings, which consist of all firm orders, as evidenced by a contract and purchase order for equipment and software and, generally, by a purchase order for consumables. Equipment and software bookings are installable within 12 months and consumables are generally recorded as revenue within one month;
- our ability to acquire companies, businesses, products or technologies on commercially reasonable terms and integrate such acquisitions effectively;
- the extent and timing of future revenues, including the amounts of our current backlog, which represents firm orders that have not completed installation and therefore have not been recognized as revenue;
- the size or growth of our market or market share;
- the opportunity presented by new products, emerging markets and international markets;
- our ability to align our cost structure and headcount with our current business expectations;
- the operating margins or earnings per share goals we may set;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others; and
- our ability to generate cash from operations and our estimates regarding the sufficiency of our cash resources;

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "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 annual report in greater detail in Part II - Section 1A. "Risk Factors" below. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this annual report. You should also read this annual report and the documents that we reference in this annual report and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to "Omniceil," "our," "us," "we," or the "Company" collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries. The term "Omnicell, Inc.," refers only to Omnicell, Inc., excluding its subsidiaries. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

We own various trademarks, copyrights and trade names used in our business, including the following: Omnicell®, the Omnicell logo, OmniRx®, OmniCenter®, OmniSupplier®, OmniBuyer®, SafetyStock®, WorkflowRx™, OmniLinkRx™, Optiflex™, SinglePointe™, AnywhereRN™, Anesthesia Workstation™, Savvy™, MTS Medication Technologies logo, Medlocker®, AccuFlex®, Autobond™, AutoGen™, easyBLIST™, PanOndemand®, Multi-Med™, RxMap™, MTS-350™, MTS-400™, MTS-500™ and SureMed. This report also includes other trademarks, service marks and trade names of other companies. All other trademarks used in this report are trademarks of their respective holders.

## Table of Contents

### PART I

#### ITEM 1. BUSINESS

##### Overview

We are a leading provider of comprehensive automation and business analytics software solutions for patient-centric medication and supply management across the entire healthcare continuum, from the acute care hospital setting to post-acute skilled nursing and long-term care facilities to the home. More than 3,200 customers worldwide have used our Omnicell Automation and Analytics supply chain and analytics solutions to help enable them to increase operational efficiency, reduce errors, deliver actionable intelligence and improve patient safety. The recent acquisition of Aesynt Holding, L.P., Aesynt, Ltd. and Aesynt Coöperatief U.A. (collectively, “Aesynt”) discussed below will add distinct product capabilities, particularly in central pharmacy and IV robotics, creating the broadest medication management product portfolio in the industry.

Omnicell Medication Adherence solutions, including our MTS Medication Technologies, SureMed and Surgichem brands, provide innovative medication adherence packaging solutions designed to help reduce costly hospital readmissions. In addition, these solutions help enable approximately 7,000 institutional and retail pharmacies worldwide to maintain high accuracy and quality standards in medication dispensing and administration while optimizing productivity and controlling costs.

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. The healthcare industry has become increasingly aware that human factors inevitably create the risk of medication administration errors in the course of patient care. 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. Any nursing shortages would 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. In its 2003 "Adherence to Long-Term Therapies-Evidence for Action," the World Health Organization 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 delivering better clinical outcomes and financial results. Medication non-adherence is described as a critical problem creating approximately \$290 billion in extra costs per year and resulting in approximately 125,000 deaths per year, according to a 2009 report from the New England Healthcare Institute. In addition, the Centers for Medicare & Medicaid Services stated in 2012 that 11% of all hospital admissions were related to medication non-adherence.

We provide solutions to help healthcare systems and caregivers address these aforementioned needs. We believe our solutions align us with the long-term trends of the healthcare market to manage the health of patients across the continuum of care, and that our patient-centric medication and supply management solutions help improve workflow efficiencies and patient outcomes.

##### Operating Segments and Products

Our business is organized into two operating segments distinguished by products based on customer needs. The two operating segments are Automation and Analytics, and Medication Adherence.

##### Automation and Analytics

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

##### Medication Adherence

The Medication Adherence segment primarily includes the development, manufacturing and selling of consumable medication blister cards, packaging equipment and ancillary products and services. These products are used to manage medication administration outside of the hospital setting and include medication adherence products sold under the brand name MTS, Surgichem, SureMed and the Omnicell brand. MTS products consist of proprietary medication

packaging systems and related products for use by institutional pharmacies servicing long-term care and correctional facilities or retail pharmacies serving patients in their local communities. Similarly, Surgichem is a provider of medication adherence packaging systems and solutions to the United Kingdom community and home care markets.

## Table of Contents

### Financial Information by Segment

For information regarding our revenues, cost of revenues, gross profit and income from operations by segment, see Note 12, Segment and Geographical Information, of the Notes to Consolidated Financial Statements and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in this annual report.

### Business Strategy

Our key business strategies include:

1. Further penetrating existing markets through technological leadership by:

- a. consistently innovating our product and service offerings; and
- b. maintaining our customer-oriented product installation process.

2. Increasing penetration of new markets, such as non-acute care and international markets by:

- a. launching new products and technologies that are specific to the needs of those markets;
- b. building and establishing direct sales, distribution or other capabilities when and where it is appropriate;
- c. partnering with companies that have sales, distribution or other capabilities that we do not possess; and
- d. increasing customer awareness of safety issues in the administration of medications.

3. Expanding our product offering through acquisitions and partnerships.

Our solutions are designed to provide everything the customer requires for installation and maintenance of medication, medical and surgical supply control. Our vision of improving healthcare for everyone has led us to take certain steps in the development of our business and our long term approach to our market, such as:

• Providing a full service, positive experience for our hospital customers in the solution sales process, the timing and implementation of our product installations and the responsiveness of our support services;

• Delivering solutions that are designed to provide our customers with the best experience in the healthcare industry, as measured by customer input and third party surveys;

• Innovating products to address patient safety and cost-containment pressures facing healthcare facilities while improving clinician workflow and overall operating efficiency;

• Incorporating a broad range of clinical input into our product solution development to accommodate needs ranging from those of institutional pharmacies and stand-alone community hospitals to multi-hospital entities and integrated delivery networks ("IDNs");

• Developing new solutions to enhance our customers' existing systems and protect our customers' investments by preserving, leveraging and upgrading their existing information systems, as well as striving to provide integration of our products with the other healthcare information systems used by our customers; and

• Providing flexibility in our systems that can be tailored to specific customer needs through modular upgrades, thereby protecting our customers' investments.

We have developed or acquired numerous technologies that provide long-term solutions for our customers. Our own product development activities have brought a number of innovative and proprietary products to the market. Our fourth-generation Omnicell G4 hardware solutions on the Unity platform decrease the risk of human error and save significant pharmacy time by eliminating the need for repetitive entry of drug formularies in multiple systems. The Unity G4 platform is designed to help our customers closely manage medication and supply inventory to reduce costs, comply with increasingly stringent regulatory requirements and safeguard the patient.

### Acquisitions

In addition to our own development, we have acquired products that extend patient safety controls to a wider range of applications and departments in and out of the hospital. Our recent acquisitions include MTS Medication Technologies in 2012, Surgichem Limited, ("Surgichem") in 2014, and Mach4 Automatisierungstechnik GmbH ("Mach4") and Avantec Healthcare Limited ("Avantec") in 2015. MTS Medication Technologies extended our product line to include solutions for Medication Adherence customers, Surgichem is a provider of medication adherence products in the United Kingdom, Mach4 develops



## Table of Contents

automated medication management systems to retail and hospital pharmacy customers primarily in Europe, with additional installations in China, the Middle East and Latin America, and Avantec is a distributor of medication and supply automation configurations of our products suited to the United Kingdom marketplace, and has been the exclusive United Kingdom distributor for our medication and supply automation solutions since 2005.

On January 5, 2016, we completed the acquisition of Aesynt, a leader in central pharmacy robotics and IV compounding automation, which are two product areas where we had little or no market penetration prior to the acquisition. Adding these two solution sets to the Omnicell portfolio is intended to give the combined companies the one of the most complete medication management offering in the industry. We will now be able to support customers who desire a centralized cartfill or nurse server medication distribution model all the way to fully decentralized dispensing and hybrid combinations along that continuum. We will also be able to offer solutions for IV preparations, including oncology drugs, which is an area where our combined customers have expressed significant interest. In addition, Aesynt has an experienced and skilled workforce whose expertise complements our capabilities. Integrating our two product development groups is expected to lead to innovation and the opportunity to help accelerate innovation. Finally, Aesynt has over 1,200 hospital customers with limited overlap with the existing Omnicell installed base.

### Industry Background

The delivery of healthcare in the United States still relies on a significant number of manual and paper-based processes. Most hospitals have deployed at least some automation solutions, but few have deployed them throughout the entire institution or system. The use of manual and paper-based systems in many hospital departments today results in highly complex and inefficient processes for tracking and delivering medications and supplies. In addition, many existing healthcare information systems are unable to support the modernization of healthcare delivery processes or address mandated patient safety initiatives. These factors contribute to medical errors and unnecessary process costs across the healthcare sector.

Healthcare providers and facilities are affected by significant economic pressures. Rising costs of labor, prescription drugs and new medical technology all contribute to increased spending. Governmental pressures surrounding healthcare reform have led to increased scrutiny of the cost and efficiency with which healthcare providers deliver their services. These factors, combined with the continuing consolidation in the healthcare industry, have increased the need for the efficient delivery of healthcare in order to control costs.

Our Automation and Analytics products are sold worldwide to a wide variety of healthcare institutions, but most of our sales are to acute care hospital customers in the United States. The U.S. acute care hospital market is comprised of approximately 6,500 hospitals and other facilities with a total capacity of approximately 953,000 acute care beds. We currently serve approximately 2,950 hospitals and other facilities with total capacity of more than approximately 478,000 beds. Our customers include single location community hospitals, government hospitals and regional and national hospital systems.

We also sell our Automation and Analytics products directly to non-acute care providers, which include all healthcare facilities that are not hospitals, and to organizations that supply non-acute care providers. We estimate there are approximately 50,000 facilities in the United States that could use our Automation and Analytics products and few of them use our solutions at this time.

Outside the United States, healthcare providers are increasingly aware of the benefits of automation. Many governmental and private entities look to the progress made over the last several years in the United States and are starting to invest significantly in information technology and automation. The 2014 BCC Research report states that worldwide inpatient pharmacy automation revenue growth in our industry is expected to be 8.5% between 2013 and 2018. We sell our Automation and Analytics products in a variety of countries, but to date we have focused our sales efforts in Canada, the United Kingdom, China, and the Middle East region. Our international customer base includes nearly 300 customers that utilize our automation and analytics products.

We primarily sell our Medication Adherence products to institutional and retail pharmacies. In the United States, where approximately 67% of our Medication Adherence business occurs, the market is comprised of approximately 4,000 institutional pharmacies operated by approximately 1,500 companies that service over approximately 50,000 long-term care facilities. According to IMS Healthcare, Inc. ("IMS"), an independent third party provider of

information to the pharmaceutical and healthcare industry, pharmaceutical sales are expected to grow approximately 1% to 4% annually through 2016. IMS expects that certain sectors of the market, such as biotechnology and other specialty and generic pharmaceuticals, will grow faster than the overall market which suggests opportunities for the market in which we operate. In addition to medication control at long-term care facilities, our multi-medication products provide packaging that simplifies the process for individuals providing self-care to track and administer medications.

Key Industry Events and Reports

7

---

## Table of Contents

Reports by the Institute of Medicine, the U.S. Food and Drug Administration ("FDA") and The Joint Commission have increased awareness of the adverse impacts of medication errors. Regulatory standards and industry guidelines, such as those published by the Institute for Safe Medication Practices, as well as the desire of healthcare organizations to improve quality and avoid liability, have driven acute care facilities to prioritize investment in capital equipment, including automated medication dispensing cabinets, which are a standard of care, to improve patient safety. Such reports and regulatory standards include the following:

In 2012, The Joint Commission updated its medication management standards which includes the requirement that medication storage is designed to assist in maintaining medication integrity, promote the availability of medications when needed, minimize the risk of medication diversion, and reduce potential dispensing errors.

In 2010, the FDA updated its guidance that requires linear bar codes on most prescription drugs. Drug manufacturers, re-packagers, re-labelers and private label distributors are subject to the rule. The FDA estimated that the bar code rule, once implemented, would result in a 50% reduction in medication errors, 500,000 fewer adverse drug events over the subsequent 20 years, \$93 billion in cost savings and other economic benefits.

In 2002, The Joint Commission established the National Patient Safety Goals ("NPSG") program. In 2010, NPSG 03.04.01, National Patient Safety Goal on Labeling Medications, required the labeling of all medications, medication containers (syringes, medicine cups, basins, etc.) and other solutions on and off the sterile field in perioperative and other procedural setting.

Leading academic medical centers are among those customers benefiting from our technologies, and our customers include 10 of the 15 U.S. News & World Report Honor Roll of Best Hospitals 2015-2016.

Medication non-adherence is extremely common. According to research by Osterberg and Blaschke published in the New England Journal of Medicine, more than half of the 3.2 billion prescriptions dispensed annually in the United States are not taken as prescribed, and according to numerous studies, the same non-adherence rate exists for chronic disease medications. Poor adherence results in significant morbidity, mortality and avoidable healthcare costs. The New England Healthcare Institute estimated in 2010 that medication non-adherence was the major driver of \$300 billion per year in avoidable healthcare costs, equivalent to 13% of total national health expenditures.

Medication adherence can be improved through attitudinal and behavioral changes, which pharmacists can encourage and help facilitate by providing interventional support, including adherence tools, such as blister cards. A 2011 study by CVS Caremark published in Health Affairs concluded that the medical cost per patient with chronic vascular disease was \$13,000 to \$39,000, annually, and patients who take medications as directed by physicians experienced medical savings ranging from \$1,900 to \$8,900, annually. The study also found that these patients experienced fewer emergency room visits and inpatient hospital stays.

### Healthcare Reform

The American Reinvestment and Recovery Act ("ARRA") which provides for, among other things, the funding of incentives for healthcare organizations to implement Electronic Healthcare Records ("EHR"). ARRA established minimal requirements for electronic healthcare record usage and provides incentives for electronic healthcare record adoption through 2015 and penalties for non-adoption after 2015. In 2010, the U.S. Congress passed the Patient Protection and Affordable Care Act ("PPACA"), which prescribes broad-based measures designed to provide healthcare to a greater percentage of the population. We believe that both the ARRA and the PPACA will drive the need for increased efficiency in order to provide high-quality healthcare at the lowest possible cost.

We believe our products assist healthcare organizations augment their investments in EHR implementation and integration by allowing them to reduce process steps, eliminate manual tracking and waste, enable population-level performance insights, track quality levels and reduce errors that result in unnecessary cost. Our Unity G4 platform includes an automated dispensing system that is Modular EHR stage 2 certified and works with all "hospital information system vendors," as defined by the U.S. Department of Health and Human Services Office of National Coordinator for Health Information Technology. Our Pandora Healthcare Data Analytics solution provides enterprise-level insights that can assist in monitoring hospital performance and quality of care. In addition, with our recent acquisition of Aesynt, the solutions provided by the Enterprise Medication Manager software products give the customer the power to optimize the pharmacy supply chain with tools that help manage their inventory and minimize the cost of expiring medications.



Table of Contents

Automation and Analytics Products and Services

Our Automation and Analytics products are designed to enable our customers to enhance and improve the effectiveness of the medication-use process, the efficiency of the medical-surgical supply chain, overall patient care and clinical and financial outcomes of medical facilities. Through modular configuration and upgrades, our systems can be tailored to specific customer needs. From the point at which a medication arrives at the hospital receiving dock until the time it is administered to the patient, our systems are capable of storing, packaging, bar coding, ordering and issuing the medication, as well as providing information and controls on its use and reorder. Our medication-use product line includes systems for medication dispensing in acute care nursing departments, central pharmacy automation, physician order management and nursing workflow automation at the bedside. Our supply product lines provide healthcare facilities with cost data that enables detailed quantification of charges for payer reimbursement, inventory management, implant monitoring and the timely reordering of supplies. These products range from industrial-grade software-driven carousels for managing large amounts of inventory in the central pharmacy to high-security closed-cabinet systems and software to open-shelf and combination solutions in the nursing unit, catheterization lab and operating room. We also provide services, including customer education and training, to help customers to optimize their use of our technology.

Our analytics solution allows pharmacists and materials managers to more easily manage inventory flow, tracking and optimization, and aids in the detection and identification of those engaged in narcotics diversion within the acute care facility.

Medication-Use Products

Our medication-use product line includes our OmniRx, SinglePointe, AnywhereRN, Omnicell and Pandora Data Analytics, Savvy Mobile Medication System, OmniLinkRx, WorkflowRx, Central Pharmacy and Satellite Pharmacy Manager, Controlled Substance Management, Anesthesia Workstation and Advanced Interoperability products. To provide our customers with end-to-end medication control, our product line incorporates bar code technology throughout. Our solutions incorporate software, which we believe is the most advanced on the market today, and our G4 platform integrates disparate systems onto a single server platform. Each of the products in our medication-use solution suite is summarized in the table below.

Table of Contents

Product	Use in Hospital	Description
OmniRx	Any nursing area in a hospital department that administers medications	Secure dispensing system that automates the management and dispensing of medications at the point of use
SinglePointe	Any nursing area in a hospital department that administers medications	Software product for use in conjunction with the OmniRx product that controls medications on a patient-specific basis, allowing automated control of up to 100% of the medications used in a hospital
AnywhereRN & Embedded Electronic Health Record (EHR) Interoperability / Functionality	Any nursing area in a hospital department that administers medications	Software that allows nurses to remotely queue or waste medications from the automated dispensing cabinets from virtually any workstation in the hospital. Omnicell has worked with leading EHR vendors including Cerner and Epic to embed Anywhere RN functionality directly into their applications for a seamless user experience
Omnicell & Pandora Analytics	Hospital central pharmacy and general hospital management	Advanced reporting and data analytics tools
Savvy Mobile System	Any nursing area in a hospital department that administers medications	Mobile wireless computer and dispensing system that provides a platform for hospital information systems and a convenient and secure method for nurses to move medication and supplies
OmniLinkRx	Hospital central pharmacy	Prescription routing system that allows nurses and doctors to scan handwritten prescription orders for electronic delivery to pharmacists for approval and filling
WorkflowRx	Hospital central pharmacy	Automated pharmacy storage, retrieval and packaging systems
Central Pharmacy and Satellite Pharmacy Manager	Hospital central pharmacy	Automated pharmacy storage and retrieval system for managing inventory in central and satellite pharmacy locations
Controlled Substance Management	Hospital central pharmacy	Controlled substance inventory management system
Anesthesia Workstation	Operating room	Secure dispensing system for the management of anesthesia supplies and medications

## Nursing Floor Solutions

The OmniRx solution is the core of our medication control solutions. The OmniRx solution is a dispensing cabinet that automates the management and dispensing of medications at the point of use. The OmniRx features biometric fingerprint identification, advanced single-dose dispensing, bar code confirmation, integrated medication label printing and a wide range of drawer modules enabling the establishment of various security levels. Software features of the OmniRx include patient profiling, notification of medications due, a variety of security features, waste management, clinical pharmacology and integration with an Internet browser for clinical reference information. OmniRx has met meaningful use criteria by obtaining modular EHR certification, as defined by the Office of the National Coordinator. OmniRx is highly configurable to allow the pharmacist the capability to tailor the usage of the system to specific regulatory controls and workflows.

The SinglePointe solution is a software extension to the OmniRx solution that allows pharmacists to automate the distribution of patient-specific medications, enabling control of up to 100% of all medications through the automated dispensing system. Controlling patient-specific medications through the OmniRx extends the benefits of automated

medication distribution, including increased patient safety, consistency in tracking and inventory control, simplification of procedures and improved monitoring of controlled substances to a broader range of the medication distribution process in the hospital.

The AnywhereRN solution is a software solution that allows nurses to operate the automated dispensing cabinets from virtually any remote workstation within the hospital. This software enables enhanced workflow for nurses such that they are no longer limited to being directly in front of the cabinet to perform certain medication administration functions. AnywhereRN is intended to reduce nurse distractions in the medication administration process, allowing cabinet operations to be done in private or quieter areas. AnywhereRN is also intended to eliminate congestion at the cabinet by minimizing nurse queuing to withdraw medications. Embedding Anywhere RN functionality in the Electronic Health Record (EHR) helps to reduce errors and provide safer medication management processes, streamlines the medication administration process and allows nurses to spend more time on patient care.

## Table of Contents

The Omnicell and Pandora Analytics solution are comprised of reports and analytical software for medication diversion detection, customizable user options, hospital inventory management controls, point of care data analytics and financial optimization. Omnicell Analytics is a new web-based diversion analytics tool that streamlines the process of managing potential drug diversion across the health system. Omnicell and Pandora Analytics are designed to assist hospitals in their efforts to improve patient safety, regulatory compliance and reduce costs.

The Savvy Mobile Medication solution provides a mobile workstation for nurses, equipped with locking drawers for secure transportation of medications and patient supply items. Savvy allows both tracking and physical control of medications to be extended to the patient bedside. The Savvy Mobile Medication solution is designed to provide efficient workflow support, allowing nurses to remotely access the automated dispensing cabinet using AnywhereRN, saving nursing time and minimizing the risk of interruptions to enhance patient safety. This same mobile solution can be used to access hospital applications, including electronic medical records and electronic medication administration records.

### Central Pharmacy Solutions

The OmniLinkRx solution is a physician order software product that automates communication between nurses and the pharmacy. Used in the central pharmacy, the OmniLinkRx solution simplifies the communication of handwritten physician orders from remote nursing stations to the pharmacy.

The WorkflowRx solution is an automated storage, retrieval, inventory management and repackaging solution for the central pharmacy. It is designed to help pharmacists ensure that the right medications are stored in and retrieved from proper locations, both in the central pharmacy and in automated dispensing cabinets.

Central Pharmacy Manager and Satellite Pharmacy Manager are integrated systems that automate management and storage of pharmacy inventory. Central Pharmacy Manager automates inventory management in the central pharmacy, helping to reduce inventory costs and save staff time on ordering and receiving processes. Central Pharmacy Manager may be deployed in an open environment or used in conjunction with carousels. Satellite Pharmacy Manager gives pharmacists managing satellite locations visibility into inventory levels and costs at the remote sites within their health system. In addition to utilizing a barcode scanning system, Central Pharmacy Manager may also be deployed on a storage and retrieval carousel. Bar code administration through the solution is designed to help ensure that medications are stocked correctly from their point of entry into the healthcare facility. Labeling medications with bar codes using a repackaging system enables bedside medication administration solutions, to perform bar code checking at the patient bedside.

The Controlled Substance Management solution provides perpetual inventory management and an automated audit trail to help the pharmacy efficiently comply with regulatory standards for controlled substances. The Controlled Substance Management software, coupled with our automated dispensing technology, enables healthcare facilities to track, monitor and control the movement of controlled substances from the point of initial receipt from the wholesaler throughout internal distribution. The Controlled Substance Management solution maintains a perpetual item inventory and complete audit using integrated bar code technology with both fixed and portable scanners. Bar coded forms and labels may also be generated directly from the Controlled Substance Management system.

### Operating Room Solutions

The Anesthesia Workstation solution is a system for the management of anesthesia supplies and medications. The system is tailored for the workflow of the clinician working in the operating room. The Anesthesia Workstation incorporates ergonomics to enhance the particular workflows inherent to the operating room and unique software to better handle case management in the procedural areas.

### Medical and Surgical Supply Products

Our medical and surgical supply products provide acute care hospitals control over consumable supplies critical to providing quality healthcare. These solutions provide inventory control software that is designed to ensure that 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.

Implantable tissue and bone grafts can also be monitored and tracked for additional patient safety and regulatory compliance. The bone and tissue features are integrated with our overall medical and surgical supply chain inventory



management and charge capture systems. These solutions are designed for use in the materials management department, the nursing unit and specialty areas such as the catheterization lab and the operating room. They integrate with other information management systems and use bar code technology extensively.

Table of Contents

Our supply product line includes the Omnicell Supply Solution, Omnicell Open Supply Solution, Supply/Rx Combination Cabinet, Omnicell Tissue Center, OptiFlex MS, OptiFlex SS, OptiFlex CL. Each of these products is summarized in the table below;

Product	Use in Hospital	Description
Omnicell Supply Solution	Any nursing area in a hospital department that uses patient care supplies	Secure dispensing system that automates the management and dispensing of medical and surgical supplies at the point of use
Omnicell Open Supply Solution	Areas that require the management of high volume/low dollar inventory as well as areas where space restrictions limit the ability to install closed cabinets and other areas such as off-site clinics	Ability to expand inventory management capabilities by providing efficient workflow and flexibility to enable either remote inventory management from closed supply cabinets or completely open shelf inventory management from a touchscreen PC, Scanner or mobile solution.
Supply/Rx Combination Solution	Any nursing area in a hospital department that uses patient care supplies and administers medications	Secure dispensing system that manages both supplies and medications from the same cabinets, using the same user interface screens, in medical and surgical units and specialty areas
Omnicell Tissue Center	Perioperative areas of the hospital	Manages the chain of custody for bone and tissue specimens from the donor to the patient in the operating room
OptiFlex MS	Any nursing area in a hospital department that administers supplies	System for the management of medical and surgical supplies that provides the flexibility of using bar code control in an open shelf or closed cabinet environment
OptiFlex SS	Perioperative areas of the hospital	Specialty modules for the perioperative areas
OptiFlex CL	Procedure areas in the hospital including the cardiac catheterization lab	Specialty modules for the cardiac catheterization lab and other procedure areas

The Omnicell Supply Solution is a secure dispensing system that dispenses and tracks medical and surgical supplies at the point of use.

The Omnicell Open Supply Solution provides an efficient workflow solution that allows for expanded inventory management from a closed supply cabinet or completely open shelf solution from a touchscreen PC and scanner. Supply/Rx Combination Solution is designed to manage medications and supplies in one versatile cabinet or group of cabinets. This solution allows each department to manage supplies and medications independently, while tracking transaction data, inventory, expenses and treatment costs through a single system.

Omnicell Tissue Center used in conjunction with the OptiFlex platform, allows the operating room staff to manage the chain of custody for bone and tissue specimens from the donor to the patient in the operating room. This solution enables compliance with The Joint Commission requirements and Association of Operating Room Nurses guidelines regarding the handling of tissue specimens.

OptiFlex MS solution provides control over general medical and surgical supplies stored in open shelves or in automated dispensing cabinets.

OptiFlex SS manages supplies and preference cards in the perioperative areas whether the supplies are stored on open shelves or in automated dispensing cabinets. The preference-list system creates a unique bar code for each surgical case, based on physician, procedure and patient and provides information on the case for data analysis, reporting including real-time case cost and charge capture. The Suture Module is designed to be integrated into the Omnicell Supply Solution to secure, dispense and automatically track suture usage.

OptiFlex CL manages supplies and creates cases in the cardiac catheterization lab, interventional radiology suite and other procedure areas. This solution allows real-time point-of-use data collection and accurate supply tracking

regardless of whether supplies are stored on open shelves or in automated dispensing cabinets. It also improves cost management through automated charge capture and case profiling by the physician. The Catheter Module is designed to be integrated into the

## Table of Contents

Omnicell supply cabinet and allows hospitals to secure, dispense and electronically track accurate catheter usage. The Implant Tracking Module records expiration date, lot and serial number information to help enable compliance with Joint Commission and FDA requirements regarding surgical implants in the event of a recall.

### Other Automation and Analytics Products and Services

Omnicell Interface Software provides interface and integration between our medication-use products or our supply products and a healthcare facility's in-house information management systems. Interface software is designed to provide integration and communication of patient data, logistical data, inventory information, charge capture and billing information and other healthcare database information.

Services include customer education and training and maintenance and support services, provided on a time-and-material basis. We also provide fixed period service contracts to our customers for post-installation technical support with phone support, on-site service, parts and access to software upgrades. On-site service is provided by our field service team.

