OMNICELL, Inc
Form 10-Q
May 10, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to

Commission File Number 000-33043

Omnicell, Inc.

(Exact name of registrant as specified in its charter)

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

1201 Charleston Road

Mountain View, CA 94043

(650) 251-6100

(Address, including zip code, of registrant s principal executive offices and registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of Registrant s common stock (par value $0.001) outstanding as of May 3, 2010 was 32,527,418.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31, 2010 (unaudited)	December 31, 2009 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 180,611	$ 169,230
Accounts receivable, net	39,879	40,826
Inventories	10,147	10,502
Prepaid expenses	8,428	8,780
Deferred tax assets	15,185	15,247
Other current assets	5,711	6,159
Total current assets	259,961	250,744
Property and equipment, net	13,578	13,209
Non-current net investment in sales-type leases	9,992	10,104
Goodwill	24,982	24,982
Other intangible assets	3,784	4,233
Non-current deferred tax assets	10,067	9,666
Other assets	9,331	9,322
Total assets	$ 331,695	$ 322,260
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,603	$ 10,313
Accrued compensation	6,284	8,095
Accrued liabilities	11,667	11,997
Deferred service revenue	14,934	14,457
Deferred gross profit	15,845	13,689
Total current liabilities	59,333	58,551
Long-term deferred service revenue	21,072	20,810
Other long-term liabilities	682	595
Total liabilities	81,087	79,956
Stockholders equity:		
Total stockholders equity	250,608	242,304

Total liabilities and stockholders equity	$ 331,695	$ 322,260

(1) Information derived from our December 31, 2009 audited Consolidated Financial Statements.

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended March 31,	
	2010	**2009**
Revenues:		
Product	$ 42,295	$ 42,295
Services and other revenues	11,865	9,909
Total revenue	54,160	52,204
Cost of revenues:		
Cost of product revenues	19,265	20,280
Cost of services and other revenues	7,309	6,895
Restructuring charges		1,209
Total cost of revenues	26,574	28,384
Gross profit	27,586	23,820
Operating expenses:		
Research and development	4,565	3,977
Selling, general, and administrative	21,512	21,499
Restructuring charges		1,315
Total operating expenses	26,077	26,791
Income (loss) from operations	1,509	(2,971)
Other income, net	74	182
Income (loss) before provision for (benefit from) income taxes	1,583	(2,789)
Provision for (benefit from) income taxes	604	(918)
Net income (loss)	$ 979	$ (1,871)
Net income (loss) per share:		
Basic	$ 0.03	$ (0.06)
Diluted	$ 0.03	$ (0.06)
Weighted average shares outstanding:		
Basic	32,207	31,453
Diluted	33,153	31,453

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ 979	$ (1,871)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,123	2,473
Loss on disposal of property and equipment		19
Provision for receivable allowance	(50)	52
Share-based compensation expense	2,156	2,484
Income tax benefits from employee stock plans	964	
Excess tax benefits from employee stock plans	(1,115)	(4)
Provision for excess and obsolete inventories	385	1,636
Deferred income taxes	(339)	240
Changes in operating assets and liabilities:		
Accounts receivable, net	808	(4,377)
Inventories	(30)	475
Prepaid expenses	351	(129)
Other current assets	143	327
Net investment in sales-type leases	534	1,054
Other assets	(806)	(962)
Accounts payable	290	2,511
Accrued compensation	(1,811)	(1,205)
Accrued liabilities	(330)	997
Deferred service revenue	1,438	(404)
Deferred gross profit	2,156	(4,996)
Other long-term liabilities	87	(47)
Net cash provided by (used in) operating activities	7,933	(1,727)
Cash flows from investing activities:		
Acquisition of intangible assets and intellectual property	(107)	(43)
Purchases of property and equipment	(1,766)	(1,545)
Net cash used in investing activities	(1,873)	(1,588)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase and stock option plans	4,206	1,725
Excess tax benefits from employee stock plans	1,115	4
Net cash provided by financing activities	5,321	1,729
Net increase (decrease) in cash and cash equivalents	11,381	(1,586)
Cash and cash equivalents at beginning of period	169,230	120,439
Cash and cash equivalents at end of period	$ 180,611	$ 118,853

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

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OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization & Summary of Significant Accounting Policies

Description of the Company. Omnicell, Inc. (Omnicell, our, us, we, or the Company) was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our major products are medication and supply dispensing systems which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States.

Basis of Presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of March 31, 2010, and the results of operations and cash flows for the three months ended March 31, 2010 and 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles, or GAAP, have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Our results of operations and cash flows for the three months ended March 31, 2010 are not necessarily indicative of results that may be expected for the year ending December 31, 2010, or for any future period.

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Fair value of financial instruments. We value our financial assets and liabilities on a recurring basis using the fair value hierarchy established in Accounting Standards Codification (ASC) 820.

ASC 820 describes three levels of inputs that may be used to measure fair value, as follows:

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

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

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

At March 31, 2010 and December 31, 2009, our financial assets utilizing Level 1 inputs included cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. We do not currently have any material financial instruments utilizing Level 2 and Level 3 inputs.