### Other product offerings as result of Aesynt Acquisition

The Aesynt acquisition is expected to help us to expand the product portfolio discussed above, particularly on the following areas:

#### Central Pharmacy Solutions:

ROBOT-Rx®, a leading hospital pharmacy robotics system, is used to automate the drug dispensing process for patients and automated dispensing cabinets. Using bar-code scanning technology, ROBOT-Rx can automate the storage, dispensing, returning, restocking and crediting of more than 90 percent of a hospital's daily unit-dose medications. ROBOT-Rx helps prevent dispensing errors, manages unit dose inventory, increases productivity, and frees pharmacists and technicians to support more productive clinical activities.

The MedCarousel® system enables a hospital pharmacy to consolidate and manage medication inventory in the pharmacy and throughout the hospital, while helping in increase medication filling accuracy, reducing waste, increasing inventory turns and improving workforce performance. MedCarousel automates the processes of automated dispensing cabinet replenishment and dispensing of patient-specific first dose and scheduled medications.

MedShelf-Rx™ is a software-only solution that allows hospitals to apply bar-code scanning and perpetual inventory management processes to existing inventory locations, such as pick stations and refrigerated inventories, providing increased accuracy, efficiency and patient safety. MedShelf-Rx maintains perpetual inventory levels and provides expiration date tracking, cycle counting, and order creation and receipt. MedShelf-Rx is also ideal for extending inventory management to offsite clinics and satellite pharmacies.

PROmanager-Rx™ is the only bar-code-driven robotics system designed to fully automate the storing, dispensing, returning and crediting of manufacturer packaged, oral-solid unit doses. PROmanager-Rx is a compact system that stores up to 12,000 doses and uses bar-code scanning of every dose, along with sophisticated dispensing and inventory management software. PROmanager-Rx helps relieve pharmacies of the error potential, pharmacist verification requirements, and other costs associated with in-house packaging.

PACMED™ is an automated, intelligent, high-throughput device for bar-coding, packaging and dispensing oral solid medications. Scalable to the needs of any pharmacy with models equipped with 100 to 500 medication canisters, and requiring minimal operator interaction, PACMED can be interfaced to pharmacy information systems and automated dispensing cabinet systems. PACMED produces strips of bar-coded unit-dose currently, multi-dose and batch-mode packages for replenishing carts, cabinets, multiple sites and pharmacy stock. PACMED is the only high-speed packager capable of producing packages.

NarcStation™ automated dispensing system provides secure storage, control and tracking of controlled medications so nurses have ready access, while pharmacy maintains oversight to help prevent narcotic diversion. Comprised of a software tracking system and optional secure narcotic vaults, NarcStation helps hospitals maintain record-keeping, reporting and transaction data for all controlled substances - from the wholesaler to the nursing unit. Automated ordering (including integration with the DEA's Controlled Substance Ordering System), filling and reporting drives

efficiencies, while the electronic capture of data supports regulatory requirements and aids compliance.

PakPlus-Rx® is a professionally managed, on-site packaging service that provides dedicated company resources, technology and consumables, along with professional management, to meet a hospital's bar-coded, unit-dose medication

Table of Contents

requirements. PakPlus-Rx help increase packaging productivity, helping hospitals to streamline inventory and deliver readable bar-coded unit dose medications that support automation and Bar-Code Medication Administration (BCMA) initiatives.

Fulfill-RxSM software automates inventory reordering, receipt and replenishment; minimizes medication-related expenditures; simplifies inventory reporting and valuation; and increases productivity of scarce labor. The software enables unique, two-way electronic data interchange between Aesynt pharmacy automation solutions and McKesson Health Systems distribution centers.

Point of Care Solutions:

AcuDose-Rx® automated medication dispensing cabinets help ensure that nurses get their medications when they need them. The cabinets provide nurses with fast and easy access to the medications their patients need. At the same time, AcuDose-Rx improves pharmacy oversight of the medication-use process. It automatically tracks and sends real-time usage data, enabling pharmacy to monitor the most important safety, security and inventory factors.

Anesthesia-Rx® is an automated anesthesia cart that monitors and controls the dispensing of medications, narcotics and supplies during surgical procedures, while ensuring that Anesthesiologists and certified registered nurse anesthetists (CRNAs) have easy access. The workflow is designed specifically to match the operating room. The anesthesia provider simply opens the drawer and makes a couple of quick touches on the large touch screen to dispense the medication and narcotics they need.

IV Solutions:

i.v.STATION™ prepares and dispenses ready-to-administer, non-hazardous admixtures. With this advanced technology, a user can address the highest-risk aspects of their pharmacy through an automated process is safer and more accurate than manual compounding.

i.v.STATION™ ONCO was specifically designed to meet the unique challenges surrounding oncology care and other toxic, patient-specific preparations. This technology helps improve safety for the patient and the operator, and can enhance efficiency in overall pharmacy operations.

Aesynt’s i.v.SOFT® portfolio enables clinicians to manage and control both their automated and manual IV operations, and is scalable to support multiple products and locations.

Enterprise Software:

Enterprise Medication Manager™ actively drives the pharmacy automation in the hospital and across the health system to help ensure the right medications are delivered as ordered -without excess inventory. Aesynt Enterprise Medication Manager minimizes system-wide inventories, increase responsiveness to medication shortages and reduce expired medications, while freeing pharmacy staff to focus clinical care. Aesynt Professional Services work with clinicians organization to tailor the Aesynt Enterprise Medication Manager solution to help ensure that they realize the full value of their investment.

Automation Decision Support™ provides important performance data essential for hospitals to make informed business decisions. Powered by Horizon Business Insight, this advanced analytics solution combines and organizes data from Aesynt solutions into powerful graphic views. Managers see a holistic view of medication inventory, helping to improve productivity and enhance monitoring of potential diversion.

Besides the products above, Aesynt offers customer education and training, as well as, fixed period service contracts for post-installation technical support, on-site service, parts and access to software upgrades.

Product	Use in Hospital	Description
i.v.STATION™	Hospital Central Pharmacy	Prepares and dispenses ready-to-administer, non-hazardous admixtures. With this advanced technology, you can address the highest-risk aspects of your pharmacy through an automated

i.v.STATION™  
ONCO

Hospital Central Pharmacy

process that's safer and more accurate than manual compounding  
Specifically designed to meet the unique challenges surrounding oncology care and other toxic, patient-specific preparations. This technology improves safety for the patient and the operator, and can enhance efficiency in overall pharmacy operations

Table of Contents

i.v.SOFT®	Hospital Central Pharmacy	<p>The portfolio enables you to manage and control both your automated and manual IV operations, and is scalable to support multiple products and locations</p>
Automation Decision Support™	Hospital Central Pharmacy	<p>Provides important performance data essential for hospitals to make informed business decisions. Powered by Horizon Business Insight, this advanced analytics solution combines and organizes data from Aesynt solutions into powerful graphic views. Managers see a holistic view of medication inventory, helping to improve productivity and enhance monitoring of potential diversion</p>
ROBOT-Rx®	Hospital Central Pharmacy	<p>The world’s leading hospital pharmacy robotics system, is used to automate the drug dispensing process for patients and automated dispensing cabinets. Using bar-code scanning technology, ROBOT-Rx automates the storage, dispensing, returning, restocking and crediting of more than 90 percent of a hospital’s daily unit-dose medications. ROBOT-Rx prevents dispensing errors, manages unit dose inventory, increases productivity, and frees pharmacists and technicians to support more productive clinical activities</p>
The MedCarousel® system	Hospital Central Pharmacy	<p>Enables a hospital pharmacy to consolidate and manage medication inventory in the pharmacy and throughout the hospital, while increasing medication filling accuracy, reducing waste, increasing inventory turns and improving workforce performance. MedCarousel automates the processes of automated dispensing cabinet replenishment and dispensing of patient-specific first dose and scheduled medications. When used with other Aesynt solutions, MedCarousel integrates seamlessly to provide an optimal solution for the central pharmacy</p>
PROmanager-Rx™	Hospital Central Pharmacy	<p>The only bar-code-driven robotics system designed to fully automate the storing, dispensing, returning and crediting of manufacturer packaged, oral-solid unit doses. PROmanager-Rx is an extremely compact system that stores up to 12,000 doses and uses bar-code scanning of every dose, along with sophisticated dispensing and inventory management software, making it the safest automated pharmacy system available. PROmanager-Rx relieves pharmacies of the error potential, pharmacist verification requirements, and other costs associated with in-house packaging</p>
PACMED™	Hospital Central Pharmacy	<p>An automated, intelligent, high-throughput device for bar-coding, packaging and dispensing oral solid medications. Scalable to the needs of any pharmacy with models equipped with 100 to 500 medication canisters, and requiring minimal operator interaction, PACMED can be interfaced to pharmacy information systems and automated dispensing cabinet systems. PACMED produces strips of bar-coded unit-dose, multi-dose and batch-mode packages for replenishing carts, cabinets, multiple sites and pharmacy stock. PACMED is the only high-speed packager capable of producing packages for the</p>



Aesynt

Automated dispensing system provides secure storage, control and tracking of controlled medications so nurses have ready access, while pharmacy maintains oversight to prevent narcotic diversion. Comprised of a software tracking system and optional secure narcotic vaults, NarcStation helps hospitals maintain record-keeping, reporting and transaction data for all controlled substances - from the wholesaler to the nursing unit. Automated ordering (including integration with the DEA's Controlled Substance Ordering System), filling and reporting drives efficiencies, while the electronic capture of data supports regulatory requirements. and aids compliance

NarcStation™

Hospital Central Pharmacy

Table of Contents

PakPlus-Rx ®	Hospital Central Pharmacy	<p>A professionally managed, on-site packaging service that provides dedicated Aesynt resources, technology and consumables, along with professional management, to meet a hospital’s bar-coded, unit-dose medication requirements. PakPlus-Rx increases packaging productivity, helping hospitals to streamline inventory and deliver readable bar-coded unit dose medications that support automation and Bar-Code Medication Administration (BCMA) initiatives</p>
Fulfill-RxSM	Hospital Central Pharmacy	<p>A software automates inventory reordering, receipt and replenishment; minimizes medication-related expenditures; simplifies inventory reporting and valuation; and increases productivity of scarce labor. The software enables unique, two-way electronic data interchange between Aesynt pharmacy automation solutions and McKesson Health Systems distribution centers</p>
AcuDose-Rx	Any nursing area in a hospital department that administers medications	<p>Automated medication dispensing cabinets ensure that nurses get their meds when they need them. The cabinets provide nurses with fast and easy access to the medications their patients need. At the same time, AcuDose-Rx improves pharmacy oversight of the medication-use process. It automatically tracks and sends real-time usage data, enabling pharmacy to monitor the most important safety, security and inventory factors. AcuDose-Rx is the most flexible cabinet on the market-and the only one optimized for use in both cabinet-centric and patient-centric medication dispensing environments. Further, no cabinet dispenses faster, or is easier to learn, than AcuDose-Rx</p>
Anesthesia-Rx®	Operating room	<p>An automated anesthesia cart that monitors and controls the dispensing of medications, narcotics and supplies during surgical procedures, while ensuring that Anesthesiologists and certified registered nurse anesthetists (CRNAs) have easy access. The workflow is designed specifically to match the operating room. The anesthesia provider simply opens the drawer and makes a couple of quick touches on the large touch screen to dispense the medication and narcotics they need</p>
Enterprise Medication Manager™	Hospital Central Pharmacy	<p>Enterprise Medication Manager is the only pharmacy supply chain solution that provides real-time ability to view and act on medication inventory and demand across every level of the health system. The solution is designed to minimize system-wide inventories, increase responsiveness to medication shortages and reduce expired medications, while freeing pharmacy staff to focus on clinical care</p>

Medication Adherence Products and Services

We offer solutions to assist institutional and retail pharmacies in packaging medication for patient use in care environments where there is a caregiver present and for environments where the patient cares for him or herself. For environments where a caregiver is present, institutional and retail pharmacies use our solutions for packaging medications into adherence packages that contain a 14 to 90 day supply of a specific single medication. The blister cards may be pre-packaged ahead of time and placed into inventory until needed to fill a specific patient order, or

on-demand, where individual patient medication orders are packaged and labeled by an automated robotic system. Our solutions range from manual sealers to fully automated packaging machines, embedded software, and the consumable packages used in these machines. We have packaging solutions to improve patient safety and economics for any size pharmacy operation by increasing pharmacy output and improving dispensing accuracy.

For environments where a patient cares for him or herself, retail pharmacies use our solutions for packaging medications into adherence packages that contain all of the patient's medications into one seven-day package. These products are primarily used in community-based pharmacies to assist in organizing complex medication regimens into a simple-to-use solution that enhances medication adherence. Multi-medication packages are arranged so that all the medications for a single dosing time are contained in one blister, eliminating confusion for the patient and providing the caregivers increased assurance that medications are taken in the right sequence. Our solutions include automated packaging machines that package patient specific medications, the software that runs these machines and the consumable packages used in these machines.

## Table of Contents

In addition to packaging solutions, we sell specially configured versions of our OmniRx medication dispensing machines to institutional pharmacies, which they place in long-term care facilities to manage narcotics, first doses and medications needed quickly.

### Single Medication Products For Use Where A Caregiver Is Present

#### Pharmacy Sealers for Medication Packaging

Our heat-sealed blister cards require a sealer to create an impermeable barrier. By using specially designed equipment to control heat, time and pressure, the institutional pharmacy serving the long-term care patients is able to create a quality seal on every package, providing a secure barrier to moisture and gases. Within this range of equipment is a sealing solution suited for almost any pharmacy, from a low volume manual blister card sealer to a high volume, all electric heat sealer with programmable computer logic.

• The SureSeal is a programmable, manual sealer using heat and pressure. It is designed as a cost effective, entry level sealer for low volume sealing of medication blister cards.

• The Autobond is a programmable, semi-automated heat and pressure sealer operating off of electricity and compressed air. Autobond provides temperature and time controls for a consistent quality sealing.

• The AutoGen is a programmable, semi-automated heat and pressure sealer operating off of electricity only.

• The Gemini is a compact all-electric heat and pressure sealer.

#### Automated Fillers

Our semi-automated filling equipment is designed specifically for the long-term care institutional pharmacy with enough order volume to warrant pre-packaging frequently-used medications into blister packs to keep in inventory awaiting a patient order. This packaging equipment elevates pre-packaging to a higher level of efficiency, resulting in higher accuracy and increased production levels. The systems combine both automated filling and sealing capabilities into one machine.

The MTS-350 is a tabletop machine capable of filling a wide range of medications and features an ergonomic design and easy-to-use controls. The MTS-350 provides a semi-automated mechanism for filling blister cards and a sealer using compressed air and heat.

The MTS-400 is ergonomically designed for high pre-pack volume for the medium to large pharmacy. The MTS-400 provides a portable workstation with built-in compressor and storage so as not to take up valuable counter space. Fully configured, the MTS-400 allows a single operator to perform the functions of filling, inspection, sealing and labeling simultaneously.

The MTS-500 is designed for high-volume to automate pre-packaging and labeling in the pharmacy and is capable of producing up to 960 pre-packaged blister cards per hour. It includes an integrated label applicator and conveyor to optimize output.

#### Pharmacy Automation Systems

Our OnDemand automated solutions are designed to meet the broad needs of pharmacies to package individual patient medication orders accurately and efficiently into multiple medication adherence packaging. These machines interface with pharmacy information systems to obtain prescription information to provide patient specific adherence packaging. Our current line of OnDemand machines includes the following products:

• AccuFlex uses robotic technology to accurately and efficiently fill a variety of single-dose medication dispensing systems.

• OnDemand Express II optimizes robotic technology for very high-speed and accurate fulfillment of single-dose blister cards and reclaimable packaging.

#### Single Medication Blister Cards

We offer a wide variety of heat seal and cold seal blister cards. Heat Seal Blister Cards come in a variety of formats that will fit various packaging requirements and require a heat sealer such as the MTS Autobond. Blister cards come in a variety of configurations, from 14 to 90 day doses. Heat seal cards provide a stronger seal than cold seal cards, helping pharmacists ensure consistency of the medication under nearly any environmental condition. Cold Seal Cards, also known as pressure sensitive cards, are both efficient and reliable and do not require heat sealing equipment to be sealed. They are ideal



## Table of Contents

for emergency orders, for heat sensitive medications or when the use of a heat sealer is not practical. Cold seal blister cards come in a variety of configurations, from 14 to 90 day doses.

### Pharmacy Printing and Labeling Solutions

Pharmacy labeling is an important part of the packaging process to ensure the right medication is packaged and delivered to the right facility and, ultimately, the right patient. Drug specific, bar code scannable labels are affixed on many different types of packages prior to them being dispensed.

We provide a Windows-based computer program that uses an extensive drug image database to produce a wide variety of medication labels on multiple printers. We also provide printers and related consumables.

### MultiMedication Solutions For Use Where Patients Care For Themselves

#### Pharmacy Automation Systems

Our OnDemand and M-series automated solutions are designed to meet the broad needs of pharmacies to package individual patient medication orders accurately and efficiently into multimed adherence packaging. These machines interface with pharmacy information systems to obtain prescription information to provide patient-specific adherence packaging. Our current line of automation for multimедication includes the following products:

OnDemand 400 is an automation system for multi-medication adherence packaging. The OnDemand 400 receives patient prescriptions, constructs a filling map, fills multiple medication prescriptions into a single blister card from an on-line array of 40 medications stored in specially calibrated dispensing canisters, prints a label and provides an operator a sealing station.

M5000 is a fully automated system designed specifically for multi-medication adherence packaging. The M5000 receives patient prescriptions, constructs a filling map, then uses robotic technology that fills, seals and labels the package. The M5000 minimizes human activity in the multi-medication packaging process, thus reducing opportunity for errors.

#### MultiMedication Blister Cards

We offer a wide variety of heat seal and cold seal multi-medication blister cards, including products from our acquisition of Surgichem in August 2014. Multi-medication cards allow the packaging of multiple drugs into a single blister cavity representing a specific dosing time. Multi-medication cards are sold in a variety of formats to fit the needs of pharmacists and patients, with the most common format providing four dosing times for each of seven days in one package. Multi-medication adherence packages may be assembled by pharmacists by hand, or by using our pharmacy automation systems described above.

#### Medication Management Solutions

Medication management systems are becoming an integral part of long-term care facilities to manage narcotics, first doses and emergency medications. Currently, most facilities rely on manual systems that do not provide the level of security, accountability and efficiencies that are attainable with the use of automation. When automation is implemented, pharmacies benefit by helping their customer facilities meet regulatory requirements and improve the response time. Patients benefit by having access to medications immediately with minimized medication errors. We offer specialized versions of the OmniRx medication control solution that is used by institutional pharmacies to provide their customers with secure medication management of narcotics, emergency medication, and first doses.

#### Sales and Distribution

We sell our Automation and Analytics and Medication Adherence solutions primarily in the United States and Canada. Approximately 85% of our product revenue was generated in those markets for the year ended December 31, 2015. No single customer accounted for greater than 10% of our revenues for the years ended December 31, 2015, December 31, 2014 and December 31, 2013. Our sales force is organized by geographic region in the United States and Canada where our sales are primarily made direct to end user customers with the exception of some distribution of Medication Adherence consumables. Outside the United States and Canada, we field a direct sales force for Medication Adherence products in the United Kingdom and Germany. For other geographies we generally sell through distributors and resellers. Our foreign operations are discussed in Note 12, Segment and Geographical Information, of the Notes to Consolidated Financial Statements and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in this annual report. Our combined direct, corporate and international distribution sales teams consisted of approximately 231 staff members as of December 31, 2015. Nearly all of our

direct sales team members have hospital capital equipment or clinical systems experience. Our sales

18

---

## Table of Contents

representatives are generally organized to sell either the Automation and Analytics or Medication Adherence product lines. Our corporate sales team focuses on large IDNs, group purchasing organizations ("GPOs"), and the U.S. government.

The sales cycle for our automation systems is long and can take in excess of 12-24 months. This is due in part to the cost of our systems and the number of people within each healthcare facility involved in the purchasing decision. To initiate the selling process, the sales representative generally targets the director of pharmacy, the director of nursing, the director of materials management or other decision makers and is responsible for educating each group within the healthcare facility about the economic safety and compliance benefits of our solutions relative to competing methods of managing medications or medical and surgical supplies.

We have contracts with GPOs that enable us to sell our automation systems to GPO member healthcare facilities. The primary advantage to customers who buy our products pursuant to a GPO agreement is that they benefit from pre-negotiated contract terms and pricing. The benefit to the GPO is the fee earned as a percentage of sales, which is paid by us. These GPO contracts are typically for multiple years with options to renew or extend for up to two years and some of which can be terminated by either party at any time. Our current GPO contracts include Amerinet, Inc., Federal Supply Schedule, First Choice Management Services, Healthcare Purchasing Alliance, LLC, HealthTrust Purchasing Group, L.P., Magnet, MedAssets Performance Management Solutions, Novation LLC, Premier Healthcare Alliance, L.P. and Resource Optimization & Innovation, LLC. We have also contracted with the U.S. General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase or lease our products.

We offer multi-year, non-cancelable lease payment terms to assist healthcare organizations in purchasing our systems by reducing their cash flow requirements. We sell the majority of our multi-year lease receivables to third party leasing finance companies, but we also maintain a certain portion of our leases in-house.

Our field operations representatives support our sales force by providing operational and clinical expertise prior to the close of a sale and during installation of our automation systems. This group assists the customer with the technical implementation of our automation systems, including configuring our systems to address the specific needs of each individual customer. After the systems are installed, on-site support is provided by our field service team and technical support group.

We offer telephone technical support through our technical support centers in Illinois and Florida. Our support centers are staffed 24 hours a day, 365 days a year. We have found that a majority of our customers' service issues can be addressed either over the phone or by our support center personnel using their on-hand remote diagnostics tools. In addition, we use remote dial-in software that monitors customer conditions on a daily basis. We offer a suite of remote monitoring features, which proactively monitors system status and alerts service personnel to potential problems before they lead to system failure.

In addition, our international sales team handles direct sales to non-acute healthcare facilities in the United Kingdom and Germany, and handles sales, installation and service to non-acute healthcare facilities through distribution partners in other parts of Europe, Asia, Australia, the Middle East, South Africa, and South America. Our international sales team handles sales, installation and service to all Automation and Analytics customers outside the U.S. and Canada through distribution partners. Our products are available in a variety of languages including Mandarin, French, Spanish and German.

We have not sold and have no future plans to sell our products either directly or indirectly to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, or those subject to economic sanctions and export controls.

### Manufacturing and Inventory

The manufacturing process for our Automation and Analytics products allows us to configure hardware and software in unique combinations to meet a wide variety of individual customer needs. The Automation and Analytics product manufacturing process primarily consists of the final assembly of components and testing of the completed product. Many of the subassemblies and components we use are provided by third-party contract manufacturers or other suppliers. We and our partners test these subassemblies and perform inspections to assure the quality and reliability of our products. While many components of our systems are standardized and available from multiple sources, certain



components or subsystems are fabricated by a sole supplier according to our specifications and schedule requirements. Our Medication Adherence product manufacturing process consists of fabrication and assembly of equipment and mechanized process manufacturing of consumables.

Our arrangements with our contract manufacturers generally set forth quality, cost and delivery requirements, as well as manufacturing process terms, such as continuity of supply, inventory management, capacity flexibility, quality and cost management, oversight of manufacturing and conditions for the use of our intellectual property.

## Table of Contents

Our manufacturing organization procures components and schedules production based on the backlog of customer orders. Installation of equipment and software typically occurs between two weeks and twelve months after the initial order is received, depending upon the customer's particular needs. We deploy a key operational strategy of operating with backlog levels that approximate the average installation cycle of our customers, which allows us to more efficiently manage our installation teams, improve production efficiencies, reduce inventory scrap and lower shipping costs. Shipment of consumables typically occurs between one and fourteen days after an order is received.

### Competition

The medication management and supply chain solutions market is intensely competitive. We compete directly with a number of companies and are affected by evolving and new technologies, changes in industry standards and dynamic customer requirements.

Our current direct competitors in the medication management and supply chain solutions market include Becton Dickinson/CareFusion Corporation, ARxIUM (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Talyst, Inc., Emerson Electronic Co. (through its acquisition of medDispense, L.P.), Swisslog Holding AG (which was acquired by KUKA), WaveMark Inc., ParExcellence Systems, Inc., Vanas N.V., Infor (formally Lawson Software, Inc.), Willach Pharmacy Solutions, DIH Technologies Co., Yuyama Co., Ltd, Robopharma B.V., Apostore GmbH, KIS Steuerungstechnik GmbH and Suzhou Iron Technology (China). Our current direct competitors in the medication packaging solutions market include Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of ARxIUM), Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. in the United States, and Jones Packaging Ltd., Synergy Medical Systems, Manrex Ltd, Global Factories and WebsterCare outside the United States.

We believe our products and services compare favorably with the offerings of our competitors, particularly with respect to proprietary technological advancements, system performance, system reliability, installation, applications training, service response time and service repair quality.

### Intellectual Property and Proprietary Technology

We rely on a combination of patents, trademarks, copyright and trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights.

We pursue patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and that offers a potential competitive advantage for our products. Our issued patents relate to, among other things, the use of locking and sensing lids with pharmacy drawers and the methods of restocking these drawers, and the use of guiding lights in the open matrix, locking lid and sensing lid pharmacy drawers. These patents also apply to our unit-dose mechanism and methods, the single-dose dispensing mechanism, the methods for restocking the single-dose drawers using exchange liners, certain methods for loading and unloading mobile carts, the method of use of scanners with a mobile cart, and certain methods for using radio frequency tags with storage items. Our patents expire at various times between 2016 and 2033.

All of our product system software is copyrighted and subject to the protection of applicable copyright laws. We intend to seek additional international and U.S. patents on our technology and to seek registration of our trademarks. We have obtained registration of Omnicell, the Omnicell logo, OmniRx, OmniCenter, OmniSupplier, OmniBuyer, SafetyStock, eMTS Medication Technologies, the MTS Medication Technologies logo, easy Blist, Medlocker, AccuFlex, Pandora, OnDemand, RxMap, Suremed and OnDemand400 for RxMap. Trade secrets and other confidential information are also important to our business. We protect our trade secrets through a combination of contractual restrictions and confidentiality and licensing agreements.

### Research and Development

We use industry standard operating systems and databases, but generally develop our own application and interface software in our research and development facilities. New product development projects are prioritized based on customer input. Research and development takes place in Mountain View, California, Nashville, Tennessee, St. Petersburg, Florida and Beijing, China. Research and development expenses were \$35.2 million, \$27.8 million and \$29.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### Employees

We had a total of 1,451 employees as of December 31, 2015. We have rebalanced our staff as needed, at times eliminating some functional positions and at other times adding new functional specific positions to meet the evolving needs of our marketplace while controlling costs. To our knowledge, none of our employees are represented by a collective bargaining agreement, nor have we experienced any work stoppage. We believe that our employee relations are good.

20

---

Table of Contents

Business Under Government Contracts

A number of our U.S. government owned or government-run hospital customers sign five-year leases, with payment terms that are subject to one-year government budget funding cycles. Failure of any of our U.S. government customers to receive their annual funding could impair our ability to sell to these customers, or to collect payments on our existing unsold leases. For additional information regarding these leases, see the section entitled "Risk Factors" under Part I, Item 1A below.

Financing Practices Relating to Working Capital

We assist healthcare facilities in financing their cash outlay requirements for the purchase of our systems by offering multi-year, non-cancelable sales contracts. For additional information regarding these financing activities, see Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in this annual report.

Product Backlog

Product backlog is the dollar amount of medication and supply dispensing systems for which we have purchase orders from our customers and for which we believe we will install, bill and gain customer acceptance within one year. Due to industry practice that allows customers to change order configurations with limited advance notice prior to shipment and occasional customer changes in installation schedules, we do not believe that backlog as of any particular date is necessarily indicative of future sales. However, we do believe that backlog is an indication of a customer's willingness to install our solutions. Our backlog was \$204.7 million and \$187.7 million as of December 31, 2015 and December 31, 2014, respectively.

Company Information

We were incorporated in California in 1992 under the name of Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc.

Available Information

We file reports and other information with the Securities and Exchange Commission ("SEC") including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy or information statements. Those reports and statements as well as all amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act (1) are available at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549, (2) are available at the SEC's internet site ([www.sec.gov](http://www.sec.gov)), which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC and (3) are available free of charge through our website as soon as reasonably practicable after electronic filing with, or furnishing to, the SEC. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our website address is [www.omnicell.com](http://www.omnicell.com). Information on our website is not incorporated by reference nor otherwise included in this report.

Executive Officers of the Registrant

The following table sets forth certain information about our executive officers as of the date of this annual report:

Name	Age	Position
Randall A. Lipps	58	President, Chief Executive Officer, and Chairman of the Board of Directors
J. Christopher Drew	50	Executive Vice President, Sales and Marketing for North American Automation
Peter J. Kuipers	44	Executive Vice President & Chief Financial Officer
Robin G. Seim	56	Executive Vice President, Global Automation and Medication Adherence
Dan S. Johnston	52	Executive Vice President and Chief Legal & Administrative Officer
Nhat H. Ngo	43	Executive Vice President, Strategy and Business Development
Jorge R. Tabora	56	Executive Vice President, Engineering and Integration Management Office

Randall A. Lipps was named Chief Executive Officer and President of Omnicell in October 2002. Mr. Lipps has served as Chairman of the Board and a Director of Omnicell since founding Omnicell in September 1992. Mr. Lipps received both a B.S. in economics and a B.B.A. from Southern Methodist University.

J. Christopher Drew joined Omnicell in April 1994 and was named Senior Vice President, Operations in January 2005. In January 2009, Mr. Drew was named Senior Vice President, Field Operations. In March 2012, Mr. Drew was named Executive Vice President, Field Operations. In February 2015, Mr. Drew was named Executive Vice President,

Sales and Marketing. In January 2016, Mr. Drew was named Executive Vice President, Sales and Marketing for North American Automation and is responsible for sales, marketing, operations, and services of our automation and analytics segment in the

21

---

Table of Contents

North America region. Mr. Drew received a B.A. in economics from Amherst College and an M.B.A. from the Stanford Graduate School of Business.

Peter J. Kuipers joined Omnicell in August 2015, as Executive Vice President and Chief Financial Officer. Prior to Omnicell, Mr. Kuipers served as Senior Vice President and Chief Financial Officer of Quantcast Corp., a global technology company that specializes in digital audience measurement and real-time advertising. From May 2013 to December 2014, Mr. Kuipers served as Executive Vice President and Chief Financial Officer of The Weather Company, a media and global technology leader operating The Weather Channel, weather.com, wunderground.com and its professional services division WSI. From September 2009 to April 2013, Mr. Kuipers served in various financial management positions at Yahoo! Inc., a global internet technology company, most recently as Vice President, Finance for the Americas region. Prior to Yahoo! Inc., Mr. Kuipers held financial leadership roles at Altera Corporation, General Electric Company, and Akzo Nobel. He started his career with Ernst & Young and worked in both the Netherlands and Seattle, Washington. Mr. Kuipers received a Master's Degree in Economics and Business Administration from Maastricht University and is a Chartered Accountant in the Netherlands.

Robin G. Seim joined Omnicell in February 2006 as Vice President and was named Chief Financial Officer in March 2006. In January 2009, Mr. Seim was named Chief Financial Officer and Vice President Finance, Administration and Manufacturing. In March 2012, Mr. Seim was named Chief Financial Officer and Executive Vice President Finance, Administration and Manufacturing. In February 2015, Mr. Seim was named Chief Financial Officer and Executive Vice President, Finance, International and Manufacturing. In January 2016, Mr. Seim was named Executive Vice President, Global Automation and Medication Adherence. Prior to joining Omnicell, Mr. Seim served as Chief Financial Officer of several technology companies, including Villa Montage Systems, Inc. from 1999 to 2001, Candera, Inc. from 2001 to 2004 and Mirra, Inc., in 2005. Prior to 1999, Mr. Seim held a number of management positions with Nortel Networks, Bay Networks, and IBM. Mr. Seim received a B.S. in accounting from California State University, Sacramento.

Dan S. Johnston joined Omnicell in November 2003 as Vice President and General Counsel. In March 2012, Mr. Johnston was named Executive Vice President and General Counsel. In February 2015, Mr. Johnston was named Executive Vice President and Chief Legal and Administrative Officer. In January 2016, Mr. Johnston was named Executive Vice President and Chief Administrative Officer. From April 1999 to November 2003, Mr. Johnston was Vice President and General Counsel at Be, Inc., a software company. From September 1994 to March 1999, Mr. Johnston was an attorney with the law firm Cooley LLP. Mr. Johnston received a B.S. in computer information systems from Humboldt State University and a J.D. from the Santa Clara University School of Law.

Nhat H. Ngo joined Omnicell in November 2008 as Vice President of Strategy and Business Development. In March 2012, Mr. Ngo was named Executive Vice President, Strategy and Business Development. From January 2007 to October 2008, Mr. Ngo served as Vice President of Business Development and Licensing for a business unit of Covidien, a global healthcare products company. From June 1999 to April 2006, Mr. Ngo worked at BriteSmile, Inc., a direct-to-consumer aesthetic technology company and served in a variety of senior leadership positions in marketing, sales, operations, strategic planning and corporate development. From September 1997 to June 1999, Mr. Ngo practiced corporate law at Shaw Pittman, LLP. Mr. Ngo received a B.S. in commerce, with a concentration in finance, from the University of Virginia McIntire School of Commerce and a J.D. from the University of Virginia School of Law.

Jorge R. Taborga joined Omnicell in July 2007 as Vice President and Chief Information Officer. From January 2009 to February 2013, Mr. Taborga was Vice President of Manufacturing, Quality and Information Technology. In February of 2013, Mr. Taborga was named Executive Vice President, Engineering. In January 2016, Mr. Taborga was named Executive Vice President, Engineering and Integration Management Office. Prior to joining Omnicell, Mr. Taborga held a number of executive positions with Bay Networks and Quantum, and ran his own management consulting company. He also held executive roles in two cloud computing companies, fusionOne and Terrasping. Mr. Taborga's earlier career includes senior roles in product development with ROLM Systems and Thomas-Conrad. Mr. Taborga received B.S. and M.S. degrees in Computer Science from Texas A&M University. He is currently pursuing a Ph.D. in Organizational Systems at Saybrook University.

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.

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

## Table of Contents

On January 5, 2016, we completed the acquisition of Aesynt (the "Aesynt Acquisition"), a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, I.V. sterile preparation robotics and software, including software related to medication management. Uncertainty about the effect of the acquisition on employees, customers, distributors, partners and suppliers may have an adverse effect on the combined company. These uncertainties may impair our ability to retain and motivate key personnel and could cause customers, distributors, suppliers, partners and others with whom we do business to seek to change existing business relationships. Any such change may materially and adversely affect our business. Any disruption in our operations could adversely affect the combined company's ability to maintain relationships with customers, distributors, partners, suppliers and employees or to achieve the anticipated benefits of the acquisition.

Aesynt's business relationships may be subject to disruption due to uncertainty associated with the Aesynt Acquisition. Parties with which Aesynt currently conducts business or may conduct business in the future, including customers and suppliers, may experience uncertainty associated with the Aesynt acquisition, including with respect to current or future business relationships with us or Aesynt. As a result, Aesynt's business relationships may be subject to disruptions if customers, suppliers and others attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us or Aesynt. These disruptions could have an adverse effect on our businesses, financial condition, results of operations or prospects following the closing. Loss of key personnel could impair the integration of the two businesses, lead to loss of customers and a decline in revenues, or otherwise adversely affect our operations and the operations of Aesynt.

Our success after the completion of the Aesynt Acquisition depends, in part, upon our ability to retain key employees, especially during the integration phase of the two businesses. Current and prospective employees of ours and Aesynt might experience uncertainty about their future roles with us following completion of the Aesynt Acquisition, which might adversely affect our ability to retain key managers and other employees. In addition, competition for qualified personnel in the health care industry is very intense. If we or Aesynt lose key personnel or we are unable to attract, retain and motivate qualified individuals or the associated costs to us increase significantly, our business could be adversely affected.

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

As a part of our business strategy we may seek to acquire businesses, technologies or products in the future. For example, in August 2014, we acquired Surgichem Limited, in April 2015, we acquired Mach4 and the entire remaining issued share capital of Avantec not previously owned by us and, on January 5, 2016, we acquired Aesynt. We cannot provide assurance that any acquisition or any future transaction we complete will result in long-term benefits to us or our stockholders, or that our management will be able to integrate or manage the acquired business effectively. Acquisitions entail numerous risks, including difficulties associated with the integration of operations, technologies, products and personnel that, if realized, could harm our operating results. Risks related to potential acquisitions include, but are not limited to:

- difficulties in combining previously separate businesses into a single unit and the complexity of managing a more dispersed organization as sites are acquired;
- complying with international labor laws that may restrict our ability to right-size organizations and gain synergies across acquired operations;
- complying with regulatory requirements, such as those of the Food and Drug Administration, that we were not previously subject to;
- the substantial costs that may be incurred and the substantial diversion of management's attention from day-to-day business when evaluating and negotiating such transactions and then integrating an acquired business;
- discovery, after completion of the acquisition, of liabilities assumed from the acquired business or of assets acquired that are broader in scope and magnitude or are more difficult to manage than originally assumed;
- failure to achieve anticipated benefits such as cost savings and revenue enhancements;
- difficulties related to assimilating the products or key personnel of an acquired business;
- failure to understand and compete effectively in markets in which we have limited previous experience; and



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

## Table of Contents

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.

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

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

- inability or failure to expand bookings and sales;
- inability or failure to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- inability or failure to successfully integrate and harmonize financial reporting and information technology systems;
- inability or failure to achieve the expected operational and cost efficiencies; and
- loss of key employees.

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

We have incurred substantial debt, which could impair our flexibility and access to capital and adversely affect our financial position.

In connection with the Aesynt Acquisition, we entered into a \$400.0 million senior secured credit facility pursuant to a credit agreement, by and among us, the lenders from time to time party thereto, Wells Fargo Securities, LLC, as sole lead arranger and Wells Fargo Bank, National Association, as administrative agent (the "Credit Agreement"). The Credit Agreement provides for a \$200.0 term loan facility and a \$200.0 million revolving credit facility. At the closing of the Aesynt Acquisition, we incurred \$255.0 million in secured debt under the Credit Agreement, consisting of \$200.0 million of term loans and \$55.0 million of revolving loans. Our debt may:

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

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

In addition, the Credit Agreement includes customary restrictive covenants that impose operating and financial restrictions on us, including restrictions on our ability to take actions that could be in our best interests. These restrictive covenants include operating covenants restricting, among other things, our ability to incur additional indebtedness, effect certain acquisitions or make other fundamental changes. The Credit Agreement also includes financial covenants requiring us not to exceed a maximum consolidated total leverage ratio of 3.00:1 (subject to certain exceptions) and to maintain a minimum



## Table of Contents

fixed charge coverage ratio of 1.50:1. Our failure to comply with any of the covenants that are included in the Credit Agreement could result in a default under the terms of the Credit Agreement, which could permit the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the revolving loan facility, which could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions to take advantage of certain business opportunities that may be presented to us. In addition, if we are unable to repay those amounts, the administrative agent and the lenders under the Credit Agreement could proceed against the collateral granted to them to secure that debt, which would seriously harm our business.

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

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

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

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

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

The medication management and supply chain solutions market is intensely competitive. We expect continued and increased competition from current and future competitors, many of which have significantly greater financial, technical, marketing and other resources than we do. Our current direct competitors in the medication management and supply chain solutions market include Becton Dickinson/CareFusion Corporation, ARxIUM (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Talyst, Inc., Emerson Electronic Co. (through its acquisition of medDispense, L.P.), Swisslog Holding AG (which was acquired by KUKA), WaveMark Inc., ParExcellence Systems, Inc., Vanas N.V., Infor (formerly Lawson Software, Inc.), Willach Pharmacy Solutions, DIH Technologies Co., Yuyama Co., Ltd, Robopharma B.V., Apostore GmbH, KIS Steuerungstechnik GmbH and Suzhou Iron Technology (China). Our current direct competitors in the medication packaging solutions market include Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of now part of ARxIUM), Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. in the United States, and Jones Packaging Ltd., Synergy Medical Systems, Manrex Ltd, Global Factories and WebsterCare outside the United States.

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

- certain competitors may offer or have the ability to offer a broader range of solutions in the marketplace that we are unable to match;
- certain competitors may develop alternative solutions to the customer problems our products are designed to solve that may provide a better customer outcome or a lower cost of operation;
- certain competitors may develop new features or capabilities for their products not previously offered that could compete directly with our products;

Table of Contents

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

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

our competitive environment is currently experiencing a significant degree of consolidation which could lead to competitors developing new business models that require us to adapt how we market, sell or distribute our products;

other established or emerging companies may enter the medication management and supply chain solutions market with products and services that are preferred by our current and potential customers based on factors such as features, capabilities or cost;

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

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

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

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

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

Our medication and supply dispensing systems represent only one approach to managing the distribution of pharmaceuticals and supplies at acute healthcare facilities and our medication packaging systems represent only one way of managing medication distribution at non-acute care facilities. While a significant portion of domestic acute care facilities have adopted some level of medication and/or supply automation, 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, particularly when we are seeking to replace an incumbent supplier of medication and supply automation solutions 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

Table of Contents

customer requirements, and bring such enhancements and products to market in a timely manner, demand for our products could decrease.

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

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

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

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

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

Approximately 17% of our revenue is generated from the sale of consumable medication packages, which are produced in our St. Petersburg, Florida facilities on a continuous basis and shipped to our institutional pharmacy and retail pharmacy customers shortly before they are required by those customers. The demands placed on institutional pharmacies and retail pharmacies by their customers represent real time requirements of those customers. Our customer agreements for the sale of consumable medication packages are typically short-term in nature and typically do not include any volume commitments on the part of the customer. Although our packaging may be considered the preferred method of maintaining control of medications during the medication distribution and administration process, institutional and retail pharmacies have alternative methods of distributing medications, including bulk and alternative packaging, and medication adherence packaging may be supplied by our competitors. To the extent that we are unable to supply quality packaging to our customers in a timely manner, that demand will be met via alternative distribution methods, including consumable medication packaging sold by our competitors, and our revenue will decline. Any disruption in the production capabilities of our St. Petersburg facilities will adversely affect our ability to ship our consumable medication packages and would reduce our revenue.

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

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

Our international operations subject us to a variety of risks, including:

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



- the difficulty of managing an organization operating in various countries;
- political sentiment against international outsourcing of production;
- reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;
- changes in foreign regulatory requirements;

27

---

Table of Contents

the requirement to comply with a variety of international laws and regulations, including privacy, labor, import, export, environmental standards, tax, anti-bribery and employment laws and changes in tariff rates; fluctuations in currency exchange rates and difficulties in repatriating funds from certain countries; additional investment, coordination and lead-time necessary to successfully interface our automation solutions with the existing information systems of our customers or potential customers outside of the United States; and political unrest, terrorism and the potential for other hostilities in areas in which we have facilities.

If we are unable to anticipate and address these risks properly, our business or operating results will be harmed. When we experience delays in installations of our medication and supply dispensing systems or our more complex medication packaging systems, resulting in delays in our ability to recognize revenue, our competitive position, results of operations and financial condition could be harmed.

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

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

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

The manufacture and sale of most of our current products are not regulated by the FDA, or the Drug Enforcement Administration ("DEA"). Through, our acquisition of Aesynt, we now have a Class I, 510(k) exempt medical device that is subject to FDA regulation and will require compliance with the FDA Quality System Regulation as well as medical device reporting. Additional products may be regulated in the future by the FDA, DEA or other federal agencies due to future legislative and regulatory initiatives or reforms. Direct regulation of our business and products by the FDA, DEA or other federal agencies could substantially increase the cost to produce our products and increase the time required to bring those products to market, reduce the demand for our products and reduce our revenues. In addition, healthcare providers and facilities that use our equipment and dispense controlled substances are subject to regulation by the DEA. The failure of these providers and facilities to comply with DEA requirements, including the Controlled Substances Act and its implementing regulations, could reduce demand for our products and harm our competitive position, results of operations and financial condition. Pharmacies are regulated by individual state boards of pharmacy that issue rules for pharmacy licensure in their respective jurisdictions. State boards of pharmacy do not license or approve our medication and supply dispensing systems; however, pharmacies using our equipment are subject to state board approval. The failure of such pharmacies to meet differing requirements from a significant number of state boards of pharmacy could decrease demand for our products and harm our competitive position, results of operations and financial condition. Similarly, hospitals must be accredited by The Joint Commission in order to be eligible for Medicaid and Medicare funds. The Joint Commission does not approve or accredit medication and supply dispensing systems; however, disapproval of our customers' medication and supply dispensing management methods and their failure to meet The Joint Commission requirements could decrease demand for our

products and harm our competitive position, results of operations and financial condition.

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

## Table of Contents

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.

Following the theft in November 2012 of Omnicell electronic device containing customer medical dispensing cabinets log files, we were subject to a putative class action complaint. The complaint was subsequently dismissed without prejudice and plaintiff failed to file an appeal within the requisite deadlines. There is no guarantee that, if we are involved in any similar litigation in the future, such an outcome will result. Any similar unauthorized disclosure of personal health information could cause us to experience contractual indemnification obligations under business associate agreements with certain customers, litigation against us, reputational harm and a reduction in demand from our customers. To the extent that this disclosure is deemed to be a violation of HIPAA or other privacy or security laws, we may be subject to significant fines, penalties and other sanctions.

In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our customers to obtain, use or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

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

The Credit Agreement contains various customary covenants that limit our ability and/or our subsidiaries' ability to, among other things:

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

The Credit Agreement also includes financial covenants requiring us not to exceed a maximum consolidated total leverage ratio of 3.00:1 (subject to certain exceptions) and to maintain a minimum fixed charge coverage ratio of 1.50:1. Our ability to comply with these financial covenants may be affected by events beyond our control. Our failure to comply with any of the covenants under the Credit Agreement could result in a default under the terms of the Credit Agreement, which could permit the administrative agent or the lenders to declare all or part of any outstanding borrowings to be immediately due and payable, or to refuse to permit additional borrowings under the revolving credit facility, which could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions to take advantage of certain business opportunities that may be presented to us. In addition, if we are

unable to repay those amounts, the administrative agent and the lenders under the Credit Agreement could proceed against the collateral granted to them to secure that debt, which would seriously harm our business.

## Table of Contents

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

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

In addition, we have historically used stock options, restricted stock units and other forms of equity compensation as key components of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. The effect of managing share-based compensation expense and minimizing shareholder dilution from the issuance of new shares may make it less favorable for us to grant stock options, restricted stock units or other forms of equity compensation, to employees in the future. In order to continue granting equity compensation at competitive levels, we must seek stockholder approval for any increases to the number of shares reserved for issuance under our equity incentive plans, such as the share increase that was approved at our 2015 Annual Meeting of Stockholders, and we cannot assure you that we will receive such approvals in the future. Any failure to receive approval for current or future proposed increases could prevent us from granting equity compensation at competitive levels and make it more difficult to attract, retain and motivate employees. Further, to the extent that we expand our business or product lines through the acquisition of other businesses, any failure to receive any such approvals could prevent us from securing employment commitments from such newly acquired employees. Failure to attract and retain key personnel could harm our competitive position, results of operations and financial condition.

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

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

Regarding our expenses, our ability to control expense is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our ability to gain efficiencies in our workforce through the local and worldwide labor markets and our ability to grow our outsourced vendor supply model. Our expense growth rate may equal or exceed our revenue growth rate if we are unable to streamline our operations, or fail to reduce the costs or increase the margins of our products. In addition, we may not be able to reduce our expenses to keep pace with any reduction in our revenue, which could harm our results of operations and financial position.

If we fail to develop new products or enhance our existing products to react to rapid technological change and market demands in a timely and cost-effective manner, our business will suffer.

We must develop new products or enhance our existing products with improved technologies to meet rapidly evolving customer requirements. We are constantly engaged in the development process for next generation products, and we need to successfully design our next generation and other products for customers who continually require higher performance and functionality at lower costs. The development process for these advancements is lengthy and usually requires us to accurately anticipate technological innovations and market trends. Developing and enhancing these products can be time-consuming, costly and complex. Our ability to fund product development and enhancements partially depends on our ability to generate revenues from our existing products.

There is a risk that these developments or enhancement, will be late, will have technical problems, fail to meet customer or market specifications and will not be competitive with other products using alternative technologies that offer comparable performance and functionality. We may be unable to successfully develop additional next generation products, new products or product enhancements. Our next generation products or any new products or product enhancements may not be accepted in new or existing markets. Our business will suffer if we fail to continue to develop and introduce new products or product enhancements in a timely manner or on a cost-effective basis. If we experience a significant disruption in our information technology systems or breaches of data security, our business could be adversely affected.

Table of Contents

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

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

While we have implemented a number of protective measures, including firewalls, antivirus and malware detection tools, patches, log monitors, routine back-ups, system audits, routine password modifications and disaster recovery procedures, such measures may not be adequate or implemented properly to prevent or fully address the adverse effect of such events, and in some cases we may be unaware of an incident or its magnitude and effects. If we are unable to prevent such security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties because of lost or misappropriated information, including sensitive patient data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

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

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

Additionally, our competitors may enter into agreements with providers of hospital information management systems that are designed to increase the interoperability of their respective products. To the extent our competitors are able to increase the interoperability of their products with those of the major hospital information systems providers, customers who utilize such information systems may choose not to use our products and services. In addition, hospital information systems providers may choose to develop their own solutions that could compete with ours. Furthermore, we expect the importance of interoperability to increase in the next few years. Regulations such as the HITECH Act



Meaningful Use Stage 3 are expected to heavily focus on evidence and outcomes. Given our role in care delivery process, the data generated by our products may be a key input for assessing and reporting on clinical outcomes. This may elevate interoperability with information systems to a relative importance to our customers creating a business opportunity and risk.

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

Our success depends in part on our ability to obtain patent protection for technology and processes and our ability to preserve our trademarks, copyrights and trade secrets. We have pursued patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and for technology that offers us a potential competitive advantage for our products. We intend to continue to pursue such protection in the future. Our issued patents relate to various features of our medication and supply dispensing systems and our packaging systems. We cannot assure you that we will file

Table of Contents

any patent applications in the future, and that any of our patent applications will result in issued patents or that, if issued, such patents will provide significant protection for our technology and processes. As an example, in September 2014, an action was brought against us, to, among other matters, correct the inventorship of certain patents owned by us. For additional details, see Note 8, Commitments and Contingencies, in this annual report. Furthermore, we cannot assure you that others will not develop technologies that are similar or superior to our technology or that others will not design around the patents we own. All of our system software is copyrighted and subject to the protection of applicable copyright laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary, which could harm our competitive position.

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

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

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

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

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

A number of group purchasing organizations, including Amerinet, Inc., Federal Supply Schedule, First Choice Management Services, Healthcare Purchasing Alliance, LLC, HealthTrust Purchasing Group, L.P., Magnet, Performance Management Solutions, Vizient (formerly Novation LLC), Premier Healthcare Alliance, L.P. and Resource Optimization & Innovation, LLC have negotiated standard contracts for our products on behalf of their member healthcare organizations. Members of these group purchasing organizations may purchase under the terms of these contracts, which obligate us to pay the group purchasing organization a fee. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our revenue targets or increase our revenues. These organizations may not renew our contracts on similar terms, if at all, and they may choose to terminate our contracts

before they expire, any of which could cause our revenues to decline.

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

The institutional pharmacy market consists of significant national suppliers of medications to non-acute care facilities, smaller regional suppliers, and very small local suppliers. Although none of these customers comprised more than 10% of our total revenues for the year ended December 31, 2015, they may, in some periods, comprise up to 16% of our Medication

## Table of Contents

Adherence segment revenues. If these larger national suppliers were to purchase consumable blister card components from alternative sources, or if alternatives to blister cards were used for medication control, our revenues would decline.

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

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

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

Our common stock traded between \$26.08 and \$40.80 per share during the year ended December 31, 2015. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

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

Furthermore, the stock market as a whole from time to time has experienced extreme price and volume fluctuations, which have particularly affected the market prices for technology companies. These broad market fluctuations may cause the market price of our common stock to decline irrespective of our performance. In addition, sales of substantial amounts of our common stock in the public market could lower the market price of our common stock. In addition, stockholders have initiated class action lawsuits against companies following periods of volatility in the market prices of these companies' stock. For example, on March 19, 2015, a putative class action lawsuit was filed against Omnicell and two of our executive officers in the U.S. District Court for the Northern District of California purporting to assert claims on behalf of a class of purchasers of Omnicell stock between May 2, 2014 and March 2, 2015. The complaint alleged that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by purportedly making false and misleading statements regarding the existence of a "side letter" arrangement and the adequacy of internal controls that allegedly resulted in false and misleading financial statements. The Company and the individual defendants were not served with the complaint and on May 20, 2015, the plaintiff filed a notice of voluntary dismissal of the lawsuit without prejudice.

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

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

Because we were unable to timely file the Annual Report, on March 18, 2015, we received an expected written notification (the "Notice") from the NASDAQ OMX Group, Inc. ("Nasdaq") indicating that Omnicell was not in compliance with Nasdaq Listing Rule 5250(c)(1) for continued listing, due to the delay in filing the Annual Report

beyond the extended filing due date. Under the Nasdaq continued listing rules, we had 60 calendar days from the date of the letter to either file the Annual Report or submit a plan to regain compliance. During the period between the date the Annual Report was due and the date of its filing, our stock price experienced some volatility. We have concluded the investigation causing the delay of the filing of the Annual Report. Even though the results of the investigation led the Company to determine that effective internal control over financial reporting was maintained in all material respects and that there are no changes required to be made to the Company's Consolidated Financial Statements,

Table of Contents

we cannot assure you that similar circumstances will not arise in the future that will cause us to delay the filing of our periodic financial reports, which could harm our stock price and, if such delay were to continue for a period of time, impact our continued listing on the NASDAQ Global Select Market.

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

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

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

We expect to incur costs on an ongoing basis to comply with the requirements related to the discovery of the origin of the tantalum, tin, tungsten and gold used in our products, including components we purchase from third parties, and to audit our conflict minerals disclosures. Our reputation may also suffer if we have included conflict minerals originating in the Democratic Republic of the Congo or surrounding countries in our products.

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

U.S. government customers that lease our equipment typically sign contracts with five-year payment terms that are subject to one-year government budget funding cycles. Further, the government has in certain circumstances mandated unilateral changes in its Federal Supply Services contract that could render our lease terms with the government less attractive. In our judgment and based on our history with these accounts, we believe these receivables are collectible. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. The balance of our unsold leases to U.S. government customers was \$12.1 million as of December 31, 2015.

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

Managing our inventory of components and finished products is a complex task. A number of factors, including, but not limited to, the need to maintain a significant inventory of certain components that are in short supply or that must

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

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

## Table of Contents

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

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

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

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

Our products provide medication management and supply chain management solutions for the healthcare industry.

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

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

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

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

We continue to upgrade our enterprise-level business information system with new capabilities and transition acquired entities onto information systems already utilized in the company. In 2015, we replaced legacy Enterprise Requirements Planning systems used in the acquired Surgicem business with systems currently in use in other parts of Omnicell. In 2016, we intend to replace the legacy enterprise Requirements Planning systems used in Avantec and



Mach4 with systems currently in use in other parts of Omnicell. Based upon the complexity of some of the upgrades, there is risk that we will not see the expected benefit from the implementation of these upgrades in accordance with their anticipated timeline and will incur costs in addition to those we have already planned for. In addition, in future years, we may need to begin efforts to comply with final converged accounting standards to be established by the FASB and the International Accounting Standards Board ("IASB") for revenues, leases and other components of our financial reporting. These new standards could require us to modify our accounting policies. We further anticipate that integration of these and possibly other new standards may require a substantial

## Table of Contents

amount of management's time and attention and require integration with our enterprise resource planning system. The implementation of the system and the adoption of future new standards, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to record certain business transactions timely. All of these potential results could adversely impact our results of operations, financial condition and cash flows.