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Concentration in revenues and in accounts receivable. There were no customers accounting for 10% or more of revenues in the three months ended March 31, 2010 and March 31, 2009. A single customer accounted for 12% of accounts receivable at March 31, 2010, but there was no customer with 10% or more of accounts receivable at March 31, 2009.

Sales of accounts receivable. We offer our customers multi-year, non-cancelable payment terms. Generally we sell non-U.S. government receivables to third-party leasing companies on a non-recourse basis. We reflect the financing costs on the sale of these receivables as a component of our revenue. We record our revenue at the net present value of the multi-year payment stream using the contractual interest rate charged to us by the third-party leasing company. We record the sale of our accounts receivables as true sales in accordance with ASC 860, Transfers and Servicing. During the three months ended March 31, 2010 and 2009, we transferred non-recourse accounts receivable totaling $17.5 million and $7.9 million, respectively, which approximated fair value, to third party leasing companies. At March 31, 2010 and December 31, 2009, accounts receivable included $0.7 million and $1.6 million, respectively, due from third-party leasing companies for transferred non-recourse accounts receivable.

Dependence on suppliers. We have a significant supply agreement with a supplier for construction and supply of several sub-assemblies and inventory management of sub-assemblies used in our hardware products. There are no minimum purchase requirements. The contract may be terminated by either the supplier or by us without cause and at any time upon delivery of two months notice. Purchases from this supplier for the three months ended March 31, 2010 were approximately $5.3 million. Purchases from this supplier for the three months ended March 31, 2009 were approximately $5.2 million.

Estimating excess and obsolete inventory. Our adjustment of inventory to lower-cost-or-market includes the assessment of excess quantities and obsolete inventory items. In the first quarter of 2010, we based our determination for potential excess and obsolete exposure on twelve-months forecasted usage, considering scheduled installations and backlog, using new capabilities from our recent ERP implementation. Visibility into forward-looking data provides management a better understanding of potential exposures than the previous twelve-months historical usage approach . This refinement in our estimating methodology did not materially affect our financial results.

Income Taxes. For the three months ended March 31, 2010, we recorded an income tax expense of $0.6 million compared to an income tax benefit of $(0.9) million in the same period last year. The estimated annual effective tax rates were 50.6% and 41.1% for the three months ended March 31, 2010 and 2009 respectively, before the accounting for discrete items. The increase in the current annual effective tax rate is primarily due to the federal research tax credit expiration. The effective tax rate differs from the statutory tax rate of 35% due primarily to state income taxes, non-deductible stock compensation charges under ASC 718 and disallowed tax deductions. The income tax benefit for the three months ended March 31, 2009 was primarily a result of net discrete income tax benefits realized in the period, which includes a benefit from the recording of restructuring expenses of approximately $1.0 million offset by the recording of deferred tax expense as a result of the re-measurement of our California deferred tax assets due to the enactment of California tax legislation.

Total comprehensive income (loss). Total comprehensive income (loss) is the same as net income (loss) for the three months ended March 31, 2010 and 2009.

Segment Information. We manage our business on the basis of one reportable segment. Our products and technologies share similar distribution channels and customers and are sold primarily to hospitals and healthcare facilities to improve patient safety and care and enhance operational efficiency. Our single operating segment is medication and supply dispensing systems. Substantially all of our long-lived assets are located in the United States. For the three months ended March 31, 2010 and 2009, our revenues and gross profits were generated by medication and supply dispensing systems and no customer accounted for greater than 10% of our revenues.

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Recently Issued Accounting Pronouncements.

The Financial Accounting Standards Board, or FASB, has issued Accounting Standards Update, or ASU, 2010-09, which amends ASC 855, Subsequent Events. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This was effective upon issuance on February 24, 2010 and is not expected to impact our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Updates 2009-13 and 2009-14, or ASU 2009-13 and ASU 2009-14, which amended ASC 605, Revenue Recognition, and ASC 985, Software, respectively. ASU 2009-13 requires companies to allocate revenue in multiple-element arrangements based on an element s estimated selling price if vendor-specific or other third-party evidence of value is not available. ASU 2009-14 revises the guidance regarding the types of arrangements that fall under the scope of the software recognition guidance, providing a scope exception for many transactions that were previously within the scope of ASC 985-605, including tangible products containing software components and non-software components that function together to deliver the product s essential functionality and places them under ASC 605, thus requiring the new multiple-element revenue allocation under ASU 2009-13. Both ASU 2009-13 and ASU 2009-14 are effective for fiscal years beginning on or after June 15, 2010. Earlier application is permitted. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements.

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Note 2. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares less shares subject to repurchase plus, if dilutive, potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. Since their impact is anti-dilutive, the total number of shares excluded from the calculations of diluted net income (loss) per share for the three months ended March 31, 2010 and 2009 were 1,847,913 and 4,716,239, respectively.