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

We grant stock options to certain of our employees as incentives to join Omnicell or as an on-going reward and retention vehicle. We had options outstanding to purchase approximately 2.7 million shares of our common stock, at a weighted-average exercise price of \$22.89 per share as of December 31, 2015. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

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

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

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

We rely on our network infrastructure, data centers, enterprise applications, and technology systems for the development, marketing, support and sales of our products, and for the internal operation of our business. These systems are susceptible to disruption or failure in the event of a major earthquake, fire, flood, cyber-attack, terrorist attack, telecommunications failure, or other catastrophic event. Many of these systems are housed or supported in or around our corporate headquarters located in Northern California, near major earthquake faults, and where a significant portion of our research and development activities and other critical business operations take place. Other critical systems, including our manufacturing facilities for our consumable medication packages, are housed in St. Petersburg, Florida, in communities that have been subject to significant tropical storms. Disruptions to or the failure of any of these systems, and the resulting loss of critical data, which is not quickly recoverable by the effective execution of disaster recovery plans designed to reduce such 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 1B. UNRESOLVED STAFF COMMENTS

36

---

Table of Contents

There are currently no unresolved issues with respect to any Commission staff's written comments.

**ITEM 2. PROPERTIES**

Our headquarters is located in leased facilities in Mountain View, California. In addition, we maintain leased office space in California, Florida, Illinois, Tennessee, Pennsylvania, and the United Kingdom. The following is a list of our leased facilities and their primary functions.

Site	Major Activity	Segment	Approximate Square Footage
St. Petersburg, Florida	Administration, marketing, research and development and manufacturing	Medication Adherence	132,500
Mountain View, California	Administration, marketing, and research and development	Automation and Analytics	99,900
Milpitas, California	Manufacturing	Automation and Analytics	46,300
Waukegan, Illinois	Technical support and training	Automation and Analytics	38,500
Nashville, Tennessee	Research and development and marketing	Automation and Analytics	24,800
Irlam, United Kingdom	Administration, sales, marketing and distribution center	Medication Adherence	61,000
Cranberry, Pennsylvania <sup>(1)</sup>	Administration, marketing, and research and development	Automation and Analytics	103,000
Warrendale, Pennsylvania <sup>(1)</sup>	Manufacturing and Administration	Automation and Analytics	107,000

(1) Leased facilities as a result of Aesynt Acquisition.

We also have smaller rented offices in Strongsville, Ohio, the United Arab Emirates, the People's Republic of China, Hong Kong, and the Federal Republic of Germany, and as a result of our acquisitions of Mach4 and Avantec in April 2015 we have smaller rented offices in France and the United Kingdom.

We believe that these facilities are sufficient for our current operational needs and that suitable additional space will be available on commercially reasonable terms to accommodate expansion of our operations, if necessary.

For additional information regarding our obligations pursuant to operating leases, see Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements in this annual report.

**ITEM 3. LEGAL PROCEEDINGS**

The information set forth under "Legal Proceedings" in Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements included in this annual report is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market for Our Common Stock

Our common stock is traded on The NASDAQ Global Select Market under the symbol "OMCL." The following table sets forth the high and low sales prices per share of our common stock for the periods indicated.

Year Ended December 31, 2015	High	Low
Fourth Quarter	\$32.21	\$26.08
Third Quarter	\$40.80	\$30.09
Second Quarter	\$39.10	\$33.78
First Quarter	\$35.79	\$30.35
Year Ended December 31, 2014	High	Low
Fourth Quarter	\$34.00	\$26.05
Third Quarter	\$29.73	\$26.00
Second Quarter	\$29.49	\$25.00
First Quarter	\$30.33	\$24.85

## Stockholders

There were 117 registered stockholders of record as of December 31, 2015. A substantially greater number of stockholders are beneficial holders, whose shares of record are held by banks, brokers and other financial institutions.

## Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

## Performance Graph

The following graph compares total stockholder returns for Omnicell's common stock for the past five years to three indexes: the NASDAQ Composite Index, the NASDAQ Health Care Index, and the NASDAQ Health Services Index. The graph assumes \$100 was invested in each of the Company's common stock, the NASDAQ Composite Index, the NASDAQ Health Care Index, and the NASDAQ Health Services Index as of the market close on December 31, 2010. The total return for Omnicell's common stock and for each index assumes the reinvestment of all dividends, although cash dividends have never been declared on Omnicell's common stock, and is based on the returns of the component companies weighted according to their capitalization as of the end of each annual period.

The NASDAQ Composite Index tracks the aggregate price performance of equity securities traded on The NASDAQ Stock Market. The NASDAQ Health Care Index and NASDAQ Health Services Index tracks the aggregate price performance of health care and health services equity securities. Omnicell's common stock is traded on The NASDAQ Global Select Market and is a component of both indexes. The stock price performance shown on the graph is not necessarily indicative of future price performance.

Table of ContentsCOMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN <sup>(1)(3)</sup>

Among Omnicell, Inc., the NASDAQ Composite Index, the NASDAQ Health Care Index<sup>(2)</sup> and the NASDAQ Health Services Index

(1) \$100 invested on December 31, 2010 in stock or index, including reinvestment of dividends.

(2) Starting in 2015, we started to compare Omnicell's stock performance to the NASDAQ Health Care Index. We believe such index is more representative of our business.

(3) This section is not deemed "soliciting material" or to be "filed" with the SEC 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 hereof and irrespective of any general incorporation language in any such filing.

	Year Ended December 31,					
	2010	2011	2012	2013	2014	2015
Omicell, Inc.	100.00	114.33	102.91	176.68	229.20	215.09
NASDAQ Composite	100.00	100.53	116.92	166.19	188.78	199.95
NASDAQ Health Care	100.00	105.71	131.78	203.89	258.62	271.40
NASDAQ Health Services	100.00	86.01	97.08	144.55	175.56	196.21
Stock Repurchase Programs						

Table of Contents

There were no stock repurchases during the fourth quarter ended December 31, 2015. Refer to Note 10, Stock Repurchases, of the Notes to Consolidated Financial Statements in this annual report for information regarding our authorized Stock Repurchase Programs and detailed stock repurchase activity in 2015.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data is derived from our Consolidated Financial Statements. This data should be read in conjunction with our Consolidated Financial Statements and related Notes included in this annual report and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Historical results may not be indicative of future results.

	Year Ended December 31,				
	2015 <sup>(2)</sup>	2014 <sup>(3)</sup>	2013	2012 <sup>(4)</sup>	2011
	(In thousands, except per share amounts)				
<b>Consolidated Statements of Operations</b>					
Data:					
Total revenue	\$484,559	\$440,900	\$380,585	\$314,027	\$245,535
Gross profit	247,930	233,860	203,399	170,588	135,784
Income from operations <sup>(1)</sup>	48,632	49,583	35,299	27,126	16,222
Net income	30,760	30,518	23,979	16,178	10,389
Net income per share:					
Basic	\$0.86	\$0.86	\$0.69	\$0.49	\$0.31
Diluted	\$0.84	\$0.83	\$0.67	\$0.47	\$0.30
Shares used in per shares calculations:					
Basic	35,857	35,650	34,736	33,307	33,123
Diluted	36,718	36,622	35,777	34,213	34,103
	December 31,				
	2015 <sup>(2)</sup>	2014 <sup>(3)</sup>	2013	2012 <sup>(4)</sup>	2011
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Total assets	\$578,747	\$560,214	\$492,501	\$441,819	\$363,849
Total liabilities	176,359	170,116	143,504	134,269	80,935
Total stockholders' equity	\$402,388	\$390,098	\$348,997	\$307,550	\$282,914

<sup>(1)</sup> Income from operations includes the following items:

	Year Ended December 31,				
	2015 <sup>(2)</sup>	2014 <sup>(3)</sup>	2013	2012 <sup>(4)</sup>	2011
	(In thousands)				
Share-based compensation expense	\$14,921	\$12,785	\$11,151	\$9,214	\$9,499

<sup>(2)</sup> Includes Avantec and Mach4 results as of April 2015, the acquisition date.

<sup>(3)</sup> Includes Surgichem results as of August 2014, the acquisition date.

<sup>(4)</sup> Includes MTS results as of May 2012, the acquisition date.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related notes in this annual report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under Item 1A "Risk





## Table of Contents

Factors" and elsewhere in this annual report. Unless otherwise stated, references in this report to particular years or quarters refer to our fiscal year and the associated quarters of those fiscal years.

### OVERVIEW

#### Our Business

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

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

We sell our product and consumable solutions together with related service offerings. Revenue generated in the United States represented 83% of our total revenues in 2015 and we expect our revenues from international operations to increase in future periods as we continue to grow our international business. We have not sold in the past, and have no future plans to sell our products either directly or indirectly, to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, and are subject to economic sanctions and export controls.

#### Operating Segments

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

#### Automation and Analytics

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

#### Medication Adherence

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

For further description of our operating segments, Note 12, Segment and Geographical Information, of the Notes to Consolidated Financial Statements in this annual report.

#### Strategy

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



## Table of Contents

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

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

Expansion of our solutions through acquisitions and partnerships. Our acquisitions have generally been focused on automation of manual workflows or data analytics, which is the enhancement of data for our customers' decision-making processes. We believe that expansion of our product lines through acquisition and partnerships to meet our customers changing and evolving expectations is a key component to our historical and future success. Our investments have been consistent with the strategies outlined above. To differentiate our solutions from others available in the market, we began shipping a refresh of our product line in 2011, which we market as G4. The G4 refresh included multiple new products and an upgrade product that allowed existing customers to augment their installations to obtain the most current technology that we provide. The G4 product is updated regularly every 12-18 months with new software enhancements. Since its introduction in 2011 there have been 4 major software releases. The G4 product refresh has been a key contributor to our growth, with 78% of our automation and analytics installed base ordering upgrades to their existing systems since the announcement of G4. In addition to enhanced capabilities, we have focused on attaining the highest quality and service measurements for G4 in the industry, while marketing the solution to new and existing customers. Our research and development efforts today are designed to bring new products to market beyond the G4 product line that we believe will meet customer needs in years to come.

Consistent with our strategy to enter new markets, we have made investments in our selling, general and administrative expenses to expand our sales team and market to new customers. Our international efforts have focused primarily on four markets: the United Kingdom and Germany where we sell medication adherence products through a direct sales team; Middle Eastern countries of the Arabian Peninsula where new healthcare facility construction is taking place, and in China; where we launched a Mandarin version of our automated dispensing systems. We have also expanded our sales efforts to medication adherence customers in the United States which has allowed us to sell our automated dispensing solutions and other products to this market.

Expansion of our solutions through acquisitions and partnerships include our acquisition of MTS in 2012, our acquisition of Surgichem in August 2014, our acquisitions of Mach4 and Avantec in April 2015, and our acquisition of Aesynt which was consummated in January 2016. Surgichem is a provider of medication adherence products in the United Kingdom. Mach4 is a provider of automated medication management systems to retail and hospital pharmacy customers primarily in Europe, with additional installations in China, the Middle East and Latin America. Avantec develops medication and supply automation products that complement our solutions for configurations suited to the United Kingdom marketplace, and has been the exclusive United Kingdom distributor for our medication and supply automation solutions since 2005. Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, I.V. sterile preparation robotics and software, including software related to medication management. We have also developed relationships with major providers of hospital information management systems with the goal of enhancing the interoperability of our products with their systems. We believe that enhanced interoperability will help reduce implementation costs, time, and maintenance for shared clients, while providing new clinical workflows designed to enhance efficiency and patient safety.

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

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

Our expectation that the environment of increased patient safety awareness, increased regulatory control, increased demand for innovative products that improve the care experience and increased need for workflow

## Table of Contents

efficiency through the adoption of technology in the healthcare industry will make our solutions a priority in the capital budgets of healthcare facilities; and

Our belief that healthcare customers will continue to value a consultative customer experience from their suppliers. Among other financial measures, we utilize product bookings to assess the current success of our strategies. Product bookings consist of all firm orders, as evidenced by a contract and purchase order for equipment and software, and by a purchase order for consumables. Equipment and software bookings are installable within twelve months and generally recorded as revenue upon customer acceptance of the installation. Consumables are recorded as revenue upon shipment to a customer or receipt by the customer, depending upon contract terms. Consumable bookings are generally recorded as revenue within one month. Product bookings increased by 8%, from \$364.0 million in 2014 to \$392.3 million in 2015, driven by the success of our growth strategies in differentiated products and new markets and, to a lesser extent, by the contributions from the acquisitions of Surgichem, Mach4, and Avantec.

In addition to product solution sales, we provide services to our customers. Our healthcare customers expect a high degree of partnership involvement from their technology suppliers throughout their ownership of the products. We provide extensive installation planning and consulting as part of every product sale and included in the initial price of the solution. Our customers' medication control systems are mission critical to their success and our customers require these systems to be functional at all times. To help assure the maximum availability of our systems, our customers typically purchase maintenance and support contracts in one, two or five year increments. As a result of the growth of our installed base of customers, our service revenues have also grown. We strive to provide the best service possible, as measured by third-party rating agencies and by our own surveys, to assure our customers continue to seek service maintenance from us. Our liabilities include current and long-term deferred service revenue of \$45.9 million and \$45.5 million as of December 31, 2015 and December 31, 2014, respectively. Our deferred service revenue will be amortized to service revenue as the service contracts are executed.

The growth in our Automation and Analytics revenue was driven primarily by our success in consistently growing the number of our customer installations for the year ended December 31, 2015. To a lesser extent, but of equal importance, revenue growth was also driven by our success in upgrading installed customers to newer G4 technology, which is in line with our strategy of striving to deliver differentiated innovation in our solutions. Our larger installed base has provided growth opportunities and, as a result, our service revenues have also grown for the year ended December 31, 2015.

The growth in our Medication Adherence revenue was driven primarily by the inclusion of Surgichem operations which was acquired in August 2014 and increased adoption of multi-medication adherence solutions used by patients in assisted living or home care in Europe. This growth is in line with our strategy to deliver solutions to markets outside the United States. On a geographic basis, the United States market did not contribute to, nor erode, the growth in our Medication Adherence business as the population of patients living in nursing homes in the United States has remained relatively constant over the past year.

In the future, we expect our strategies to evolve as the business environment of our customers evolves, but for our focus to remain on improving healthcare with solutions that help change the practices in ways that improve patient and provider outcomes. We expect our investment in differentiated products, new markets, and acquisitions and partnerships to continue. In 2016, we also intend to manage our business to operating profit margins similar to those achieved in 2015. Our full-time headcount of 1,451 on December 31, 2015, an increase of 215 from December 31, 2014, is dedicated to bringing our strategies to bear in all the markets in which we participate.

### Aesynt Acquisition

On January 5, 2016, we completed the acquisition of all of the membership interests of Aesynt pursuant to the Securities Purchase Agreement. Aesynt is a provider of automated medication management systems, including dispensing robots with storage solutions, medication storage and dispensing carts and cabinets, I.V. sterile preparation robotics and software, including software related to medication management. The total aggregate consideration is \$275.0 million, in cash, plus cash on hand at signing minus indebtedness at close, or approximately \$217.5 million, subject to certain adjustments at closing as provided for in the Securities Purchase Agreement. We will record the purchase of Aesynt using the business combination method of accounting and will recognize the assets acquired and liabilities assumed at their fair values as of the date of the acquisition. The results of Aesynt's operations will be

included in our consolidated results of operations beginning January 6, 2016. We are currently evaluating the fair values of the consideration transferred, assets acquired and liabilities assumed and will commence our purchase price allocation in the first quarter of fiscal 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

## Table of Contents

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

### Revenue recognition

We earn revenues from sales of our medication and medical and surgical supply automation systems along with consumables and related services that are sold in the healthcare industry, our principal market. 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 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 embedded 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-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. For existing distributors, where installation of equipment training has been previously provided and the distributor is certified to install our equipment at the end-user customer facility, we recognize revenue from sales of products to the distributor upon shipment assuming all other revenue criteria are met, since we do not allow for rights of return or refund. For new distributors, where we have not provided installation of equipment training, revenue on the sales of products to the distributor is deferred until the distributor has completed the Distributor Training Program and has been certified to install our equipment at the end-user facility. 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. We recognize revenue on training and professional services as they are performed.

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

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

historical experience has been that collection from our customers is generally probable.

44

---



Table of Contents

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 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 the selling price for our post-installation technical support services and professional services. When VSOE of selling price is not available, third-party evidence ("TPE") of selling price 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 and BESP information.

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

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 on these leases is recognized as a component of product revenue using the 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 our products 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.

Valuation and impairment of goodwill, intangible assets and other long-lived assets

Business combination valuations. When we acquire businesses, we allocate the purchase price to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and

45

---

Table of Contents

liabilities assumed, especially with respect to intangible assets. These estimates are based on information obtained from management of the acquired companies and historical experience. These estimates can include, but are not limited to:

- cash flows that an asset is expected to generate in the future;
- the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio;
- cost savings expected to be derived from acquiring an asset; and
- discount rates.

These estimates are inherently uncertain and unpredictable, and if different estimates were used, the purchase price for the acquisition could be allocated to the acquired assets and liabilities differently from the allocation that we have made. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates, and if such events occur we may be required to record a charge against the value ascribed to an acquired asset or an increase in the amounts recorded for assumed liabilities.

**Goodwill impairment.** We review goodwill for impairment on an annual basis as of the first day of the fourth quarter of each year at the reporting unit level. Our reporting units are the same as our operating segments, which are Automation and Analytics and Medication Adherence. A qualitative assessment is initially made to determine whether it is necessary to perform quantitative testing. This initial assessment includes, among others, consideration of: (i) past, current and projected future earnings and equity; (ii) recent trends and market conditions; and (iii) valuation metrics involving similar companies that are publicly-traded and acquisitions of similar companies, if available. If this initial qualitative assessment indicates that it is more likely than not that impairment exists, or if we decide to bypass this option, we proceed to a two-step impairment test. The first step ("Step 1") involves a comparison between the estimated fair values of our reporting units with their respective carrying amounts including goodwill. The methods for estimating reporting unit values include asset and liability fair values and other valuation techniques, such as discounted cash flows and multiples of earnings or revenues. If the carrying value exceeds estimated fair value, there is an indication of potential impairment, and the second step is performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill by measuring the excess of the estimated fair value of the reporting units over the aggregate estimated fair values of the individual assets less liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment charge is recorded for the excess.

The process of estimating the fair value and carrying value of our reporting units' equity requires significant judgment at many points during the analysis. Various assets and liabilities are not specifically allocated to an individual reporting unit, and therefore, we apply judgment to allocate the assets and liabilities, and this allocation affects the carrying value of the respective reporting units. Applying the income approach requires that we make a number of important estimates and assumptions. We estimate the future cash flows of each reporting unit based on historical and forecasted revenue and operating costs. This involves further estimates, such as estimates of future revenue and expense growth rates. In addition, we apply a discount rate to the estimated future cash flows for the purpose of the valuation. This discount rate is based on the estimated weighted-average cost of capital for each reporting unit and may change from year to year. Changes in these key estimates and assumptions, or in other assumptions used in this process, could materially affect our impairment analysis for a given year.

Based on a Step 1 impairment analysis performed as of October 1, 2015, we determined that it was more likely than not that the fair value of each of our reporting units exceeded the carrying value by more than 25%, and thus no impairment in our reporting units was recorded.

**Intangible assets and other long-lived assets.** We assess the impairment of identifiable intangible assets and other long-lived assets whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Recoverability of an asset is measured by the comparison of the carrying amount to the sum of the undiscounted estimated future cash flows the asset is expected to generate, offset by estimated future costs to dispose of the product to which the asset relates. If an asset is considered to be impaired, the amount of such impairment would be measured as the difference between the carrying amount of the asset and its fair value. Our cash flow assumptions are based on historical and forecasted future revenue, operating costs, and other relevant factors. Assumptions and estimates about the remaining useful lives of our intangible assets and other long-lived assets are

subjective and are affected by changes to our business strategies. If management's estimates of future operating results change, or if there are changes to other assumptions, the estimate of the fair value of our assets could change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on our operating results and financial condition.

#### Valuation of share-based awards

We account for share-based compensation in accordance with ASC 718, Stock Compensation ("ASC 718"). We recognize compensation expense related to stock-compensation, including the awarding of employee stock options and

Table of Contents

restricted stock units, based on the grant date estimated fair value. We amortize the fair value of the employee stock options on a straight-line basis over the requisite service period of the award, which is generally the vesting period. We estimate the fair value of stock-based compensation awards using the Black-Scholes option pricing model, which requires the following inputs: expected life, expected volatility, risk-free interest rate, expected dividend yield rate, exercise price, and closing price of our common stock on the date of grant. The expected volatility is based on a combination of historical and market-based implied volatility, and the expected life of the awards is based on our historical experience of employee stock option exercises, including forfeitures. The valuation assumptions we use in estimating the fair value of employee share-based awards may change in future periods. We calculate our pool of excess tax benefits available within additional paid-in capital in accordance with the provisions of ASC 718.

Accounting for income taxes

We record an income tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, Income Taxes ("ASC 740"), the provision for income taxes is computed using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement 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 in effect for the periods in which those tax assets and liabilities are expected to be realized or settled. In the event that these tax rates change, we will incur a benefit or detriment on our income tax expense in the period of change. If we were to determine that 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, 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 ASC 740 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.

Recently issued authoritative guidance

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

**RESULTS OF OPERATIONS****Total Revenues**

	2015	Change in		2014	Change in		2013
	(Dollars in thousands)	\$	%		\$	%	
Product revenues	\$388,397	\$28,053	8%	\$360,344	\$53,155	17%	\$307,189
Percentage of total revenues	80%			82%			81%
Service and other revenues	96,162	15,606	19%	80,556	7,160	10%	73,396
Percentage of total revenues	20%			18%			19%
Total revenues	\$484,559	\$43,659	10%	\$440,900	\$60,315	16%	\$380,585

**2015 compared to 2014:**

Revenues were \$484.6 million for the year ended December 31, 2015 compared to \$440.9 million for the year ended December 31, 2014, representing an increase of approximately 10%. The year-over-year revenue increase was primarily attributed to increases in product revenues of \$28.1 million and in services and other revenue of \$15.6 million.

Product revenues represented 80% and 82% of total revenues for the years ended 2015 and 2014, respectively. The increase in product revenues of \$28.1 million was primarily due to larger transaction sizes, mainly attributable to competitive conversions, and revenue from acquired companies Mach4 and Avantec which contributed \$10.0 million to the increase in product revenue. Product revenues increased in both of our segments. The increase in our Automation and Analytics segment

47

---

Table of Contents

was \$20.6 million and in our Medication Adherence segment was \$7.4 million. Service and other revenues represented 20% and 18% total revenues for the years ended 2015 and 2014, respectively. Service and other revenues primarily increased due to an increase in our Automation and Analytics segment of \$15.6 million, primarily attributed to higher service renewal fees driven mainly by an increase in installed customer base and \$5.0 million due to acquired companies Mach4 and Avantec.

Our international sales represented 17%, 11% and 12% of total revenues for the years ended 2015, 2014 and 2013, respectively, and are expected to be affected by foreign currency exchange rates fluctuations. We are unable to predict the extent to which revenue in future periods will be impacted by changes in foreign currency exchange rates.

We anticipate our revenues will continue to increase in 2016 compared to 2015, as we fulfill our existing orders, and based on our growth in bookings in 2015, some of which will be recognized as revenue in 2016. Our ability to continue to grow revenue is dependent on our ability to continue to obtain orders from customers, our ability to produce quality consumables to fulfill customer demand, the volume of installations we are able to complete, our ability to meet customer needs by providing a quality installation experience, and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues for equipment is primarily dependent on when our customers' schedules allow for installations.

2014 compared to 2013:

Product revenues increased due to increased sales for both Automation and Analytics segment of \$44.0 million and Medication Adherence segment of \$9.2 million. Service and other revenues primarily increased due to an increase from our Automation and Analytics segment of \$7.1 million, increased primarily as a result of an expansion in our installed base of automation systems and a resulting increase in the number of support service contracts within our Automation and Analytics segment.

#### Financial Information by Segment Revenues

	2015	Change in		2014	Change in		2013
	(Dollars in thousands)	\$	%		\$	%	
Revenues:							
Automation and Analytics	\$390,321	\$36,226	10%	\$354,095	\$51,178	17%	\$302,917
Percentage of total revenues	81%			80%			80%
Medication Adherence	94,238	7,433	9%	86,805	9,137	12%	77,668
Percentage of total revenues	19%			20%			20%
Total revenues	\$484,559	\$43,659	10%	\$440,900	\$60,315	16%	\$380,585

2015 compared to 2014:

The increase in Automation and Analytics revenues for the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily related to an increase in product revenues of \$20.6 million due to larger transaction sizes, mainly attributable to competitive conversions, and revenue from acquired companies Mach4 and Avantec, which contributed \$10.0 million of the increase in product revenue. Service and other revenues increased by \$15.6 million primarily from higher service renewal revenue driven mainly by an increase in installed customer base, and \$5.0 million due to acquired companies Mach4 and Avantec.

Medication Adherence revenues increased for the year ended December 31, 2015 as compared to the year ended December 31, 2014 was primarily due to an increase in product revenues of \$7.4 million. The increase in product revenue was largely driven by the full year inclusion of Surgichem operations for the year ended December 31, 2015 compared to approximately 4 months for the year ended December 2014. This increase of approximately \$8.4 million was partially offset by lower equipment sales in year 2015 in comparison to the same period of 2014. Service and other revenues remained relatively flat compared to the prior year.

2014 compared to 2013:

Automation and Analytics revenues increased due to an increase in product revenues of \$44.0 million primarily due to the increase of \$40.3 million in Medical Automation Cabinets sales and of \$7.4 million in Supply Cabinets and Supply Management software sales, partially offset by a decrease of \$3.7 million in revenue related to our leasing business. Service and other revenues increased by \$7.1 million due to higher service renewal fees driven primarily by an increase in installed base customers and new customers.





Table of Contents

Medication Adherence revenues increased due to an increase in product revenues of \$9.1 million primarily as a result of an increase in sales of OnDemand medication packaging systems in the United States and an increase in the adoption of our multi-medication consumable products by patients in Europe, and includes \$4.6 million in revenue from our Surgichem operations since its acquisition in August 2014. Service and other revenues remained relatively flat compared to the prior year.

## Cost of revenues and Gross profit

	2015	Change in		2014	Change in		2013
		\$	%		\$	%	
Cost of revenues:	(Dollars in thousands)						
Automation and Analytics	\$171,943	\$20,616	14%	\$151,327	\$22,013	17%	\$129,314
As a percentage of related revenues	44%			43%			43%
Medication Adherence	64,686	8,973	16%	55,713	7,841	16%	47,872
As a percentage of related revenues	69%			64%			62%
Total cost of revenues	\$236,629	\$29,589	14%	\$207,040	\$29,854	17%	\$177,186
As a percentage of total revenues	49%			47%			47%
Gross profit:							
Automation and Analytics	\$218,378	\$15,610	8%	\$202,768	\$29,165	17%	\$173,603
Automation and Analytics gross margin	56%			57%			57%
Medication Adherence	29,552	(1,540)	(5)%	31,092	1,296	4%	29,796
Medication Adherence gross margin	31%			36%			38%
Total gross profit	\$247,930	\$14,070	6%	\$233,860	\$30,461	15%	\$203,399
Total gross margin	51%			53%			53%

## 2015 compared to 2014:

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

## Automation and Analytics

Cost of revenues increased by \$20.6 million, primarily due to an increase in product costs of \$17.0 million which was mainly attributed to \$13.5 million costs associated with acquired companies Mach4 and Avantec in the second quarter of 2015 and to customer and product mixes and overall growth in product sales. Cost of service revenues increased by \$3.6 million primarily due to an increase in salaries and wages and other related costs. In addition, the acquired companies accounted for approximately \$2.6 million of such increase.

Gross profit was \$218.4 million for the year ended December 31, 2015 as compared to \$202.8 million for the year ended December 31, 2014, representing an increase of approximately 8%. Gross margin percentage decreased due to lower gross margins from acquired companies Mach4 and Avantec.

## Medication Adherence

Cost of revenues increased by \$9.0 million, primarily due to an increase in product costs of \$8.0 million which was mainly attributed to higher volume of revenues from our Surgichem acquisition and changes in our product mix. Cost of service revenues increased by \$1.0 million due to higher cost of service sales.

Gross profit decreased due to changes in our product mix, higher manufacturing cost, and higher cost of service.

We do not anticipate any significant fluctuations in gross profit and gross margin beyond normal fluctuations caused by changes in product mix for our Automation and Analytics and Medication Adherence segments during 2016.

## 2014 compared to 2013:



Table of Contents

## Automation and Analytics

Cost of revenues increased due to an increase in product costs of \$20.8 million as a result of an increase of \$16.4 million attributed to a different mixture of customers, products and overall growth in product sales, and an increase of \$2.9 million in product installation costs. Cost of service revenues increased by \$1.2 million due to an increase in salaries and wages as support headcount increased, in addition to an increase in expenses related to the refurbishment of returned materials.

Gross profit increased due to an increase in product and service revenues while gross margin remained consistent as cost of sales as a percentage of revenues remained consistent with the prior year.

## Medication Adherence

Cost of revenues increased due to an increase in product costs of \$7.6 million primarily driven by an increase in product sales and the inclusion of costs from our Surgichem operations. Consistent with the related revenues, cost of service sales remained relatively flat compared to the prior year.

Gross profit increased due to an increase in product revenues and the inclusion of Surgichem operations, and gross margin slightly decreased as cost of sales as a percentage of revenues slightly increased driven by higher product costs.

## Operating expenses and Income from operations

	2015	Change in		2014	Change in		2013
	(Dollars in thousands)	\$	%		\$	%	
Operating expenses:							
Research and development	\$35,160	\$7,358	26%	\$27,802	\$(1,303)	(4)%	\$29,105
As a percentage of total revenues	7%			6%			8%
Selling, general and administrative	167,581	11,106	7%	156,475	17,480	13%	138,995
As a percentage of total revenues	35%			35%			37%
Gain on business combination	(3,443)	(3,443)	100%	—	—	—%	—
Total operating expenses	\$199,298	\$15,021	8%	\$184,277	\$16,177	10%	\$168,100
As a percentage of total revenues	41%			42%			38%
Income from operations:							
Automation and Analytics	\$104,294	\$7,455	8%	\$96,839	\$63,323	189%	\$33,516
Operating margin	27%			27%			11%
Medication Adherence	5,294	(5,212)	(50)%	10,506	(4,385)	(29)%	14,891
Operating margin	6%			12%			19%
Corporate expenses ("Common")	(60,956)	(3,194)	6%	(57,762)	(44,654)	341%	(13,108)
Total income from operations	\$48,632	\$(951)	(2)%	\$49,583	\$14,284	40%	\$35,299
Total operating margin	23%			11%			13%

## 2015 compared to 2014:

Research and Development. Research and development expenses increased \$7.4 million for the year ended December 31, 2015 as compared to year ended December 31, 2014, primarily driven by an increase of \$8.7 million in our Automation and Analytics segment which was partially offset by decreases of \$1.3 million in Medication Adherence segment. The increase in our Automation and Analytics segment was primarily attributable to a \$2.9 million increase in headcount, a \$1.9 million increase in consulting expenses and a \$2.4 million increase in tools and equipment expenses, partially offset by an increase in capitalized software costs due to the higher level of post-feasibility beta testing. The decrease in research and development expenses in our Medication Adherence segment was primarily attributable to \$1.5 million of additional capitalized software due to post-feasibility beta testing.

We expect research and development expenses to increase in 2016 as we continue to invest in new products and services, and increase as a percentage of total revenues from 7% to approximately 8%. The amount of research and development expenses can fluctuate based on the amount of prototype expenses for hardware and/or the amount of capitalized software development costs.



Table of Contents

**Selling, General and Administrative.** Selling, general and administrative expenses increased \$11.1 million for the year ended December 31, 2015 as compared to year ended December 31, 2014 due to increases from our Automation and Analytics segment of \$2.9 million, Medication Adherence segment of \$5.0 million and increases in corporate expenses of \$3.2 million. The increase from our Automation and Analytics segment was attributed to the newly acquired companies Mach4 and Avantec by \$4.1 million which was partially offset by decreases primarily in marketing and sales activities. The increase from our Medication Adherence segment was the result of \$7.7 million from the inclusion of Surgichem operations for twelve months of 2015 in comparison to three months of 2014, with the remainder attributed to an increase in headcount specifically within our marketing and international departments. The increase in corporate expenses was primarily related to the newly acquired companies Mach4 and Avantec by \$2.1 million and increase in acquisition related expenses of \$2.9 million mainly due to the Aesynt acquisition. We anticipate selling, general and administrative expenses as a percentage of total revenues to be stable throughout 2016, however this estimate could be impacted by ongoing business development activities and external macro-economic factors.

**Operating Income.** Operating income from our Automation and Analytics segment or the year ended December 31, 2015 in comparison to year ended December 31, 2014 due to increased revenues at consistent operating margins. Operating income from our Medication Adherence segment decreased due to product mix, higher manufacturing costs, higher cost of service, and higher operating expenses.

2014 compared to 2013:

Research and development expenses decreased in our Automation and Analytics and Medication Adherence segments, primarily due to an increase of \$3.2 million in the capitalization of software development costs in 2014 compared to 2013, partially offset by increased expenses of \$2.7 million to further enhance our Pharmacy and Supply automation products. In our Medication Adherence segment, research and development decreased primarily due to the write-off of \$1.8 million of capitalized software development costs in 2013 which did not recur in 2014, partially offset by an increase of \$1.0 million in expenses to bring new medication adherence products to market, such as our M5000 packaging system.

Selling, general and administrative expenses increased due to increases from our Automation and Analytics segment of \$15.6 million and Medication Adherence segment of \$1.9 million. The increase from our Automation and Analytics segment was attributed to increases in salaries and wages of \$4.0 million due to an increase in headcount, commission expenses of \$1.5 million, facilities and infrastructure costs of \$1.5 million, shipping costs of \$1.5 million, GPO fees of \$1.5 million and bad debt expense of \$1.0 million with the remainder consisting of individually insignificant administrative expenses. The increase from our Medication Adherence segment was primarily the result of \$1.0 million from the inclusion of Surgichem operations, with the remainder incurred from clinical studies and an increase in headcount specifically within our marketing and international businesses.

Income from our Automation and Analytics operations increased due to an increase in product and service revenues while operating margin increased as a result of lower cost of sales and operating expenses compared to the overall growth of revenues.

Income from our Medication Adherence operations slightly increased due to an increase in product revenues and the inclusion of Surgichem operations, and operating margin remained consistent with the prior year as product costs increased which offset the relative growth in product sales.

Provision for income taxes

	2015	Change in		2014	Change in		2013
		\$	%		\$	%	
	(Dollars in thousands)						
Provision for income taxes	\$15,484	\$(2,502)	(14)%	\$17,986	\$6,936	63%	\$11,050
Effective tax rate on earnings	34%			37%			32%

2015 compared to 2014:

We recorded a provision for income taxes of \$15.5 million and an effective tax rate of 34% for the year ended December 31, 2015, compared to \$18.0 million and an effective tax rate of 37% for the year ended December 31, 2014. The 2015 annual effective tax rate differed from the statutory tax rate of 35%, primarily due to the unfavorable

impact of state income taxes, non-deductible equity charges under ASC 740-718, and other non-deductible expenditures, including non-deductible acquisition costs, all of which were partially offset by the domestic production activities deduction and the federal

Table of Contents

research tax credit, which was reinstated in December 2015, retroactive to the beginning of the year. The decrease in the annual effective tax rate as compared to 2014 was primarily due to the inclusion of the gain on the investment in Avantec recorded in the quarter ended June 30, 2015. This gain attributable to the increase in the fair value of Omnicell's 15% minority interest in Avantec which was revalued in conjunction with our purchase of the remaining 85% of Avantec shares is not included in taxable income.

2014 compared to 2013:

We recorded a provision for income taxes of \$18.0 million and an effective tax rate of 37% for the year ended December 31, 2014, compared to \$11.1 million and an effective tax rate of 32% for the year ended December 31, 2013. The 2014 annual effective tax rate differed from the statutory tax rate of 35%, primarily due to the unfavorable impact of state income taxes, non-deductible equity charges under ASC 740-718, and other non-deductible expenditures, including non-deductible acquisition costs, all of which were partially offset by the domestic production activities deduction and the federal research tax credit, which was reinstated in December 2014, retroactive to the beginning of the year. The increase in the annual effective tax rate as compared to 2013 was primarily due to non-deductible transaction costs incurred as a result of the Surgichem acquisition, combined with the absence of the impact of the 2013 tax rate reduction in the United Kingdom, as well as reinstatement of the federal research credit in January 2013, retroactive to 2012.

Refer to Note 9, Income Taxes, of the Notes to Consolidated Financial Statements included in this annual report for further discussion about the factors affecting our ability to realize deferred tax assets.

## LIQUIDITY AND CAPITAL RESOURCES

## Sources of Cash

We had cash and cash equivalents of \$82.2 million at December 31, 2015, compared to \$125.9 million at December 31, 2014. All of our cash and cash equivalents are invested in demand deposits and money market funds. Our cash position and working capital at December 31, 2015 and December 31, 2014 were as follows:

	December 31, 2015	December 31, 2014
	(In thousands)	
Cash	\$72,103	\$61,311
Cash equivalents	10,114	64,577
Total	\$82,217	\$125,888
Working Capital	\$139,498	\$171,054

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

On January 5, 2016, we entered into a \$400 million secured credit facility pursuant to a credit agreement, by and among us, the lenders from time to time party thereto, Wells Fargo Securities, LLC, as sole lead arranger and Wells Fargo Bank, National Association, as administrative agent (the "Credit Agreement"). The Credit Agreement provides for a \$200 term loan facility (the "Term Loan Facility") and a \$200 million revolving credit facility (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Facilities"). At the closing of the Aesynt Acquisition, we borrowed \$255 million in secured debt under the Credit Agreement, consisting of \$200 million of term loans and \$55 million of revolving loans to complete the acquisition of Aesynt and to pay related fees and expenses. In addition, the Credit Agreement includes a letter of credit sub-limit of up to \$10 million and a swing line loan sub-limit of up to \$10 million. We expect to use future loans under the Revolving Credit Facility, if any, for general corporate purposes. The Credit Agreement replaces our existing Credit Agreement, dated as of September 25, 2013, by and among the Company, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended.

Loans under the Facilities bear interest, at our option, at a rate equal to either (a) the LIBOR Rate, plus an applicable margin ranging from 1.50% to 2.25% per annum based on the our Consolidated Total Net Leverage Ratio (as defined

in the Credit Agreement), or (b) an alternate base rate equal to the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50%,



Table of Contents

and (iii) LIBOR for an interest period of one month, plus an applicable margin ranging from 0.50% to 1.25% per annum based on our Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement). Undrawn commitments under the Revolving Credit Facility will be subject to a commitment fee ranging from 0.20% to 0.35% per annum based on our Consolidated Total Net Leverage Ratio on the average daily unused portion of the Revolving Credit Facility. A letter of credit participation fee ranging from 1.50% to 2.25% per annum based on our Consolidated Total Net Leverage Ratio will accrue on the average daily amount of letter of credit exposure.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to us and our subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, dividends and other distributions. The Credit Agreement contains financial covenants that require us and our subsidiaries to not exceed a maximum consolidated total leverage ratio and maintain a minimum fixed charge coverage ratio. The Credit Agreement also includes financial covenants requiring us not to exceed a maximum consolidated total leverage ratio of 3.00:1 (subject to certain exceptions) and to maintain a minimum fixed charge coverage ratio of 1.50:1.

As of December 31, 2015, we were in full compliance with all covenants, and there was no outstanding balance on the Facilities.

Uses of Cash

Our future uses of cash are expected to be primarily for working capital, capital expenditures, loan principal and interest payments, and other contractual obligations. We also expect a continued use of cash for potential acquisition and acquisition assessment activities.

On January 5, 2016, we completed the acquisition of all of the membership interests of Aesynt pursuant to the Securities Purchase Agreement. The purchase price paid by us was approximately \$280 million, including the repayment of Aesynt indebtedness and after adjustments provided for in the Securities Purchase Agreement. The acquisition was funded with cash-on-hand and borrowings under the Credit Agreement. Upon settling the Aesynt acquisition purchase price, the remaining balance available under the five-year revolving credit facility with Wells Fargo Securities, LLC, was \$145 million. In addition, the Credit Agreement includes a letter of credit sub limit of up to \$10 million and a swing line loan sub-limit of up to \$10 million.

Our stock repurchase programs have a total of \$4.9 million remaining for future repurchases as of December 31, 2015, which may result in additional use of cash. See Note 10, Stock Repurchases, of the Notes to Consolidated Financial Statements included in this annual report. In accordance with the Avantec share purchase agreement, we may pay out potential earn-out payments of \$3.0 million payable in the first half of 2016 and an additional \$3.0 million payable after December 31, 2016, based on booking targets. The fair value of these earn-out payments as of the acquisition date was \$5.6 million. Pursuant to the terms of the agreement we also held back \$1.8 million from the purchase consideration towards any future indemnification claims that we may release at the end of the 18-month period or in the fourth quarter of 2016.

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

Cash Flows

Table of Contents

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

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
Net cash provided by (used in):			
Operating activities	\$33,762	\$65,163	\$55,263
Investing activities	(45,596 )	(43,325 )	(20,452 )
Financing activities	(31,833 )	(206 )	7,374
Effect of exchange rate changes on cash and cash equivalents	(4 )	(275 )	33
Net increase (decrease) in cash and cash equivalents	\$ (43,671 )	\$ 21,357	\$ 42,218

## Operating activities

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

Net cash provided by operating activities was \$33.8 million for 2015, primarily as a result of \$30.8 million in net income adjusted for non-cash items and changes in assets and liabilities, the non-cash items primarily consisted of depreciation and amortization expense of \$25.6 million, share-based compensation expense of \$14.9 million, and \$3.4 million from our investment gain. This was offset by \$33.8 million cash outflow from changes in assets and liabilities resulting primarily from i) an increase in accounts receivable of \$18.3 million due to increased product shipments late in the quarter, ii) an increase in inventories of \$10.4 million to support forecasted sales, iii) increase in long-term net investment in sales-type leases of \$4.7 million due to timing, iv) a decrease in deferred gross profit of \$2.6 million due to timing of orders, shipments, and revenue being recognized for installed product, iv) a decrease in deferred service revenue of \$2.9 million due to timing of orders and revenue being recognized for installed product, and v) a decrease in accrued compensation of \$2.0 million primarily due to lower sales commissions. These amounts were partially offset by an increase in accrued liabilities of \$5.5 million primarily due to potential earn-out and contingent payment of \$3.0 million related to the Avantec Acquisition, and a decrease in the prepaid expenses of \$4.0 million primarily due to commissions driven by higher bookings in the fourth quarter of 2014 compared to the current year to date period.

Net cash provided by operating activities was \$65.2 million for 2014, primarily as a result of \$30.5 million in net income adjusted for non-cash items, including depreciation and amortization expense of \$20.3 million and share-based compensation expense of \$12.8 million, an increase in deferred gross profit of \$8.6 million, an increase in accrued liabilities of \$5.5 million and an increase in deferred service revenue of \$5.1 million. These amounts were partially offset by an increase in accounts receivable, net of \$22.8 million.

Net cash provided by operating activities was \$55.3 million for 2013, primarily as a result of \$24.0 million in net income adjusted for non-cash items, including depreciation and amortization expense of \$18.4 million and share-based compensation expense of \$11.2 million.

## Investing activities

Net cash used in investing activities was \$45.6 million for 2015, \$25.5 million of which was attributable to the acquisitions of Mach4 and Avantec, and capital expenditures related to purchases of property and equipment and software development of software costs for external use of \$7.5 million and \$12.1 million, respectively.

Net cash used in investing activities was \$43.3 million for 2014, primarily due to payments of \$20.7 million for the acquisition of Surgichem, \$11.9 million for property and equipment and \$10.4 million to develop software for external use.

Net cash used in investing activities was \$20.5 million for 2013 and was due to payments of \$12.3 million for property and equipment and \$7.8 million to develop software for external use.

## Financing activities

Net cash used in financing activities was \$31.8 million for 2015 as a result of \$50.0 million in cash used for stock repurchases under our 2012 and 2014 Stock Repurchase Programs and \$3.6 million in employees taxes paid in relation to restricted stock units, partially offset by \$17.1 million in proceeds from employee stock option exercises and employee stock plan purchases and \$4.7 million in excess tax benefits from employee stock plans.

Table of Contents

Net cash used in financing activities was \$0.2 million for 2014 as a result of \$24.1 million in repurchases of our common stock, partially offset by \$21.8 million in net proceeds from sales of common stock through employee stock plans.

Net cash provided by financing activities was \$7.4 million for 2013 as a result of \$26.9 million in net proceeds from sales of common stock through employee stock plans, partially offset by \$21.0 million in repurchases of our common stock.

**Contractual Obligations**

We had \$66.9 million in contractual commitments to third parties for non-cancelable operating leases, commitments to contract manufacturers and suppliers and other purchase commitments as of December 31, 2015 as follows:

	Payments Due by Period				
	Total	2016	2017 and 2018	2019 and 2020	2021 and Thereafter
	(In thousands)				
Operating leases <sup>(1)</sup>	\$38,660	\$6,827	\$11,407	\$10,343	\$10,083
Purchase obligations <sup>(2)</sup>	28,262	28,262	—	—	—
Total <sup>(3)</sup>	\$66,922	\$35,089	\$11,407	\$10,343	\$10,083

Commitments under operating leases relate primarily to leased property and office equipment. Rent expense was

<sup>(1)</sup> \$7.0 million, \$6.8 million and \$6.9 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

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

<sup>(3)</sup> We have recorded \$7.2 million for uncertain tax positions as of December 31, 2015 in accordance with the authoritative guidance summarized in the section entitled "Critical Accounting Policies and Estimates" above. As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, \$7.2 million in uncertain tax position liabilities have not been included in the table above. See Note 9, Income Taxes, of the Notes to Consolidated Financial Statements included in this annual report.

See Note 8, Commitments and Contingencies, of the Notes to Consolidated Financial Statements included in this annual report.

**Off-Balance Sheet Arrangements**

As of December 31, 2015, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risks related to fluctuations in foreign currency exchange rates and interest rates.

**Foreign Currency Exchange Risk**

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

December 31, 2015 was \$0.4 million.

55

---

Table of Contents

## Interest Rate Fluctuation Risk

We do not have any long-term borrowings. Our investments consist of cash and money market funds. The primary objective of our investment activities is to preserve principal and ensure liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, we do not believe an immediate 1% change in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following tables presenting our quarterly results of operations should be read in conjunction with the Consolidated Financial Statements and related disclosures included in Part IV, Item 15 of this annual report and are incorporated by reference into this Item 8. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. Our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

## SUPPLEMENTARY CONSOLIDATED FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31, 2015	September 30, 2015	June 30, 2015 ( <sup>1</sup> )	March 31, 2015
	(In thousands, except per share data)			
	(Unaudited)			
2015 Consolidated Statements of Operations				
Data:				
Total revenue	\$ 130,316	\$ 125,234	\$ 112,788	\$ 116,221
Gross profit	65,080	63,703	57,462	61,685
Income from operations	11,970	13,859	12,424	10,379
Net income	\$ 7,655	\$ 8,036	\$ 8,751	\$ 6,318
Net income per share:				
Basic	\$ 0.22	\$ 0.22	\$ 0.24	\$ 0.18
Diluted	\$ 0.21	\$ 0.22	\$ 0.24	\$ 0.17
	Quarter Ended			
	December 31, 2014	September 30, 2014 ( <sup>2</sup> )	June 30, 2014	March 31, 2014
	(In thousands, except per share data)			
	(Unaudited)			
2014 Consolidated Statements of Operations				
Data:				
Total revenue	\$ 121,541	\$ 112,543	\$ 105,052	\$ 101,764
Gross profit	63,779	59,546	56,040	54,495
Income from operations	13,474	13,597	12,558	9,954
Net income	\$ 9,235	\$ 7,300	\$ 7,789	\$ 6,194
Net income per share:				
Basic	\$ 0.26	\$ 0.20	\$ 0.22	\$ 0.18
Diluted	\$ 0.25	\$ 0.20	\$ 0.21	\$ 0.17

(<sup>1</sup>) Includes Avantec and Mach4 results as of April 2015, the acquisition date.

(<sup>2</sup>) Includes Surgichem results as of August 2014, the acquisition date.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

56

---

## Table of Contents

### Change in Independent Registered Public Accounting Firm

In April 2014, the Audit Committee of our Board of Directors dismissed Ernst & Young LLP ("E&Y"), as our independent registered public accounting firm and engaged Deloitte & Touche LLP ("Deloitte"). E&Y's reports on our consolidated financial statements for fiscal year 2013 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with the audit of our financial statements for the year ended December 31, 2013, and in the subsequent interim period through April 7, 2014, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the subject matter in connection with its reports. There were no "reportable events" as that term is described in Item 304(a)(1)(v) of Regulation S-K issued by the SEC.

During the fiscal year ended December 31, 2013, and the subsequent interim period through April 7, 2014, neither the Omnicell nor anyone acting on its behalf had consulted with Deloitte with respect to (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Omnicell financial statements, and neither a written report nor oral advice was provided to Omnicell that Deloitte concluded was an important factor considered by Omnicell in reaching a decision as to any accounting, auditing, or financial reporting issue or (ii) any matter that was either the subject of a "disagreement" or "reportable event" as those terms are defined in Item 304(a)(1) of Regulation S-K.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2015.

#### Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 using the criteria for effective internal control over financial reporting as described in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organization of the Treadway Commission (2013 framework) (the COSO Criteria). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2015.

We have excluded Mach4 Automatisierungstechnik GmbH ("Mach4") and Avantec Healthcare Limited ("Avantec"), which were acquired by us during fiscal year ended December 31, 2015, from our assessment of internal control over financial reporting as of December 31, 2015. Mach4 and Avantec are wholly-owned by Omnicell with total assets and total revenue representing 9% and 4%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued its attestation report on our internal control over financial reporting as of December 31, 2015, which is included in Part IV, Item 15 of this annual report.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the year ended December 31, 2015.

### ITEM 9B. OTHER INFORMATION

None.





Table of Contents

**PART III**

Certain information required by Part III is omitted from this annual report because the registrant will file with the U.S. Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A in connection with the solicitation of proxies for the Company's Annual Meeting of Stockholders expected to be held in May 2016 (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this annual report, and certain information included therein is incorporated herein by reference.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item with respect to directors and executive officers may be found under the heading "Executive Officers of the Registrant" in Part I, Item 1 of this annual report, and in the section entitled "Election of Directors" appearing in the Proxy Statement. Such information is incorporated herein by reference.

The information required by this Item with respect to our audit committee and audit committee financial expert may be found in the section entitled "Information Regarding the Board of Directors and Corporation Governance—Audit Committee" appearing in the Proxy Statement. Such information is incorporated herein by reference.

The information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 may be found in the sections entitled "Section 16(a) Beneficial Ownership Reporting Compliance" appearing in the Proxy Statement. Such information is incorporated herein by reference.

Our written Code of Conduct applies to all of our directors and employees, including executive officers, including without limitation our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Conduct is available on our website at [www.omnicell.com](http://www.omnicell.com) under the hyperlink titled "Corporate Governance." Changes to or waivers of the Code of Conduct will be disclosed on the same website. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code of Conduct by disclosing such information on the same website.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item with respect to director and executive officer compensation is incorporated by reference to the section of our Proxy Statement under the section entitled "Executive Compensation—Compensation Discussion and Analysis."

The information required by this Item with respect to Compensation Committee interlocks and insider participation is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Information Regarding the Board of Directors and Corporate Governance—Compensation Committee Interlocks and Insider Participation."

The information required by this Item with respect to our Compensation Committee's review and discussion of the Compensation Discussion and Analysis included in the Proxy Statement is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Executive Compensation—Compensation Discussion and Analysis—Compensation Committee Report."

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS**

The information required by this Item with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Security Ownership of Certain Beneficial Owners and Management."

The information required by this Item with respect to securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Equity Compensation Plan Information."

**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this Item with respect to related party transactions is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Certain Relationships and Related Transactions."

Table of Contents

The information required by this Item with respect to director independence is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Information Regarding the Board of Directors and Corporate Governance—Independence of the Board of Directors."

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated herein by reference to the section from the Proxy Statement under the section entitled "Ratification of Selection of Independent Registered Public Accounting Firm—Principal Accountant Fees and Services."

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are included as part of this annual report:

(1) Consolidated Financial Statements:

Index to Financial Statements Page Number

Reports of Independent Registered Public Accounting Firms 1

Consolidated Balance Sheets as of December 31, 2015 and December 31, 2014 4

Consolidated Statements of Operations for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 5

Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 6

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 7

Consolidated Statements of Cash Flows for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 8

Notes to Consolidated Financial Statements 10

Financial Statement Schedule II: Valuation and Qualifying Accounts 40

(2) Exhibits: The information required by this item is set forth on the exhibit index which follows the signature page of this report.

Table of Contents

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

To the Board of Directors and Stockholders of  
Omniceil, Inc.  
Mountain View, California

We have audited the accompanying consolidated balance sheets of Omnicell, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2015. Our audit also included the financial statement schedule for the years ended December 31, 2015 and 2014 listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Omnicell, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for the years ended December 31, 2015 and 2014, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP  
San Jose, California  
February 26, 2016

Table of Contents

To the Board of Directors and Stockholders of  
Omniceil, Inc.  
Mountain View, California

We have audited the internal control over financial reporting of Omnicell, Inc. and subsidiaries (the "Company") as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Mach4 Automatisierungstechnik GmbH ("MACH4") and Avantec Healthcare Limited ("Avantec"), which were acquired in 2015 and whose financial statements constitute 9% and 4% of total assets and total revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2015.

Accordingly, our audit did not include the internal control over financial reporting at MACH4 and Avantec. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2015 of the Company and our report dated February 26, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP  
San Jose, California  
February 26, 2016

F- 2

---

Table of Contents

To the Board of Directors and Stockholders of Omnicell, Inc.

We have audited the accompanying consolidated balance sheet of Omnicell, Inc. as of December 31, 2013, and the related consolidated statement of operations, comprehensive income, stockholders' equity, and cash flows for the period ended December 31, 2013. Our audit also included the financial statement schedule as of December 31, 2013 listed in the index at 15(a)(1). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omnicell, Inc. at December 31, 2013, and the consolidated results of its operations and its cash flows in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule as of December 31, 2013, when considered in relation to the basic financial statements as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Jose, California

March 17, 2014

except for Note 7 and 12, as to which the date is

March 30, 2015



Table of ContentsOMNICELL, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(In thousands, except par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$82,217	\$125,888
Accounts receivable, net of allowances of \$1,240 and \$1,206, respectively	107,957	82,763
Inventories	46,594	31,554
Prepaid expenses	19,586	23,518
Deferred tax assets	—	12,446
Other current assets	7,774	7,215
Total current assets	264,128	283,384
Property and equipment, net	32,309	36,178
Long-term net investment in sales-type leases	14,484	10,848
Goodwill	147,906	122,720
Intangible assets, net	89,665	82,667
Long-term deferred tax assets	2,361	1,144
Other long-term assets	27,894	23,273
Total assets	\$578,747	\$560,214
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$22,646	\$19,432
Accrued compensation	18,195	19,874
Accrued liabilities	30,133	19,299
Deferred service revenue	27,948	25,167
Deferred gross profit	25,708	28,558
Total current liabilities	124,630	112,330
Long-term deferred service revenue	17,975	20,308
Long-term deferred tax liabilities	21,822	30,454
Other long-term liabilities	11,932	7,024
Total liabilities	176,359	170,116
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 shares authorized; no shares issued	—	—
Common stock, \$0.001 par value, 100,000 shares authorized; 44,739 and 43,537 shares issued; 35,594 and 35,816 shares outstanding, respectively	45	43
Treasury stock at cost, 9,145 and 7,721 shares outstanding, respectively	(185,074	) (135,053
Additional paid-in capital	490,354	457,436
Retained earnings	99,793	69,033
Accumulated other comprehensive income	(2,730	) (1,361
Total stockholders' equity	402,388	390,098
Total liabilities and stockholders' equity	\$578,747	\$560,214
The accompanying notes are an integral part of these consolidated financial statements.		

Table of ContentsOMNICELL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands, except per share data)		
Revenues:			
Product	\$388,397	\$360,344	\$307,189
Services and other revenues	96,162	80,556	73,396
Total revenues	484,559	440,900	380,585
Cost of revenues:			
Cost of product revenues	198,418	173,419	144,997
Cost of services and other revenues	38,211	33,621	32,189
Total cost of revenues	236,629	207,040	177,186
Gross profit	247,930	233,860	203,399
Operating expenses:			
Research and development	35,160	27,802	29,105
Selling, general and administrative	167,581	156,475	138,995
Gain on business combination	(3,443	) —	—
Total operating expenses	199,298	184,277	168,100
Income from operations	48,632	49,583	35,299
Interest and other income (expense), net	(2,388	) (1,079	) (270
Income before provision for income taxes	46,244	48,504	35,029
Provision for income taxes	15,484	17,986	11,050
Net income	\$30,760	\$30,518	\$23,979
Net income per share:			
Basic	\$0.86	\$0.86	\$0.69
Diluted	\$0.84	\$0.83	\$0.67
Weighted-average shares:			
Basic	35,857	35,650	34,736
Diluted	36,718	36,622	35,777

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

Table of Contents

OMNICELL, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
Net income	\$30,760	\$30,518	\$23,979
Other comprehensive income (loss), net of reclassification adjustments:			
Unrealized gains (losses) on foreign currency forward contracts	—	—	(65 )
Foreign currency translation adjustments	(1,369 )	(1,532 )	105
Other comprehensive income (loss), net of tax:	(1,369 )	(1,532 )	40
Comprehensive income	\$29,391	\$28,986	\$24,019

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

Table of Contents

## OMNICELL, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income	Stockholders' Equity
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balances as of December 31, 2012	39,493	\$ 39	(5,952 )	\$(90,000 )	\$ 382,844	\$ 14,536	\$ 131	\$ 307,550
Net income	—	—	—	—	—	23,979	—	23,979
Other comprehensive income (loss)	—	—	—	—	—	—	40	40
Stock repurchases	—	—	(885 )	(20,962 )	—	—	—	(20,962 )
Share-based compensation	—	—	—	—	11,151	—	—	11,151
Issuance of common stock under employee stock plans	2,349	2	—	—	26,884	—	—	26,886
Tax payments related to restricted stock units	—	—	—	—	(2,223 )	—	—	(2,223 )
Income tax benefits from employee stock plans	—	—	—	—	2,576	—	—	2,576
Balances as of December 31, 2013	41,842	41	(6,837 )	(110,962 )	421,232	38,515	171	348,997
Net income	—	—	—	—	—	30,518	—	30,518
Other comprehensive income (loss)	—	—	—	—	—	—	(1,532 )	(1,532 )
Stock repurchases	—	—	(884 )	(24,091 )	—	—	—	(24,091 )
Share-based compensation	—	—	—	—	12,785	—	—	12,785
Issuance of common stock under employee stock plans	1,695	2	—	—	21,793	—	—	21,795
Tax payments related to restricted stock units	—	—	—	—	(3,744 )	—	—	(3,744 )
Income tax benefits from employee stock plans	—	—	—	—	5,370	—	—	5,370
Balances as of December 31, 2014	43,537	43	(7,721 )	(135,053 )	457,436	69,033	(1,361 )	390,098
Net income	—	—	—	—	—	30,760	—	30,760
	—	—	—	—	—	—	(1,369 )	(1,369 )

Other comprehensive income (loss)								
Stock repurchases	—	—	(1,424 )	(50,021 )	—	—	—	(50,021 )
Share-based compensation	—	—	—	—	14,921	—	—	14,921
Issuance of common stock under employee stock plans	1,202	2	—	—	17,089	—	—	17,091
Tax payments related to restricted stock units	—	—	—	—	(3,627 )	—	—	(3,627 )
Income tax benefits from employee stock plans	—	—	—	—	4,535	—	—	4,535
Balances as of December 31, 2015	44,739	\$45	(9,145 )	\$(185,074)	\$490,354	\$ 99,793	\$(2,730 )	\$402,388

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

Table of ContentsOMNICELL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
Operating Activities			
Net income	\$30,760	\$30,518	\$23,979
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,639	20,272	18,365
Loss on disposal of fixed assets	238	167	345
Impairment of equity investments	—	350	1,759
Gain on equity investments	(3,443	) —	—
Provision for receivable allowance	354	941	110
Share-based compensation expense	14,921	12,785	11,151
Income tax benefits from employee stock plans	4,535	5,370	2,576
Excess tax benefits from employee stock plans	(4,724	) (5,834	) (3,673
Provision for excess and obsolete inventories	369	542	856
Deferred income taxes	(1,092	) 1,402	787
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable, net	(18,295	) (22,799	) (3,609
Inventories	(10,401	) 1,418	(5,410
Prepaid expenses	4,049	(4,296	) (3,491
Other current assets	638	53	1,566
Net investment in sales-type leases	(4,661	) 1,048	1,723
Other long-term assets	496	297	630
Accounts payable	(2,841	) 1,611	(1,784
Accrued compensation	(2,032	) 270	7,991
Accrued liabilities	5,456	5,512	1,758
Deferred service revenue	(2,880	) 5,086	82
Deferred gross profit	(2,641	) 8,601	(815
Other long-term liabilities	(683	) 1,849	367
Net cash provided by operating activities	33,762	65,163	55,263
Investing Activities			
Acquisition of intangible assets, intellectual property and patents	(415	) (327	) (356
Software development for external use	(12,132	) (10,353	) (7,761
Purchases of property and equipment	(7,542	) (11,922	) (12,335
Business acquisitions, net of cash acquired	(25,507	) (20,723	) —
Net cash used in investing activities	(45,596	) (43,325	) (20,452
Financing Activities			
Proceeds from issuances under stock-based compensation plans	17,091	21,795	26,886
Employees' taxes paid related to restricted stock units	(3,627	) (3,744	) (2,223
Common stock repurchases	(50,021	) (24,091	) (20,962
Excess tax benefits from employee stock plans	4,724	5,834	3,673
Net cash provided by (used in) financing activities	(31,833	) (206	) 7,374
Effect of exchange rate changes on cash and cash equivalents	(4	) (275	) 33



Table of Contents

Net increase (decrease) in cash and cash equivalents	(43,671	) 21,357	42,218
Cash and cash equivalents at beginning of period	125,888	104,531	62,313
Cash and cash equivalents at end of period	\$82,217	\$125,888	\$104,531
Supplemental cash flow information			
Cash paid for interest	\$76	\$61	\$122
Cash paid for taxes, net of refunds	\$11,871	\$9,161	\$7,062
Supplemental disclosure of non-cash investing activities			
Non-cash activity business acquisition	\$7,386	\$—	\$—
Unpaid property and equipment purchases	\$1,398	\$273	\$1,696

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



Table of Contents

OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Business

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

Principles of consolidation

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. GAAP and include all adjustments necessary for the fair presentation of the Company's consolidated financial position, results of operations and cash flows for the periods presented. The Consolidated Financial Statements include the Company's accounts as well as those of its wholly owned subsidiaries after the elimination of intercompany balances and transactions.

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

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's 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. The Company's critical accounting policies are those that affect its financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, share-based compensation, inventory valuation, accounts receivable and notes receivable (net investment in sales-type leases), capitalized software development costs, valuation of goodwill, purchased intangibles and long-lived assets, and accounting for income taxes.

Segment reporting change

The Company's Chief Operating Decision Maker ("CODM") is its Chief Executive Officer. In the first quarter of 2015, the Company modified its segment presentation to reflect the changes in how its CODM reviews the segments and the overall business. With the increase in completed acquisitions in the last two years, the Company changed how the financial information was presented for CODM review to exclude general corporate-level costs that are not specific to either of the reportable segments when evaluating the operating results of each segment. Corporate-level costs include expenses related to executive management, finance and accounting, human resources, legal, training and development, and certain administrative expenses.

The Company's CODM allocates resources and evaluates the performance of its segments using information about its revenues, gross profit and income from operations, excluding certain costs which are managed separately at the corporate level. The historical segment financial information has been adjusted to reflect the modified segment reporting. See Note 12, Segment and Geographical Information, for addition information on the segment reporting change.

Foreign currency translation

The Company translates the assets and liabilities of its 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.

Revenue recognition

F- 10

---

## Table of Contents

The Company earns revenues from sales of our medication and medical and surgical supply automation systems along with consumables and related services, which are sold in the healthcare industry, our principal market. Revenues related to consumable products are reported net of discounts provided to its customers. The Company's 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 its 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.

The Company recognizes revenue when the earnings process is complete, based upon its evaluation of whether the following four criteria have been met:

Persuasive evidence of an arrangement exists. The Company uses signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, the Company uses a signed services agreement and a statement of work to evidence an arrangement.

Delivery has occurred. Equipment and embedded 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 the Company has delivered what a customer ordered. In instances of a customer self-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, the Company recognizes revenue on delivery of products to the customer, including transfer of title and risk of loss, assuming all other revenue criteria are met. For existing distributors, where installation of equipment training has been previously provided and the distributor is certified to install the Company's equipment at the end-user customer facility, the Company recognizes revenue from sales of products to the distributor upon shipment assuming all other revenue criteria are met since it does not allow for rights of return or refund. For new distributors, where the Company has not provided installation of equipment training, revenue on the sales of products to the distributor is deferred until the distributor has completed the Distributor Training Program and has been certified to install the Company's equipment at the end-user facility. For the sale of consumable blister cards, the Company recognizes revenue when title and risk of loss of the products shipped have transferred to the customer, which usually occurs upon shipment from the Company's facilities. Assuming all other revenue criteria are met, the Company recognizes revenue for support services ratably over the related support services contract period. The Company recognizes revenue on training and professional services as they are performed.

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

Collection is probable. The Company assesses 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 the Company's judgment, collection of a fee is not probable, the Company defers revenue recognition until the uncertainty is removed, which generally means revenue is recognized upon the Company's receipt of cash payment assuming all other revenue criteria are met. The Company's historical experience has been that collection from its customers is generally probable.

In arrangements with multiple deliverables, assuming all other revenue criteria are met, the Company recognizes revenue for individual delivered items if they have value to the customer on a standalone basis. The Company allocates arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. This method requires the Company to determine the selling price at which each deliverable could be sold if it were sold regularly on a standalone basis. When available, the Company uses vendor-specific objective evidence ("VSOE") of 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. The Company considers VSOE to exist when approximately 80% or more of its standalone sales of an item

are priced within a reasonably narrow pricing range (plus or minus 15% of the median rates). The Company has established VSOE of the selling price for its post-installation technical support services and professional services. When VSOE of selling price is not available, third-party evidence ("TPE") of selling price for similar products and services is acceptable; however, the Company's offerings and market strategy differ from those of its competitors, such that it cannot obtain sufficient comparable information about third parties' prices. If neither VSOE nor TPE are available,

F- 11

---

## Table of Contents

the Company uses its best estimates of selling prices ("BESP"). The Company determines BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. The Company regularly reviews and updates its VSOE and BESP information.

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.

The Company also uses 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 the Company's sales are made through multi-year lease agreements. Under sales-type leases, the Company recognizes revenue for its 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 its installation obligations have been met. The Company optimizes cash flows by selling a majority of its non-U.S. government leases to third-party leasing finance companies on a non-recourse basis. The Company has no obligation to the leasing company once the lease has been sold. Some of the Company's sales-type leases, mostly those relating to U.S. government hospitals which comprise approximately 75% of the lease receivable balance, are retained in-house. Interest income in these leases is recognized in product revenue using the effective interest method.

### Financial Instruments

For assets and liabilities measured at fair value, such amounts are based on an expected exit price representing the amount that would be received from the sale of an asset or paid to transfer a liability in a transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs used in valuation techniques are assigned a hierarchical level. The following methods were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

**Cash equivalents.** The Company classifies investments as cash equivalents if their original or remaining contractual maturity is three months or less at the date of purchase. Cash equivalents are carried at amounts that approximate fair value due to the short period of time to maturity. The Company's cash equivalents are maintained in demand deposit accounts with financial institutions of high credit quality, and are invested in institutional money market funds, short-term bank time deposits and similar short duration instruments with fixed maturities. The Company continuously monitors the credit worthiness of the financial institutions and institutional money market funds in which it invests. The Company has not experienced any credit losses from its cash investments.

**Foreign currency forward contracts.** The Company enters into foreign currency forward contracts to protect its business from the risk that exchange rates may affect the eventual cash flows resulting from intercompany transactions between Omnicell and its foreign subsidiaries. These transactions primarily arise as a result of products manufactured in the United States ("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. Changes in fair values of these financial derivative instruments are either recognized in other comprehensive income or net income depending on whether the derivative has been designated and qualifies as a hedging instrument.

**Debt.** The Company has a Credit Agreement, dated as of September 25, 2013 comprised of a \$75 million revolving credit facility. Borrowings under the Company's revolving credit facility would be recognized at cost plus accrued interest based upon stated interest rates. The Company had not drawn any funds under the credit facility as of December 31, 2015.

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

The Company actively manages its accounts receivable to minimize credit risk. The Company typically sells 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. The Company continually monitors and evaluates the collectability of its trade receivables based on a combination of factors. The Company records specific allowances for doubtful accounts when it becomes aware of a specific customer's impaired ability to meet its financial obligation to the Company, such as in the case of bankruptcy filings or deterioration of financial position. There were no significant customers that accounted for more than 10% of the Company's accounts receivable as of December 31, 2015 and December 31, 2014.

F- 12

---

Table of Contents

Uncollectible amounts are charged off against trade receivables and the allowance for doubtful accounts when the Company makes a final determination that there is no reasonable expectation of recovery. Estimates are used in determining the Company's 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 the Company believes that its 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. The Company's credit policies and its 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.

Sales of accounts receivable

The Company records the sale of its accounts receivables as "true sales" in accordance with accounting guidance for transfers and servicing of financial assets. The Company transferred non-recourse accounts receivable totaling \$38.6 million, \$62.0 million and \$41.3 million during fiscal year 2015, 2014, and 2013, respectively, which approximated fair value, to leasing companies on a non-recourse basis. Accounts receivable included approximately \$0.8 million, \$1.1 million and \$0.1 million due from third-party leasing companies for transferred non-recourse accounts receivable as of December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

Inventory

Inventories are stated at the lower of cost (utilizing standard costs, applying the first-in, first-out method) or market. Cost elements included in inventory are direct labor and materials plus applied overhead. The Company routinely assesses on-hand inventory for timely identification and measurement of obsolete, slow-moving or otherwise impaired inventory. The Company writes down its inventory for estimated obsolescence, excess or unmarketable quantities equal to the difference between the cost of the inventory and its estimated market value based on assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than the Company projected, additional inventory write-downs may be required.

The Company has 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 with the Company's supplier may be terminated by either the supplier or by the Company without cause and at any time upon delivery of two months' notice. Purchases from this supplier were \$41.7 million, \$34.5 million and \$29.2 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

Property and equipment

Property and equipment less accumulated depreciation are stated at historical cost. The Company's expenditures for property and equipment primarily are for computer equipment and software used in the administration of its business, and for leasehold improvements to its leased facilities. The Company also develops molds and dies used in long-term manufacturing arrangements with suppliers and for production automation equipment used in the manufacturing of consumable blister card components. Depreciation and amortization of property and equipment are provided over their estimated useful lives, using the straight-line method, as follows:

Computer equipment and related software	3 - 5 years
Leasehold and building improvements	Shorter of the lease term or the estimated useful life
Furniture and fixtures	5 - 7 years
Equipment	3 - 12 years

Depreciation and amortization of property and equipment was \$12.8 million, \$11.3 million and \$10.9 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

The Company capitalizes costs related to computer software developed or obtained for internal use in accordance with ASC 350-40, Internal-Use Software. Software obtained for internal use has generally been enterprise-level business and finance software that the Company customizes to meet its specific operational needs. Costs incurred in the

application development phase are capitalized and amortized over their useful lives, which is generally five years. Costs recognized in the preliminary project phase and the post-implementation phase are expensed as incurred. The Company capitalized \$1.2 million and \$3.9

F- 13

---



## Table of Contents

million of costs related to the application development of enterprise-level software that was included in property and equipment during the years ended December 31, 2015 and December 31, 2014, respectively.

### Software development costs

The Company capitalizes software development costs in accordance with ASC 985-20, Costs of Software to Be Sold, Leased, or Marketed, under which certain software development costs incurred subsequent to the establishment of technological feasibility may be capitalized and amortized over the estimated lives of the related products. The Company establishes feasibility when it completes a working model and amortizes development costs over the estimated lives of the related products ranging from three to five years. The Company capitalized software development costs of \$12.1 million and \$10.4 million which are included in other assets as of December 31, 2015 and December 31, 2014, respectively. The Company recorded \$5.8 million, \$4.4 million and \$3.2 million to cost of revenues for amortization of capitalized software development costs for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively. All development costs prior to the completion of a working model are recognized as research and development expense.

### Deferred gross profit and deferred service revenue

Deferred gross profit and deferred service revenue arise when customers have been billed and/or have received products and/or services in advance of revenue recognition. The Company's deferred gross profit, classified as a current liability, consists primarily of unearned revenue on sale of equipment for which installation has not been completed, net of deferred cost of sales for such equipment, and the unearned revenue for software licenses. The Company's deferred service revenue, separated into current and long-term liabilities, consists of the unearned portion of service contracts for which revenue is recognized over their duration.

### Business combinations

The Company uses the acquisition method of accounting under the authoritative guidance on business combinations. Each acquired company's operating results are included in the Company's Consolidated Financial Statements starting on the date of acquisition. The purchase price is equivalent to the fair value of consideration transferred. Tangible and identifiable intangible assets acquired and liabilities assumed as of the date of acquisition are recorded at the acquisition date fair value. Goodwill is recognized for the excess of purchase price over the net fair value of assets acquired and liabilities assumed.

Amounts allocated to assets and liabilities are based upon fair values. Such valuations require management to make significant estimates and assumptions, especially with respect to the identifiable intangible assets. Management makes estimates of fair value based upon assumptions believed to be reasonable and that of a market participant. These estimates are based on historical experience and information obtained from the management of the acquired companies and the estimates are inherently uncertain. The separately identifiable intangible assets generally include customer relationships, technology, and trade names.

### Goodwill and intangible assets

Goodwill. The Company reviews goodwill for impairment on an annual basis on the first day of the fourth quarter of each year at the reporting unit level. The Company's reporting units are the same as its operating segments, which are Automation and Analytics and Medication Adherence. A qualitative assessment is initially made to determine whether it is necessary to perform quantitative testing. This initial assessment includes, among others, consideration of: (i) past, current and projected future earnings and equity; (ii) recent trends and market conditions; and (iii) valuation metrics involving similar companies that are publicly-traded and acquisitions of similar companies, if available. If this initial qualitative assessment indicates that it is more likely than not that impairment exists, or if the Company decides to bypass this option, it proceeds to a two-step impairment test. The first step ("Step 1") involves a comparison between the estimated fair values of the Company's reporting units with their respective carrying amounts including goodwill. The methods for estimating reporting unit values include asset and liability fair values and other valuation techniques, such as discounted cash flows and multiples of earnings or revenues. If the carrying value exceeds estimated fair value, there is an indication of potential impairment, and the second step is performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill by measuring the excess of the estimated fair value of the reporting units over the aggregate estimated fair values of the individual assets less liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment

charge is recorded for the excess.

To determine each reporting unit's fair value in the second step, the Company uses the income approach which is based on the estimated discounted future cash flows of that reporting unit. The estimated fair value of each reporting unit under the income approach is corroborated with the market approach, which measures the value of a business through an analysis of recent sales or offerings of a comparable entity. The Company also considers its market capitalization on the date of the analysis to ensure the reasonableness of the sum of its reporting units' estimated fair value.

F- 14

---

## Table of Contents

Intangible assets. In connection with the Company's acquisitions, it generally recognizes assets for customer relationships, technology and trade names. Intangible assets are carried at cost less accumulated amortization. Such amortization is provided on a straight-line basis or on an accelerated basis based on a pattern of economic benefit that is expected to be obtained over the estimated useful lives of the respective assets, generally from 1 to 30 years. Amortization for technology is recognized in cost of product revenues, and amortization for customer relationships and trade names is recognized in selling, general and administrative expenses.

The Company assesses the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. Recoverability of an asset is measured by the comparison of the carrying amount to the sum of the undiscounted estimated future cash flows the asset is expected to generate, offset by estimated future costs to dispose of the product to which the asset relates. If an asset is considered to be impaired, the amount of such impairment would be measured as the difference between the carrying amount of the asset and its fair value. The Company's cash flow assumptions are based on historical and forecasted future revenue, operating costs, and other relevant factors. Assumptions and estimates about the remaining useful lives of the Company's intangible assets are subjective and are affected by changes to its business strategies. If management's estimates of future operating results change, or if there are changes to other assumptions, the estimate of the fair value of the Company's assets could change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on the Company's operating results and financial condition.

### Valuation of share-based awards

The Company accounts for share-based compensation in accordance with ASC 718, Stock Compensation ("ASC 718"). The Company recognizes compensation expense related to stock-based compensation, including the awarding of employee stock awards and restricted stock units, based on the grant date estimated fair value. The Company amortizes the fair value of the employee stock awards on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The Company estimates the fair value of stock-based compensation awards using the Black-Scholes option pricing model, which requires the following inputs: expected life, expected volatility, risk-free interest rate, expected dividend yield rate, exercise price, and closing price of its common stock on the date of grant. The expected volatility is based on a combination of historical and market-based implied volatility, and the expected life of the awards is based on the Company's historical experience of employee stock option exercises, including forfeitures. The valuation assumptions we use in estimating the fair value of employee share-based awards may change in future periods. The Company calculates its pool of excess tax benefits available within additional paid-in capital in accordance with the provisions of ASC 718.

### Accounting for income taxes

The Company records an income tax provision for the anticipated tax consequences of the reported results of operations. In accordance with U.S. GAAP, the provision for income taxes is computed using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement 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 in effect for the periods in which those tax assets and liabilities are expected to be realized or settled. In the event that these tax rates change, the Company will incur a benefit or detriment on its income tax expense in the period of change. If the Company were to determine that all or part of the net deferred tax assets are not realizable in the future, it will record a valuation allowance that would be charged to earnings in the period such determination is made.

In accordance with ASC 740, Income Taxes, the Company recognizes 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 U.S. 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.

Advertising expense

Costs related to advertising and promotion of products are charged to sales and marketing expense as incurred.

Advertising expense was approximately \$0.7 million, \$0.8 million and \$0.7 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

Commissions

F- 15

---

## Table of Contents

Sales commissions are incremental and directly related to customer sales contracts in which revenue is deferred. These commission costs are accrued and recorded in prepaid expenses upon execution of a non-cancelable customer contract and subsequently expensed in the period of revenue recognition.

### Shipping costs

Outbound freight billed to customers is recorded as product revenue. The related shipping and handling costs are expensed as part of selling, general and administrative expense. Shipping and handling expenses were \$8.5 million, \$7.4 million and \$6.1 million for the year ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

### Recently adopted accounting standards

During November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in the Consolidated Balance Sheet. The Company early adopted ASU 2015-17 effective December 31, 2015 on a prospective basis. Adoption of ASU 2015-17 resulted in a reclassification of the Company's net current deferred tax assets of \$12.5 million to the net non-current deferred tax liabilities in its Consolidated Balance Sheet as of December 31, 2015.

### Recently issued authoritative guidance

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

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The FASB amended lease accounting requirements to begin recording assets and liabilities arising from leases on the balance sheet. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. This new guidance will be effective for us beginning on January 1, 2019 using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company is currently evaluating the impact ASU 2016-02 will have on its consolidated financial statements. There was no other recently issued authoritative guidance that has a material impact on the Company's Consolidated Financial Statements through the reporting date.

### Note 2. Business Combinations

#### 2015 Acquisition Activity

##### Mach4 Acquisition

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

Mach4 manufactures robotic dispensing systems used by retail and hospital pharmacies and the Mach4 acquisition provides the Company with a more robust product offering that is intended to be leveraged to create opportunities to

sell additional Omnicell medication cabinets. The robotic storage and dispensing product offering provides the Company with a solution to better compete for international market share.

F- 16

---

Table of Contents

Pursuant to the terms of the Mach4 Agreement, the Company paid approximately \$17.3 million in cash after adjustments provided for in the Mach4 Agreement, of which \$2.7 million was placed in an escrow fund, which will be distributed to Mach4's former stockholders subject to claims that we may make against the escrow fund with respect to indemnification and other claims within 18 months after the closing date of this transaction.

**Avantec Acquisition**

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

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

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

Prior to the Avantec Acquisition, the Company accounted for its 15% ownership interest in Avantec as an equity-method investment. The Avantec acquisition date carrying book value of the Company's previous equity interest was \$1.3 million. This transaction was accounted for as a step acquisition, which required the Company to re-measure its previously held 15% ownership interest to fair value and record the difference between the fair value and carrying value as a gain. The fair value of the equity investment was determined to be \$4.7 million which resulted in a gain of \$3.4 million.

Both of the above acquired companies are included in the Company's Automation and Analytics segment.

The Company accounted for the transactions above under the provisions of ASC 805. Accordingly, the estimated fair value of the consideration transferred to purchase the acquired companies is allocated to the assets acquired and the liabilities assumed based on their respective fair values. The Company has made significant estimates and assumptions in determining the allocation of the acquisition consideration.

The purchase price allocations are subject to certain post-closing working capital adjustments for the acquired current assets and current liabilities of both acquisitions at their respective acquisition dates. The total consideration and the allocation of consideration to the individual net assets is preliminary, as there are remaining uncertainties to be resolved, including the settlement of the final net working capital adjustment for each.

Table of Contents

The Company's preliminary allocation of the total purchase price for each transaction is summarized below:

	Mach4	Avantec	Total
	(In thousands)		
Cash	\$397	\$3,392	\$3,789
Accounts receivable	3,743	3,607	7,350
Inventory	3,580	1,428	5,008
Deferred tax assets and other current assets	368	89	457
Total current assets	8,088	8,516	16,604
Property and equipment	463	—	463
Intangibles	7,710	6,341	14,051
Goodwill	10,591	15,606	26,197
Other non-current assets	52	—	52
Total assets	26,904	30,463	57,367
Current liabilities	3,684	4,125	7,809
Non-current deferred tax liabilities	2,564	1,269	3,833
Deferred service revenue and gross profit	2,314	928	3,242
Other non-current liabilities	1,056	—	1,056
Total purchase price	17,286	24,141	41,427
Total purchase price, net of cash received	\$16,889	\$20,749	\$37,638

Identifiable intangible assets

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

	Mach4		Avantec	
	Fair value	Weighted average useful life	Fair value	Weighted average useful life
	(In thousands)	(In years)	(In thousands)	(In years)
Developed technology	\$3,290	8	\$—	—
Trade name	850	6	92	2
Customer relationships	3,570	10	5,834	12
Backlog	—	—	415	2
Total purchased intangible assets	\$7,710		\$6,341	

Developed technology represents completed technology that has reached the technological feasibility and/or is currently offered for sale to Mach4 customers. The fair value is determined based on the relief from royalty method under the income approach, which requires the Company to estimate a reasonable royalty rate, identify relevant projected revenues and expenses, and select an appropriate discount rate. A royalty rate of 5% was used to value the developed technology. The after-tax cash flows were discounted to present value utilizing a 17.5% discount rate, which is based on the Company's company-wide required return for this acquisition plus a discount of 1.5% to account for the unique riskiness of the asset. The developed technology had a fair value of \$3.3 million and had an estimated economic life of eight years based on estimated technological obsolescence and is being amortized on an accelerated basis.

Trade name represents the fair value brand recognition that was determined using the relief-from-royalty method under the income approach. A royalty rate of 1% and 2% was used to value the trade names of Avantec and Mach4, respectively. The value of trade names of \$0.1 million for Avantec is being amortized on straight-line method and \$0.9 million for Mach4 is being amortized on an accelerated basis.

Customer relationships represent the fair value of future projected revenues that will be derived from the sale of products to existing customers of the acquired company. The fair value of the customer relationships is determined based on the excess earnings method under the income approach that resulted in a value of \$3.6 million for Mach4 and



\$5.8 million for Avantec and has been amortized over their useful lives on accelerated basis.

F- 18

---

Table of Contents

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

**Goodwill**

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

**Pro forma financial information**

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

	Twelve months ended December 31,	
	2015	2014
	(In thousands, except per share data)	
Pro forma net revenues	\$491,533	\$468,147
Pro forma net income	31,397	32,356
Pro forma net income per share basic	0.88	0.91
Pro forma net income per share diluted	0.86	0.88

Total revenues for Mach4 and Avantec recorded in fiscal year 2015 consolidated financial statements since the acquisition date were \$11.2 million and \$8.7 million, respectively. Total operating losses for Mach4 and Avantec recorded in fiscal year 2015 consolidated financial statements since the acquisition date were \$2.2 million and \$0.9 million, respectively.

**2014 Acquisition Activity**

On August 22, 2014, the Company completed its acquisition of Surgichem, a wholly-owned subsidiary of Bupa Care Homes (CFG) Plc ("Bupa"). In exchange for all of the voting equity interests of the acquired company, the Company paid a total purchase price of \$20.7 million in cash, net of \$0.2 million of cash acquired. This acquisition will assist U.K. healthcare professionals and caregivers seeking to improve patient outcomes, reduce medication errors and lower costs by effectively managing compliance to prescribed medication regimes in their mission to extend patient health and satisfaction through convenient, effective medication adherence solutions. Surgichem is being integrated with the Company's existing U.K. business, MTS, a leading supplier of medication adherence packaging solutions.

Table of Contents

The following table presents the purchase price allocation included in the Company's Consolidated Balance Sheets:

	(In thousands)
Cash	\$ 153
Accounts receivable	2,462
Inventory	2,190
Deferred tax assets and other current assets	361
Total current assets	5,166
Property and equipment	164
Intangibles	5,730
Goodwill	12,112
Total assets	23,172
Current liabilities	1,191
Long-term deferred tax liabilities	1,104
Total purchase price	\$20,877

Acquired intangible assets. The fair value of \$5.4 million for acquired customer relationships was determined based on an income approach using the discounted cash flow method. The fair value of \$0.3 million for the trade name was determined using the relief-from-royalty approach. Customer relationships are amortized over their estimated useful lives of 18 years and the trade name is amortized over its estimated useful life of approximately 1 year.

Goodwill. The purchase price allocation resulted in goodwill of \$12.1 million, which represents sales of future products and services and the assembled workforce of Surgichem. The Company believes the acquisition enhances its offerings and diversifies its revenue mix providing a more robust product and service solution to its current customers while expanding the Company's international presence. The Company considered these factors as supporting the amount of goodwill recorded. The amortization of intangible assets and goodwill is not deductible for tax purposes. Surgichem generated revenue of \$4.6 million and losses from operations of \$0.1 million since the acquisition date for the year ended December 31, 2014. Surgichem revenue and losses from operations were \$13.3 million (including \$4.6 million mentioned above) and \$11.9 million for the years ended December 31, 2014 and December 31, 2013, respectively. Results of operations for Surgichem have been included as a part of the Company's Medication Adherence segment, and supplemental pro forma results of operations for the prior periods have not been presented, as the effect of the acquisition was not material to the Company's consolidated financial results.

#### Note 3. Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted-average number of shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted-average number of shares, less shares repurchased, plus, if dilutive, potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. The anti-dilutive weighted-average dilutive shares related to stock award plans are excluded from the computation of the diluted net income per share because their effect would have been anti-dilutive.

Table of Contents

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

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands, except per share data)		
Net income	\$30,760	\$30,518	\$23,979
Weighted-average shares outstanding — basic	35,857	35,650	34,736
Add: Dilutive effect of employee stock plans	861	972	1,041
Weighted-average shares outstanding — diluted	36,718	36,622	35,777
Net income per share — basic	\$0.86	\$0.86	\$0.69
Net income per share — diluted	\$0.84	\$0.83	\$0.67
Anti-dilutive weighted-average shares related to stock award plans	555	640	850

Note 4. Cash and Cash Equivalents and Fair Value of Financial Instruments

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

Cash and cash equivalents at December 31, 2015 and December 31, 2014 were as follows:

	December 31, 2015	December 31, 2014
	(In thousands)	
Cash	\$72,103	\$61,311
Cash equivalents	10,114	64,577
Total cash and cash equivalents	\$82,217	\$125,888

Fair value hierarchy

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

The following table represents the fair value hierarchy of the Company's financial assets measured at fair value as of December 31, 2015:

	Level 1 (In thousands)	Level 2	Level 3	Total
Money market funds	\$10,114	\$—	\$—	\$10,114
Forward contracts	—	32	—	32
Total financial assets	\$10,114	\$32	\$—	\$10,146
Contingent consideration liability	\$—	\$—	\$5,823	\$5,823
Total financial Liabilities	\$—	\$—	\$5,823	\$5,823

The significant unobservable inputs used in the fair value measurement of the contingent consideration classified as level 3 above are the achievement of booking targets and the discount rate. There have been no transfers between fair value measurement levels during the year ended December 31, 2015 and December 31, 2014.

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

Table of Contents

	Level 1 (In thousands)	Level 2	Level 3	Total
Money market funds	\$ 64,577	\$ —	\$ —	\$ 64,577
Total financial assets	\$ 64,577	\$ —	\$ —	\$ 64,577

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

**Foreign Currency Risk Management**

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

The aggregate notional amounts of the Company's outstanding foreign exchange contracts as of December 31, 2015 were \$0.4 million. The aggregate fair value of these outstanding foreign exchange contracts as of December 31, 2015 were less than \$0.1 million. The Company did not have any outstanding foreign exchange contracts as of December 31, 2014.

**Note 5. Balance Sheet Components**

Table of Contents

	December 31, 2015 (In thousands)	December 31, 2014
Inventories:		
Raw materials	\$ 11,582	\$ 8,254
Work in process	1,653	64
Finished goods	33,359	23,236
Total inventories	\$ 46,594	\$ 31,554
Property and equipment:		
Equipment	\$ 43,533	\$ 42,829
Furniture and fixtures	5,897	5,689
Leasehold improvements	9,063	8,701
Software	30,693	28,920
Construction in progress	3,651	1,538
Property and equipment, gross	92,837	87,677
Accumulated depreciation and amortization	(60,528	) (51,499
Total property and equipment, net	\$ 32,309	\$ 36,178
Other long term assets:		
Capitalized software, net	\$ 26,011	\$ 19,643
Other assets	1,883	3,630
Total other long term assets, net	\$ 27,894	\$ 23,273
Accrued liabilities:		
Advance payments from customers	\$ 8,327	\$ 4,834
Rebates and lease buyouts	4,702	6,512
Group purchasing organization fees	2,983	3,475
Taxes payable	2,768	2,181
Other accrued liabilities	11,353	2,297
Total accrued liabilities	\$ 30,133	\$ 19,299
Deferred gross profit:		
Sales of medication and supply dispensing systems including packaging equipment	\$ 41,396	\$ 36,947
Less: cost of revenues, excluding installation costs	(15,688	) (8,389
Total deferred gross profit	\$ 25,708	\$ 28,558

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

On recurring basis, the Company enters into sales-type lease transactions which vary in length from 1.0 year to 5.0 years. The receivables as a result of these types of transactions are collateralized by the underlying equipment leased and consist of the following components at December 31, 2015 and December 31, 2014:

Table of Contents

	December 31, 2015	December 31, 2014
	(In thousands)	
Net minimum lease payments to be received	\$22,255	\$17,616
Less: unearned interest income portion	(1,014	) (1,131
Net investment in sales-type leases	21,241	16,485
Less: short-term portion <sup>(1)</sup>	(6,757	) (5,637
Long-term net investment in sales-type leases	\$14,484	\$10,848

(1) The short-term portion of the net investments in sales-type leases are included in the other current assets on the Consolidated Balance Sheets.

The Company evaluates its sales-type leases individually and collectively for impairment, and recorded allowance for credit losses of \$0.2 million as of December 31, 2015 and December 31, 2014.

At December 31, 2015, the future minimum lease payments to be received under sales-type leases are as follows:

Year ended December 31,	(In thousands)
2016	\$7,381
2017	6,252
2018	4,471
2019	2,500
2020	1,651
Total	\$22,255

#### Note 7. Goodwill and Intangible Assets

##### Goodwill

The changes in the carrying amount of goodwill are as follows:

	Automation and Analytics (In thousands)	Medication Adherence	Total
Net balance as of December 31, 2013	\$28,543	\$82,800	\$111,343
Additions <sup>(1)</sup>	—	12,112	12,112
Adjustments <sup>(2)</sup>	—	(735	) (735
Net balance as of December 31, 2014	28,543	94,177	122,720
Additions <sup>(3)</sup>	26,197	—	26,197
Adjustments <sup>(2)</sup>	(424	) (587	) (1,011
Net balance as of December 31, 2015	\$54,316	\$93,590	\$147,906

(1) Additions to goodwill as a result of the Surgichem acquisition in August 2014, including a \$0.1 million adjustment to the purchase price in the fourth quarter of 2014.

(2) Adjustments reflect foreign currency exchange rate fluctuations.

(3) Additions to goodwill as a result of the Mach4 and Avantec acquisitions in April 2015, including a \$0.1 million adjustment to the purchase price in the fourth quarter of 2015 for Mach4.

##### Intangible assets, net

The carrying amounts of intangibles as of December 31, 2015 were as follows:

Table of Contents

	December 31, 2015				
	Gross carrying amount	Accumulated amortization	Foreign currency exchange rate fluctuations	Net carrying amount	Useful life (years)
	(In thousands, except for years)				
Customer relationships	\$69,554	\$(11,315 )	\$(719 )	\$57,520	5 - 30
Acquired technology	30,870	(6,088 )	59	24,841	3 - 20
Trade names	8,052	(2,551 )	(14 )	5,487	1 - 12
Patents	1,960	(384 )	—	1,576	2 - 20
Backlog	415	(163 )	(11 )	241	2
Total intangibles assets, net	\$110,851	\$(20,501 )	\$(685 )	\$89,665	

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

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

Amortization expense of intangible assets was \$6.9 million, \$4.6 million and \$4.3 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

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

For the year ended December 31,	(In thousands)
2016	\$6,798
2017	5,996
2018	5,517
2019	5,244
2020	5,088
Thereafter	61,022
Total	\$89,665

#### Note 8. Commitments and Contingencies

##### Lease commitments

The Company leases office space and office equipment under operating leases. Commitments under operating leases primarily relate to leasehold property and office equipment. Rent expense was \$7.0 million, \$6.8 million and \$6.9 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.



Table of Contents

The minimum future payments on non-cancelable operating leases are as follows:

For the year ended December 31,	(In thousands)
2016	\$6,827
2017	6,015
2018	5,392
2019	5,250
2020	5,093
Thereafter	10,083
Total minimum future lease payments	\$38,660

#### Purchase obligations

During the course of the business, we issue purchase orders based on our current manufacturing needs. As of December 31, 2015, the Company had noncancelable purchase commitments of \$28.3 million, which are expected to be paid within the next twelve months.

#### Legal proceedings

The Company is currently involved in various legal proceedings. As required under ASC 450, Contingencies, the Company accrues for contingencies when it believes that a loss is probable and that it can reasonably estimate the amount of any such loss. The Company has not recorded any accrual for contingent liabilities associated with the legal proceedings described below based on its 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. The Company believes that it has valid defenses with respect to legal proceedings pending against it. 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.

The Company's pending legal proceeding as of December 31, 2015 is as follows:

On September 12, 2014, MV Circuit Design, Inc., an Ohio company ("MV Circuit"), brought an action to correct the inventorship of certain patents owned by the Company, as well as related state-law claims against the Company in the Northern District of Ohio (Case No. 1:14-cv-02028-DAP) regarding allegations of fraud in the filing and prosecution of U.S. Patent Nos. 8,180,485, 8,773,270, 8,812,153, PCT/US2007/003765, PCT/US2011/063597, and PCT/US2011/0635505 (the "Action"). On November 14, 2014, the Company filed a Motion to Dismiss the Action. MV Circuit responded on January 29, 2015, and the Company replied in support of its Motion to Dismiss on February 17, 2015. On March 24, 2015, the Court issued an Order granting in part and denying in part the Motion to Dismiss. Specifically, the Court granted the Company's Motion to Dismiss with respect to Counts 4, 5, and 6 (declaratory judgments regarding PCT/US2007/003765, PCT/US2011/063597, and PCT/US2011/0635505) and count 13 (civil conspiracy). The Court denied the Company's Motion to Dismiss with respect to Count 9 (fraud), Count 7 (fraudulent concealment) and Count 8 (negligent misrepresentation). The Company filed an Answer to the Complaint on April 8, 2015. Following an initial Case Management Conference on April 22, 2015, the Court ordered MV Circuit and the Company to make a limited initial production of documents. The parties completed this initial document production and have held further conference calls with the Court to report on their settlement negotiations. During a conference call held on February 11, 2016, the Court set a deadline of March 14, 2016 for the parties to either file notification of settlement or a proposed litigation schedule.

#### Guarantees

As permitted under Delaware law and the Company's certificate of incorporation and bylaws, the Company has agreed to indemnify its directors and officers against certain losses that they may suffer by reason of the fact that such persons are, were or become its 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 the Company could be required to make under these indemnification agreements. The Company has purchased a directors' and officers' liability insurance policy that may enable it to recover a portion of any future payments that it 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, the Company believes it is unlikely that the Company 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.

F- 26

---

Table of Contents

Additionally, the Company undertakes indemnification obligations in its ordinary course of business in connection with, among other things, the licensing of its products and the provision of its support services. In the ordinary course of the Company's business, the Company has in the past and may in the future agree to indemnify another party, generally its 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, its 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, the Company attempts to limit the maximum potential amount of future payments that it may be required to make under these indemnification obligations to the amounts paid to it by a customer, but in some cases the obligation may not be so limited. In addition, the Company has in the past and may in the future warrant to its customers that its products will conform to functional specifications for a limited period of time following the date of installation (generally not exceeding 30 days) or that its software media is free from material defects. Sales contracts for certain of the Company's medication packaging systems often include limited warranties for up to six months, but the periodic activity and ending warranty balances the Company records have historically been immaterial.

From time to time, the Company may also warrant that its professional services will be performed in a good and workmanlike manner or in a professional manner consistent with industry standards. The Company generally seeks 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, the Company would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. The Company has 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, the Company believes it is unlikely that the Company 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 December 31, 2015 and December 31, 2014.

## Note 9. Income Taxes

The following is a geographical breakdown of income before the provision for income taxes:

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
Domestic	\$51,089	\$48,327	\$34,678
Foreign	(4,845	) 177	351
Income before provision for income taxes	\$46,244	\$48,504	\$35,029

The provision for income taxes consists of the following:

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
Current:			
Federal	\$13,840	\$14,063	\$8,218
State	2,475	2,274	1,621
Foreign	203	192	447
Total current income taxes	16,518	16,529	10,286
Deferred:			
Federal	846	1,603	1,287
State	(379	) 84	(263
Foreign	(1,501	) (230	) (260
Total deferred income taxes	(1,034	) 1,457	764

Total provision for income taxes	\$15,484	\$17,986	\$11,050
----------------------------------	----------	----------	----------

F- 27

---

Table of Contents

The provision for income taxes differs from the amount computed by applying the statutory federal tax rate as follows:

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
U.S. federal tax provision at statutory rate	\$16,181	\$16,998	\$12,260
State taxes	1,365	1,533	883
Non-deductible expenses	551	809	297
Acquisition costs	239	229	—
Share-based compensation expense	748	461	407
Research tax credits	(1,324	) (818	) (1,430
Domestic production deduction	(1,133	) (1,127	) (816
Gain on investment	(1,205	) —	—
Other	62	(99	) (551
Total provision for income taxes	\$15,484	\$17,986	\$11,050

Significant components of the Company's deferred tax assets (liabilities) are as follows:

	December 31, 2015	December 31, 2014
	(In thousands)	
Deferred tax assets (liabilities):		
Deferred revenue	\$14,020	\$12,639
Stock compensation	6,034	6,287
Inventory related items	2,541	2,713
Tax credit carry forwards	2,579	2,168
Reserves and accruals	—	327
Loss carry forwards	667	12
Other, net	697	—
Total net deferred tax assets	26,538	24,146
Intangibles	(28,213	) (26,485
Depreciation and amortization	(17,185	) (14,331
Reserves and accruals	(601	) —
Other, net	—	(194
Total deferred tax liabilities	(45,999	) (41,010
Net deferred tax liabilities	\$(19,461	) \$(16,864

Deferred income tax assets (liabilities) are provided for temporary differences that will result in future tax deductions or future taxable income, as well as the future benefit of tax credit carry forwards. The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. On the basis of this evaluation, as of December 31, 2015, no valuation allowances have been recorded in any jurisdiction.

As of December 31, 2015, the Company has an immaterial amount of state net operating loss carryforwards available for income tax purposes. For income tax purposes, the Company has California research tax credits carryforwards of \$9.1 million. Federal research tax credit carryforwards from prior years have been utilized or have expired. California credits are available indefinitely to reduce cash taxes otherwise payable. Pursuant to the requirements of ASC 718, the Company does not include unrealized stock option attributes as components of its gross deferred tax assets. The

tax-effected amounts of gross

F- 28

---

Table of Contents

unrealized net operating loss and business tax credit carry forwards excluded under ASC 718 for the year ended December 31, 2015 are immaterial.

In general, it is the Company's practice and intention to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 2015, the Company has not made a provision for U.S. federal income and state income taxes on accumulated and current earnings of \$1.0 million related to certain foreign subsidiaries because these earnings are intended to be indefinitely reinvested in operations outside the U.S. If the Company expects to distribute those earnings in the form of dividends or otherwise, the Company would be subject to U.S. and state income taxes reported as a component of income tax expense, in the amount of \$0.4 million. This amount may be reduced by any foreign tax credits available at the time of repatriation.

The Company files income tax returns in the United States and various states and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities, including major jurisdictions as the United States, California, the United Kingdom and Germany. In 2012, the Company concluded audits by the IRS and the California Franchise Tax Board for years 2008 and 2009. However, all of the net operating loss and research credit carryforwards that may be used in future years are subject to adjustment, if and when utilized. As such the Company's U.S. federal and California tax years remain open from 1996 and 1992, respectively. In late 2014, the Company was contacted by the IRS for a limited scope audit for tax years 2011 and 2012. In 2015, the audit was expanded to include 2013. At this time, the Company does not believe results of this audit will have a material impact on its financial statements.

The aggregate change in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for the three years ended December 31, 2015 is as follows:

	(In thousands)
Year Ended December 31, 2012	\$6,915
Increases related to tax positions taken during a prior period	406
Decreases related to tax positions taken during the prior period	(79 )
Increases related to tax positions taken during the current period	764
Decreases related to settlements	—
Decreases related to expiration of statute of limitations	(32 )
Year Ended December 31, 2013	7,974
Increases related to tax positions taken during a prior period	63
Decreases related to tax positions taken during the prior period	(89 )
Increases related to tax positions taken during the current period	801
Decreases related to settlements	—
Decreases related to expiration of statute of limitations	(264 )
Year Ended December 31, 2014	8,485
Increases related to tax positions taken during a prior period	37
Decreases related to tax positions taken during the prior period	(895 )
Increases related to tax positions taken during the current period	1,807
Decreases related to settlements	—
Decreases related to expiration of statute of limitations	(284 )
Year Ended December 31, 2015	\$9,150

As of December 31, 2015 the total amount of gross unrecognized tax benefits, if realized, would decrease the Company's tax expense by approximately \$6.0 million. The Company recognizes interest and/or penalties related to uncertain tax positions in operating expenses, which for 2015 was immaterial. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

Note 10. Stock Repurchases

Table of Contents

The following table summarizes the Company's stock repurchases during each reporting period:

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands, except per share data)		
Total number of shares repurchased	1,424	884	885
Dollar amount of shares repurchased	\$50,021	\$24,091	\$20,962
Average price paid per share	\$35.13	\$27.24	\$23.70

In August 2012, the Company's Board of Directors authorized a program (the "2012 Stock Repurchase Program") to repurchase up to \$50.0 million of common stock, of which approximately \$45.1 million had been repurchased as of December 31, 2014, and approximately \$4.9 million had been repurchased during the second quarter of 2015 at which time the 2012 Stock Repurchase Program was concluded.

In November 2014, the Company's Board of Directors authorized a program (the "2014 Stock Repurchase Program") to repurchase up to \$50.0 million of common stock of which approximately \$45.1 million had been repurchased as of December 31, 2015. The 2014 Stock Repurchase Program has a total of \$4.9 million remaining for future repurchases as of December 31, 2015, and the program has no expiration date.

The following table presents a summary of our stock repurchase activity for the year ended December 31, 2015:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Amounts of Shares Purchased Under Publicly Announced Programs
	(In thousands, except per share data)		
During fiscal year ended December 31, 2015:			
May 1, 2015 to May 31 2015	321	\$35.91	\$11,528
June 1, 2015 to June 30, 2015	360	37.48	13,493
August 1, 2015 to August 31, 2015	189	33.75	6,378
September 1, 2015 to September 30, 2015	554	33.61	18,622
Total share repurchased during 2015	1,424	35.13	\$50,021

#### Note 11. Employee Benefits and Share-Based Compensation

##### Stock purchase plan

##### 1997 Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("ESPP"), under which employees can purchase shares of its common stock based on a percentage of their compensation, but not greater than 15% of their earnings; provided, however, an eligible employee's right to purchase shares of the Company's common stock may not accrue at a rate which exceeds \$25,000 of the fair market value of such shares for each calendar year in which such rights are outstanding. The purchase price per share 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.

At the Company's 2009 Annual Meeting of Stockholders (the "2009 Annual Meeting"), its stockholders approved an amendment to the ESPP, which added 2.6 million shares to the reserve for future issuance. At the Company's 2015 Annual Meeting of Stockholders (the "2015 Annual Meeting"), its stockholders approved an amendment to the ESPP, which added and additional 3.0 million shares to the reserve for future issuance. There was a total of 3.3 million shares reserved for future issuance under the ESPP as of December 31, 2015.

For the year ended December 31, 2015, employees purchased 0.4 million shares of common stock under the ESPP and an aggregate of 5.1 million shares were issued under the ESPP as of December 31, 2015.

##### Stock award plans



Table of Contents

## 2009 Equity Incentive Plan

On May 19, 2009, at the Company's 2009 Annual Meeting, the stockholders approved the Omnicell, Inc. 2009 Equity Incentive Plan, and as subsequently amended, (the "2009 Plan"). 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 the Company's employees, directors and consultants. The 2009 Plan succeeded the 1999 Equity Incentive Plan, the 2003 Equity Incentive Plan 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.

On December 16, 2010, at a Special Meeting of Stockholders, the Company's stockholders approved an amendment to increase the number of shares of common stock authorized for issuance under the 2009 Plan by 2.6 million 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. At the Company's 2013 Annual Meeting of Stockholders, the Company's stockholders approved an amendment to the 2009 Plan to increase the number of shares of common stock authorized for issuance by 2.5 million shares. At the 2015 Annual Meeting, the Company's stockholders approved an amendment to the 2009 Plan to increase the number of shares of common stock authorized for issuance by 3.2 million shares and to provide that number of common stock shares available for issuance under the 2009 Plan be reduced by 2.15 shares for each share granted as a full value award on or after December 31, 2014. In addition, at the 2015 Annual Meeting, the Company's stockholders approved amendments to the 2009 Plan Stock providing that: (i) awards granted under the 2009 Plan will be subject to recoupment in accordance with any clawback policy that the Company may be required to adopt pursuant to applicable law and listing requirements and (ii) that the 2009 Plan will not expire by its terms but that no incentive stock options may be granted after the ten year anniversary of the earlier of the date that the 2009 Plan was adopted by the Company's Board of Directors or the date that the 2009 Plan was approved by its stockholders. There were 3.8 million shares of common stock reserved for future issuance under the 2009 Plan as of December 31, 2015.

Options granted under the 2009 Plan become exercisable over periods of up to four years, 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. The Company also grants both restricted stock and restricted stock units to participants under the 2009 Plan. Awards of restricted stock to non-employee directors are granted on the date of the annual meeting of stockholders and vest in full on the date of the next annual meeting of stockholders, provided such non-employee director remains a director on such date. The fair value of the award on the date of issuance is amortized to expense from the date of grant to the date of vesting. RSUs granted to employees vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period.

## Performance-based Restricted Stock Units

In 2011, the Company began incorporating performance-based restricted stock units ("PSUs") as an element of its executive compensation plans. In 2012, the Company granted 125,000 PSUs to its executive officers, of which 62,500 PSUs became eligible for vesting upon the achievement of a certain level of shareholder return for 2012. In 2013, the Company granted 137,500 PSUs to its executive officers all of which became eligible for vesting upon the achievement of a certain level of shareholder return for the period from January 1, 2013 through February 28, 2014. In 2014, the Company granted 132,500 PSUs to its executive officers, all, none or a portion of which may become eligible for vesting depending on the level of shareholder return for 2014 and eligible for further time-based vesting based on the ranking of the Company's total shareholder return for the period from March 1, 2014 through March 1, 2015. In 2015, the Company granted 60,000 PSUs to its executive officers, all, none or a portion of which may become eligible for vesting depending on the level of shareholder return for the period from March 2, 2015 through March 1, 2016 and eligible for further time-based vesting based on the ranking of the Company's total shareholder return.

The fair value of a PSU award is determined using a Monte Carlo simulation model. The number of shares that vest at the end of the performance period depends on the percentile ranking of the total shareholder return for Omnicell stock over the performance period relative to the total shareholder return of each of the other companies in the NASDAQ Healthcare Index (the "Index").

Vesting for the PSUs is based both on the percentile placement of the Company's total stockholder return among the companies listed in the NASDAQ Health Care Index and time-based vesting. The Company calculates total stockholder return based on the one year annualized rates of return reflecting price appreciation plus reinvestment of dividends. For PSUs granted

F- 31

---

Table of Contents

on February 6, 2015, stock price appreciation is calculated based on the trailing 20-day average stock price just prior the first trading day of March 2015, compared to the trailing 20-day average stock price just prior the first trading day of March 2016. For PSUs granted on February 4, 2014, stock price appreciation is calculated based on the trailing 20-day average stock price just prior to the first trading day of March 2014, compared to the trailing 20-day average stock price just prior to the first trading day of March 2015.

On March 20, 2014, the Compensation Committee confirmed 63.9% as the percentile rank of the Company's 2013 total stockholder return. This resulted in 100% of the 2013 PSUs, or 137,500 shares, as eligible for further time-based vesting. The eligible performance based restricted stock unit awards will vest as follows: 25% of the eligible shares vested immediately on March 20, 2014 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three-year period beginning on June 15th and December 15th of the year after the date of grant and each subsequent year. Vesting is contingent upon continued service. Of the 137,500 shares eligible for time-based vesting under the 2013 PSUs, 68,750 and 34,375 shares vested during the year ended December 31, 2014 and December 31, 2015, respectively.

On March 3, 2015, the Compensation Committee confirmed 74.4% as the percentile rank of the Company's 2014 total stockholder return. This resulted in 100% of the 2014 PSUs, or 132,500 shares, as eligible for further time-based vesting. The eligible performance based restricted stock unit awards will vest as follows: 25% of the eligible shares vested immediately on March 3, 2015 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. Of the 132,500 shares eligible for time-based vesting under the 2014 PSUs, 66,250 shares vested during the year ended December 31, 2015.

## Valuation of share-based awards

The following assumptions were used to value share options and ESPP shares granted pursuant to our equity incentive plans:

	Year Ended			
	December 31, 2015	December 31, 2014	December 31, 2013	
<b>Stock Option Plans</b>				
Risk-free interest rate	1.7	% 1.6	% 1.2	%
Dividend yield	—	% —	% —	%
Expected volatility	32.0	% 34.9	% 43.1	%
Expected life (in years)	5.04	4.8	5.3	
	Year Ended			
	December 31, 2015	December 31, 2014	December 31, 2013	
<b>Employee Stock Purchase Plan</b>				
Risk-free interest rate	0.03% - 0.79%	0.03% - 0.53%	0.03% - 0.85%	
Dividend yield	—	% —	% —	%
Expected volatility	25.7% - 37.5%	29.5% - 42.1%	29.5% - 44.8%	
Expected life (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	

## Share-based compensation expense

The Company accounts 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 its ESPP using the estimate grant date fair value method of accounting in accordance with ASC 718, Stock Compensation. The Company values 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 using the Monte Carlo simulation model.

Table of Contents

The following table sets forth the total share-based compensation expense recognized in the Company's Consolidated Statements of Income:

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
Cost of product and service revenues	\$2,111	\$1,456	\$1,241
Research and development	2,060	1,655	1,359
Selling, general and administrative	10,750	9,674	8,551
Total share-based compensation expense	\$14,921	\$12,785	\$11,151

The Company did not capitalize any share-based compensation as inventory as such amounts were not material for the years ended December 31, 2015, December 31, 2014 and December 31, 2013. Income tax benefits realized from share-based compensation were \$5.0 million, \$4.5 million and \$2.4 million, for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

## Stock options activity

A summary of the stock option activity under the 2009 Plan is presented below:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Years	Aggregate Intrinsic Value
	(In thousands, except per share data)			
Outstanding at December 31, 2014	2,672	\$ 19.02	6.5	
Granted (Awarded)	728	31.21		
Exercised (Released)	(598	) 15.51		
Expired	(5	) 16.71		
Forfeited	(109	) 24.24		
Outstanding at December 31, 2015	2,688	22.89	6.9	\$23,418
Exercisable at December 31, 2015	1,399	17.74	5.1	18,716
Vested and expected to vest at December 31, 2015 and thereafter	2,648	22.78	6.9	\$23,332

The weighted-average fair value per share of options granted during 2015, 2014 and 2013 was \$9.67, \$9.12 and \$8.09, respectively. The intrinsic value of options exercised during 2015, 2014 and 2013 was \$11.3 million, \$14.1 million and \$14.0 million, respectively.

As of December 31, 2015, total unrecognized compensation cost related to unvested stock options was \$11.2 million, which is expected to be recognized over a weighted-average vesting period of 2.9 years. As of December 31, 2014, total unrecognized compensation cost related to unvested stock options was \$8.8 million, which is expected to be recognized over a weighted-average vesting period of 2.8 years.

## Restricted stock activity

Table of Contents

Summaries of the restricted stock activity under the 2009 Plan are presented below:

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Years	Aggregate Intrinsic Value
(In thousands, except per share data)				
Restricted Stock Units				
Non-vested at December 31, 2014	399	\$ 24.00	1.5	
Granted (Awarded)	256	31.44		
Vested (Released)	(196	) 23.99		
Forfeited	(42	) 24.65		
Non-vested at December 31, 2015	417	28.49	1.6	\$12,948

The weighted-average grant date fair value per share of Restricted Stock Units ("RSUs") granted during 2015, 2014 and 2013 was \$31.44, \$28.88 and \$19.87, respectively. The total fair value of RSUs that vested in 2015, 2014 and 2013 was \$4.7 million, \$3.2 million and \$4.4 million, respectively.

As of December 31, 2015, total unrecognized compensation cost related to RSUs was \$11.2 million, which is expected to be recognized over the remaining weighted-average vesting period of 2.9 years. As of December 31, 2014, total unrecognized compensation cost related to RSUs was \$8.7 million, which is expected to be recognized over the remaining weighted-average vesting period of 2.6 years.

	Number of Shares	Weighted-Average Grant Date Fair Value
(In thousands, except per share data)		
Restricted Stock Awards		
Non-vested at December 31, 2014	36	\$ 26.47
Granted (Awarded)	36	36.05
Vested (Released)	(41	) 26.48
Forfeited	—	—
Non-vested at December 31, 2015	31	\$ 35.97

The weighted-average grant date fair value per share of Restricted Stock Awards ("RSAs") granted during 2015, 2014 and 2013 was \$36.05, \$26.42 and \$18.20, respectively. The total fair value of RSAs that vested in 2015, 2014 and 2013 was \$1.1 million, \$1.0 million and \$1.1 million, respectively.

As of December 31, 2015, total unrecognized compensation cost related to RSAs was \$0.4 million, which is expected to be recognized over the remaining weighted-average vesting period of 0.4 years. As of December 31, 2014, total unrecognized compensation cost related to RSAs was \$0.4 million, which is expected to be recognized over the remaining weighted-average vesting period of 0.5 years.

#### Performance-based restricted stock units activity

A summary of the performance-based restricted stock activity under the 2009 Plan is presented below:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Unit
(In thousands, except per share data)		
Unvested at December 31, 2014	233	\$ 17.96
Granted (Awarded)	60	29.56
Vested (Released)	(107	) 18.20
Forfeited	(35	) 14.08
Unvested at December 31, 2015	151	\$ 23.33



Table of Contents

The weighted-average grant date fair value per share of PSUs granted during 2015, 2014 and 2013 was \$29.56, \$20.94 and \$14.68, respectively. The total fair value of PSUs that vested in 2015, 2014 and 2013 was \$1.9 million, \$1.5 million and \$0.7 million, respectively.

As of December 31, 2015, total unrecognized compensation cost related to PSUs was approximately \$1.5 million, which is expected to be recognized over the remaining weighted-average period of 1.2 years. As of December 31, 2014, total unrecognized compensation cost related to PSUs was approximately \$2.0 million, which is expected to be recognized over the remaining weighted-average period of 1.2 years.

Employee Stock Purchase Plan

The unrecognized compensation cost related to the shares to be purchased under the ESPP was approximately \$1.4 million, and is expected to be recognized over a weighted-average period of 0.6 years as of December 31, 2015.

Summary of Shares Reserved for Future Issuance Under Equity Incentive Plans

The Company had the following ordinary shares reserved for future issuance under its equity incentive plans as of December 31, 2015:

	Number of Shares (In thousands)
Share options outstanding	2,688
Non-vested restricted stock awards	599
Shares authorized for future issuance	3,804
ESPP shares available for future issuance	3,251
Total shares reserved for future issuance	10,342

401(k) Plan

The Company has established a pre-tax savings plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan allows eligible employees in the United States to voluntarily contribute a portion of their pre-tax salary, subject to a maximum limit specified in the Internal Revenue Code. The Company matches 50% of employee contributions up to \$2,000, annually. The Company's contributions under this plan were \$1.8 million, \$1.3 million and \$1.1 million in 2015, 2014 and 2013, respectively.

Note 12. Segment and Geographical InformationSegment Information

In the first quarter of 2015, the Company modified its segment presentation to reflect the changes in how its Chief Operating Decision Maker (“CODM”) reviews the segments and the overall business. With the increase in completed acquisitions in the last two years, the Company changed how the financial information was presented for CODM review to exclude general corporate-level costs that are not specific to either of the reporting segments when evaluating the operating results of each segment. Corporate-level costs include expenses related to executive management, finance and accounting, human resources, legal, training and development, and certain administrative expenses.

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

The two operating segments, which are the same as the Company's two reportable segments, are as follows:

Automation and Analytics

The Automation and Analytics segment is organized around the design, manufacturing, selling and servicing of medication and supply dispensing systems, pharmacy inventory management systems, and related software. The Company's





Table of Contents

Automation and Analytics products are designed to enable its customers to enhance and improve the effectiveness of the medication-use process, the efficiency of the medical-surgical supply chain, overall patient care and clinical and financial outcomes of medical facilities. Through modular configuration and upgrades, the Company's systems can be tailored to specific customer needs. The acquired companies Mach4 and Avantec are included in the Automation and Analytics segment.

**Medication Adherence**

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

The historical information presented has been retrospectively adjusted to reflect the new segment reporting.

The following table summarizes the financial performance of the Company's reporting segments:

	Year Ended			December 31, 2014			December 31, 2013		
	December 31, 2015	December 31, 2014	December 31, 2013	Automation and Analytics	Medication Adherence	Total	Automation and Analytics	Medication Adherence	Total
	(1)	(2)		(1)	(2)		(1)	(2)	
	(In thousands)								
Revenues	\$390,321	\$94,238	\$484,559	\$354,095	\$86,805	\$440,900	\$302,917	\$77,668	\$380,585
Cost of revenues	171,943	64,686	236,629	151,327	55,713	207,040	129,314	47,872	177,186
Gross profit	218,378	29,552	247,930	202,768	31,092	233,860	173,603	29,796	203,399
Operating expenses	114,084	24,258	138,342	105,929	20,586	126,515	140,087	14,905	154,992
Income from operations	\$104,294	\$5,294	109,588	\$96,839	\$10,506	107,345	\$33,516	\$14,891	48,407
Corporate costs			60,956			57,762			13,108
Income from operations			\$48,632			\$49,583			\$35,299

(1) Includes Avantec and Mach4 results as of April 2015, the acquisition date.

(2) Includes Surgichem results as of August 2014, the acquisition date.

**Significant customers**

There were no significant customers that accounted for more than 10% of the Company's total revenues in 2015, 2014 and 2013.

**Geographical Information****Revenues**

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
United States	\$403,375	\$394,234	\$334,412
Rest of world <sup>(1)</sup>	81,184	46,666	46,173
Total revenues	\$484,559	\$440,900	\$380,585

(1) No individual country represented more than 10% of the respective totals.

F- 36

---

Table of Contents

Property and equipment, net	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	(In thousands)		
United States	\$29,506	\$35,335	\$35,254
Rest of world <sup>(1)</sup>	2,803	843	—
Total property and equipment, net	\$32,309	\$36,178	\$35,254

<sup>(1)</sup> No individual country represented more than 10% of the respective totals.

Property and equipment, net is attributed to the geographic location in which it is located.

#### Note 13. Credit Agreement

In September 2013, the Company entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent, and the lenders from time to time party thereto. The Credit Agreement provides for a \$75 million revolving credit facility with a \$10 million letter of credit sub-limit. Loans under the Credit Agreement mature on September 25, 2018. The Credit Agreement permits the Company to request one or more increases in the aggregate commitments provided that such increases do not exceed \$25 million in the aggregate. The Company expects to use the proceeds from any revolving loans under the credit facility for general corporate purposes, including future acquisitions. The Company's obligations under the Credit Agreement are guaranteed by certain of its domestic subsidiaries and secured by substantially all of the Company's and the subsidiary guarantors' assets. The Company had not drawn any funds under the credit facility to date.

Amounts drawn under the Credit Agreement bear interest, at the Company's election, at a Eurodollar rate plus a margin of 1.75% per annum, or an alternate base rate equal to the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, and (iii) LIBOR for an interest period of one month plus 1.75%. The Company is required to pay a commitment fee of 0.25% per annum on the aggregate undrawn amount of the commitments under the credit facility. On November 5, 2014, the Company entered into Amendment Number One ("Amendment") to the Credit Agreement. The Amendment increases the amount of the Company's common stock that may be repurchased by the Company in open market transactions authorized by its Board of Directors, together with any repurchases of its common stock from any consultants, employees, officers or directors of the Company or any of its subsidiaries following the death, disability, retirement or termination of employment of such employees, officers or directors, from \$25 million to \$50 million per year.

The Credit Agreement, as amended, contains customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, dividends and other distributions. The Credit Agreement, as amended, contains financial covenants that require the Company to, among other things, maintain a maximum consolidated total leverage ratio and a minimum consolidated fixed charge coverage ratio, in each case, as of the last day of each quarter. The Company was in full compliance with all covenants as of December 31, 2015. On January 5, 2016, this Credit Agreement was replaced by the below.

On January 5, 2016, we entered into a \$400 million secured credit facility pursuant to a credit agreement, by and among us, the lenders from time to time party thereto, Wells Fargo Securities, LLC, as sole lead arranger and Wells Fargo Bank, National Association, as administrative agent (the "Credit Agreement"). See Note 14, Subsequent Events, for additional discussion.

#### Note 14. Subsequent Events

##### Acquisition of Aesynt

On January 5, 2016, the Company completed its acquisition of all of the membership interests of Aesynt Holding, L.P., Aesynt, Ltd. and Aesynt Coöperatief U.A. (collectively, "Aesynt") pursuant to that certain securities purchase agreement dated as of October 29, 2015, by and among the Company, Omnicell International, Inc. and Aesynt (the "Securities Purchase Agreement"). The purchase price paid by the Company was approximately \$275 million, including the repayment of Aesynt indebtedness and after adjustments provided for in the Securities Purchase Agreement. The acquisition was funded with cash-on-hand and borrowings under the Credit Agreement. The Company is in the

process of evaluating the business combination accounting considerations, including the consideration transferred and the initial purchase price allocation.

F- 37

---

Table of Contents

## Execution of the Credit Agreement

On January 5, 2016, the Company, as borrower, entered into a \$400 million senior secured credit facility pursuant to a Credit Agreement, by and among the Company, the lenders from time to time party thereto, Wells Fargo Securities, LLC, as Sole Lead Arranger and Wells Fargo Bank, National Association, as administrative agent (the “Credit Agreement”). The Credit Agreement provides for (a) a five-year revolving credit facility of \$200 million (the “Revolving Credit Facility”) and (b) a five-year \$200 million term loan facility (the “Term Loan Facility” and together with the Revolving Credit Facility, the “Facilities”). In addition, the Credit Agreement includes a letter of credit sub-limit of up to \$10 million and a swing line loan sub-limit of up to \$10 million.

On January 5, 2016, the Company borrowed the full \$200 million under the Term Loan Facility and \$55 million under the Revolving Credit Facility to complete the acquisition of all of the membership interests of Aesynt and to pay related fees and expenses. The Company expects to use future loans under the Revolving Credit Facility, if any, for general corporate purposes. The Credit Agreement replaces the Company’s existing Credit Agreement, dated as of September 25, 2013, by and among the Company, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended.

Loans under the Facilities bear interest, at the Company’s option, at a rate equal to either (a) the LIBOR Rate, plus an applicable margin ranging from 1.50% to 2.25% per annum based on the Company’s Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement), or (b) an alternate base rate equal to the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50%, and (iii) LIBOR for an interest period of one month, plus an applicable margin ranging from 0.50% to 1.25% per annum based on the Company’s Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement). Undrawn commitments under the Revolving Credit Facility will be subject to a commitment fee ranging from 0.20% to 0.35% per annum based on the Company’s Consolidated Total Net Leverage Ratio on the average daily unused portion of the Revolving Credit Facility. A letter of credit participation fee ranging from 1.50% to 2.25% per annum based on the Company’s Consolidated Total Net Leverage Ratio will accrue on the average daily amount of letter of credit exposure.

The Company is permitted to make voluntary prepayments at any time without payment of a premium or penalty, except for any amounts relating to the LIBOR breakage indemnity described in the Credit Agreement. The Company is required to make mandatory prepayments under the Term Loan Facility with (a) net cash proceeds from any issuances of debt (other than certain permitted debt) and (b) net cash proceeds from certain asset dispositions (other than certain asset dispositions) and insurance and condemnation events (subject to reinvestment rights and certain other exceptions). Loans under the Term Loan Facility will amortize in quarterly installments, equal to 5% per annum of the original principal amount thereof during the first two years, which shall increase to 10% per annum during the third and fourth years, and 15% per annum during the fifth year, with the remaining balance payable on January 5, 2021. The Company is required to make mandatory prepayments under the Revolving Credit Facility if at any time the aggregate outstanding principal amount of loans together with the total amount of outstanding letters of credit exceed the aggregate commitments, with such mandatory prepayment to be equal to the amount of such excess.

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, dividends and other distributions. The Credit Agreement contains financial covenants that require the Company and its subsidiaries to not exceed a maximum consolidated total leverage ratio and maintain a minimum fixed charge coverage ratio.

Events of default under the Credit Agreement include: (a) the failure by the Company or any Credit Party (as such term is defined in the Credit Agreement) to timely make payments due under the Credit Agreement or the other loan documents; (b) misrepresentations or misstatements in any representation or warranty subject to materiality or material adverse effect qualifications by any Credit Party or subsidiary thereof when made; (c) the failure by any Credit Party to comply with the covenants under the Credit Agreement and other related agreements; (d) certain defaults under a specified amount of other indebtedness of the Company; (e) insolvency or bankruptcy-related events with respect to the Company or any of its subsidiaries; (f) certain judgments against the Company or any of its subsidiaries; (g) certain ERISA-related events; (h) the failure by the loan documents to create a valid and perfected security interest in any material portion of the collateral purported to be covered thereby; (i) any material provision of

any loan document ceasing to be valid, binding and enforceable; (j) payment defaults and certain performance defaults under material contracts of the Company; and (k) the occurrence of a change in control. If one or more events of default occurs and continues, the administrative agent may, with the consent of the lenders holding a majority of the loans and commitments under the facilities, or will, at the request of such lenders, terminate the commitments of the lenders to make further loans and declare all of the obligations of the credit parties under the Credit Agreement to be immediately due and payable.

F- 38

---

Table of Contents

The Company's obligations under the Credit Agreement and any swap obligations and banking services obligations owing to a lender (or an affiliate of a lender) are guaranteed by certain of its domestic subsidiaries and secured by substantially all of its and the subsidiary guarantors' assets. In connection with entering into the Credit Agreement, and as a condition precedent to borrowing loans thereunder, the Company and certain of the Company's other direct and indirect subsidiaries have entered into certain ancillary agreements, including, but not limited to, a collateral agreement and subsidiary guaranty agreement.

F- 39

---

Table of ContentsSCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period <sup>(1)</sup> (In thousands)	Additions Charged to Costs and Expenses <sup>(2)</sup>	Credited to Other Accounts <sup>(3)</sup>	Amount Written Off <sup>(4)</sup>	Balance at End of Period <sup>(1)</sup>
Year ended December 31, 2013					
Accounts receivable	\$722	\$195	\$(67 )	\$(360 )	\$490
Investment in sales-type leases	607	49	—	(489 )	167
Total allowances deducted from assets	\$1,329	\$244	\$(67 )	\$(849 )	\$657
Year ended December 31, 2014					
Accounts receivable	\$490	\$941	\$(60 )	\$(165 )	\$1,206
Investment in sales-type leases	167	—	(5 )	—	162
Total allowances deducted from assets	\$657	\$941	\$(65 )	\$(165 )	\$1,368
Year ended December 31, 2015					
Accounts receivable	\$1,206	\$453	\$28	\$(447 )	\$1,240
Investment in sales-type leases	162	(99 )	) 106	—	169
Total allowances deducted from assets	\$1,368	\$354	\$134	\$(447 )	\$1,409

---

<sup>(1)</sup> Allowance for doubtful accounts.

<sup>(2)</sup> Represents amounts charged to bad debt expense.

<sup>(3)</sup> Represents amounts credited to bad debt expense.

<sup>(4)</sup> Represents amounts written-off, net of recoveries.



Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on the 26<sup>th</sup> day of February 2016.

OMNICELL, INC.

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

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below hereby constitutes and appoints Randall A. Lipps and Peter J. Kuipers, each of them acting individually, as his or her attorney-in-fact, each with the full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming our signatures as they may be signed by our said attorney-in-fact and any and all amendments to this Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RANDALL A. LIPPS Randall A. Lipps	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)	February 26, 2016
/s/ PETER J. KUIPERS Peter J. Kuipers	Executive Vice President & Chief Financial Officer (Principal Accounting and Financial Officer)	February 26, 2016
/s/ JOANNE B. BAUER Joanne B. Bauer	Director	February 26, 2016
/s/ JAMES T. JUDSON James T. Judson	Director	February 26, 2016
/s/ RANDY D. LINDHOLM Randy D. Lindholm	Director	February 26, 2016
/s/ VANCE B. MOORE Vance B. Moore	Director	February 26, 2016
/s/ MARK W. PARRISH Mark W. Parrish	Director	February 26, 2016
/s/ GARY S. PETERSMEYER Gary S. Petersmeyer	Director	February 26, 2016
/s/ BRUCE D. SMITH Bruce D. Smith	Director	February 26, 2016
/s/ Sara J. White		February 26, 2016

Sara J. White

Director

S- 1

---

Table of Contents

## INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated By Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Share Purchase Agreement, dated February 26, 2015, among Apotheka Imedisa 2001 S.A., Holger Wallat, Dirk Rolf Beils, Peter Jansen and Omnicell International, Inc.	8-K	000-33043	2.1	3/2/2015
2.2	Securities Purchase Agreement, dated October 29, 2015, among Omnicell, Inc., Aesynt Holding, L.P., Aesynt, Ltd. and Aesynt Coöperatief U.A.	8-K	000-33043	2.1	10/29/2015
3.1	Amended and Restated Certificate of Incorporation of Omnicell, Inc.	S-1	333-57024	3.1	3/14/2001
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.	10-Q	000-33043	3.2	8/9/2010
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock	10-K	000-33043	3.2	3/28/2003
3.4	Bylaws of Omnicell, Inc., as amended	10-Q	000-33043	3.3	8/9/2007
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4				
4.2	Form of Common Stock Certificate	S-1	333-57024	4.1	3/14/2001
10.1*	2014 Executive Officer Annual Base Salaries	8-K	000-33043	10.1	2/7/2014
10.2*	2015 Executive Officer Annual Base Salaries	8-K	000-33043	10.1	2/12/2015
10.3	Lease, effective July 1, 1999, between AMLI Commercial Properties Limited Partnership and Omnicell, Inc.	S-1	333-57024	10.2	3/14/2001
10.4	First Amendment to Lease, dated September 30, 1999, between AMLI Commercial Properties Limited Partnership and Omnicell, Inc.	10-K	000-33043	10.6	3/8/2012
10.5	Lease, dated April 14, 2010, between Point Place II, LLC and Omnicell, Inc.	10-K	000-33043	10.10	3/11/2011
10.6	Lease Agreement, dated October 20, 2011, between Middlefield Station Associates, LLC and Omnicell, Inc.	10-K	000-33043	10.9	3/8/2012
10.7	Form of Director and Officer Indemnity Agreement	S-1	333-57024	10.12	3/14/2001
10.8*	1997 Employee Stock Purchase Plan, as amended	S-8	000-33043	99.2	7/2/2015

Edgar Filing: OMNICELL, Inc - Form 10-K

10.9*	2003 Equity Incentive Plan, as amended	10-K	000-33043	10.14	3/23/2007
10.10*	2009 Equity Incentive Plan, as amended	S-8	000-33043	99.1	7/2/2015
10.11*	Form of Option Grant Notice and Form of Option Agreement for 2009 Equity Incentive Plan, as amended	10-K	000-33043	10.16	3/11/2011
10.12*	Form of Restricted Stock Unit Grant Notice and Form of Restricted Stock Unit Award Agreement for 2009 Equity Incentive Plan, as amended	10-K	000-33043	10.17	3/11/2011
10.13*	Form of Restricted Stock Bonus Grant Notice and Form of Restricted Stock Bonus Agreement for 2009 Equity Incentive Plan, as amended	10-K	000-33043	10.18	3/11/2011
10.14*	2010 Omnicell Quarterly Executive Bonus Plan	8-K	000-33043	10.1	3/17/2010
10.15*	Employment Agreement, dated October 31, 2003, between Omnicell and Dan S. Johnston	10-K	000-33043	10.26	3/8/2004
10.16*	Addendum to Offer Letter, dated December 30, 2010, between Omnicell and Dan S. Johnston	10-K	000-33043	10.14	3/11/2011

---

Table of Contents

Exhibit Number	Exhibit Description	Incorporated By Reference			
		Form	File No.	Exhibit	Filing Date
10.17*	Employment Agreement, dated November 28, 2005, between Omnicell and Robin G. Seim	8-K	000-33043	10.1	1/24/2006
10.18*	Addendum to Offer Letter, dated December 30, 2010, between Omnicell and Robin G. Seim	10-K	000-33043	10.21	3/11/2011
10.19*	Employment Agreement, dated October 17, 2008, between Omnicell and Nhat H. Ngo	10-K	000-33043	10.29	2/24/2009
10.20	Lease between Omnicell, Inc. and Sycamore Drive Holdings, LLC, dated March 16, 2012	8-K	000-33043	10.1	3/20/2012
10.21*	Omicell, Inc. Amended and Restated Severance Benefit Plan	10-K	000-33043	10.27	3/30/2015
10.22*	Form of Restricted Stock Unit Award Agreement for the 2009 Equity Incentive Plan, as amended	10-Q	000-33043	10.4	8/9/2012
10.23*	Form of Performance Cash Award Grant Notice and Form of Performance Cash Award Agreement for the 2009 Equity Incentive Plan, as amended	10-Q	000-33043	10.5	8/9/2012
10.24	Lease, between Medical Technologies Systems, Inc. and Gateway Business Centre, Ltd., dated March 31, 2004	10-Q	000-33043	10.6	8/9/2012
10.25	First Lease Amendment, between Medical Technologies Systems, Inc. and Gateway Business Centre, Ltd., dated July 26, 2004	10-Q	000-33043	10.7	8/9/2012
10.26	Lease, between MTS Medication Technologies, Ltd. and SAL Pension Fund, Ltd., dated June 9, 2011	10-Q	000-33043	10.8	8/9/2012
10.27	Third Amendment to Lease, between PR Amhurst Lake LLC and Omnicell, Inc., dated July 1, 2013	10-Q	000-33043	10.1	8/9/2013
10.28	Credit Agreement between Omnicell, Inc., and lenders, dated September 25, 2013	8-K	000-33043	10.1	9/26/2013
10.29	Amendment Number One to Credit Agreement, dated November 5, 2014, by and among Omnicell, Inc., with respect to Section 12 thereof, the Subsidiary Guarantors and Wells Fargo Bank, National Association, as administrative agent	8-K	000-33043	10.1	11/7/2014
10.3	Second Amendment to Office Lease, dated December 17, 2014, by and between Omnicell, Inc. and Point Place, LLC	10-K	000-33043	10.36	3/30/2015

Edgar Filing: OMNICELL, Inc - Form 10-K

10.31	Agreement for Lease relating to Two Omega Drive, River Bend Technology Centre, Iram, dated January 14, 2015, between Omega Technologies Limited and MTS Medication Technologies Limited and Omnicell, Inc.	10-K	000-33043	10.37	3/30/2015
10.32*	Offer letter between Omnicell and Peter J. Kuipers dated August 11, 2015	10-Q	000-33043	10.3	11/6/2015
10.33*	Amended and Restated Executive Officer Change of Control Letter Agreement	10-Q	000-33043	10.4	11/6/2015
10.34	Credit Agreement, dated as of January 5, 2016, among Omnicell, Inc., the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent.	8-K	000-33043	10.1	1/6/2016
21.1+	Subsidiaries of the Registrant				
23.1+	Consent of Independent Registered Public Accounting Firm				
23.2+	Consent of Independent Registered Public Accounting Firm				
24.1+	Power of Attorney (included on the signature pages hereto)				

---

Table of Contents

Exhibit Number	Exhibit Description	Incorporated By Reference			
		Form	File No.	Exhibit	Filing Date
31.1 <sup>+</sup>	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
31.2 <sup>+</sup>	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
32.1 <sup>+</sup>	Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350) <sup>(1)</sup>				
101.INS <sup>+</sup>	XBRL Instance Document <sup>(2)</sup>				
101.SCH <sup>+</sup>	XBRL Taxonomy Extension Schema Document <sup>(2)</sup>				
101.CAL <sup>+</sup>	XBRL Taxonomy Extension Calculation Linkbase Document <sup>(2)</sup>				
101.DEF <sup>+</sup>	XBRL Taxonomy Extension Definition Linkbase Document <sup>(2)</sup>				
101.LAB <sup>+</sup>	XBRL Taxonomy Extension Labels Linkbase Document <sup>(2)</sup>				
101.PRE <sup>+</sup>	XBRL Taxonomy Extension Presentation Linkbase Document <sup>(2)</sup>				

\*Indicates a management contract, compensation plan or arrangement.

+ Filed herewith.

This certification accompanies the Form 10-K 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-K), irrespective of any general incorporation language contained in such filing. 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.