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

	Three Months Ended March 31,	
	2010	2009
Basic:		
Net income (loss)	$ 979	$ (1,871)
Weighted average shares outstanding - basic	32,207	31,453
Net income (loss) per share - basic	$ 0.03	$ (0.06)
Diluted:		
Net income (loss)	$ 979	$ (1,871)
Weighted average shares outstanding - basic	32,207	31,453
Add: Dilutive effect of employee stock plans	946	
Weighted average shares outstanding - diluted	33,153	31,453
Net income (loss) per share - diluted	$ 0.03	$ (0.06)

Note 3. Stockholders Equity

Treasury Stock

During 2008, our Board of Directors authorized stock repurchase programs for the repurchase of up to $90.0 million of our common stock. All repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired. The timing, price and volume of the repurchases have been based on market conditions, relevant securities laws and other factors. The stock repurchase program does not obligate us to repurchase any specific number of shares, and we may terminate or suspend the repurchase program at any time. From the inception of the program in February 2008 through March 31, 2010, we repurchased a total of 4,066,296 shares at an average cost of $16.00 per share through open market purchases.

During the three months ended March 31, 2010 and 2009, we did not repurchase any shares through the stock repurchase programs. As of March 31, 2010, we had $25.0 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs. Additionally, for the three months ended March 31, 2010, we withheld 6,607 shares from employees to satisfy tax withholding obligations on the vesting of restricted stock units. For the three months ended March 31, 2009, we withheld 4,138 shares from employees to satisfy tax withholding obligations on the vesting of restricted stock units.

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Note 4. Stock Option Plans and Share-Based Compensation

Stock Option Plans

At March 31, 2010, 1,292,659 shares of common stock were reserved for future issuance under the Company s 2009 Equity Incentive Plan, or the 2009 Plan. At March 31, 2010, $10.2 million of total unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted average period of 2.7 years.

A summary of aggregate option activity for the three months ended March 31, 2010 is presented below:

Options:	Number of Shares (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2009	4,748	$ 12.61
Granted	289	$ 12.62
Exercised	(270)	$ 9.62
Forfeited	(30)	$ 14.09
Expired	(30)	$ 16.44
Outstanding at March 31, 2010	4,707	$ 12.74
Exercisable at March 31, 2010	3,407	$ 12.50

Restricted Stock and Restricted Stock Units

The non-employee members of our Board of Directors are granted restricted stock on the day of our annual meeting of stockholders and such shares of restricted stock vest on the date of the subsequent year s annual meeting of stockholders, provided such non-employee director remains a director on such date. Restricted stock units, or RSUs, are granted to certain of our employees and generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. The fair value of both restricted stock and RSUs granted pursuant to our stock option plans is the product of the number of shares granted and the grant date fair value of our common stock. Our unrecognized compensation cost related to nonvested restricted stock at March 31, 2010 is approximately $0.1 million and is expected to be recognized over a weighted average period of 0.1years. Expected future compensation expense relating to RSUs outstanding on March 31, 2010 is $5.4 million over a weighted-average period of 2.9 years. A summary of activity of both restricted stock and RSUs for the three months ended March 31, 2010 is presented below:

	Restricted Stock		Restricted Stock Units	
	Number of Shares (in thousands)	Weighted - Average Grant Date Fair Value Per Share	Number of Shares (in thousands)	Weighted - Average Grant Date Fair Value Per Share

Non-vested, December 31, 2009	52	$	9.25	264	$	14.32
Granted				113	$	12.48
Vested				(16)	$	15.80
Forfeited				(6)	$	18.05
Non-vested, March 31, 2010	52	$	9.25	355	$	13.60

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan, or ESPP, under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of $25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of March 31, 2010, 2,748,422 shares had been issued under the ESPP. As of March 31, 2010, there were a total of 2,583,133 shares reserved for future issuance under the ESPP. During the three months ended March 31, 2010, 240,406 shares of common stock were purchased under the ESPP.

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Share-based Compensation

We account for share-based awards granted to employees and directors including employee stock option awards, restricted stock and RSUs issued pursuant to the Plans and employee stock purchases made under our ESPP using the estimated grant date fair value method of accounting in accordance with ASC 718, Stock Compensation.

The impact on our results for share-based compensation for the three months ended March 31, 2010 and 2009 was as follows (in thousands):

	Three Months Ended March 31,	
	2010	2009
Cost of product and service revenues	$ 321	$ 379
Research and development expenses	244	266
Selling, general and administrative expenses	1,591	1,839
Total share-based compensation expenses	$ 2,156	$ 2,484

We value options and ESPP shares using the Black-Scholes-Merton option-pricing model.

Note 5. Inventories

Inventories consist of the following (in thousands):

	March 31, 2010	December 31, 2009
Raw materials	$ 3,108	$ 3,589
Work in process	94	171
Finished goods	6,946	6,742
Total	$ 10,147	$ 10,502

Note 6. Net Investment in Sales-Type Leases

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

	March 31, 2010	December 31, 2009
Net minimum lease payments to be received	$ 17,284	$ 17,164
Less unearned interest income portion	2,117	2,001
Net investment in sales-type leases	15,167	15,163
Less current portion(1)	5,175	5,059
Non-current net investment in sales-type leases(2)	$ 9,992	$ 10,104

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The minimum lease payments under sales-type leases as of March 31, 2010 are as follows (in thousands):

2010 (remaining nine months)	$	4,684
2011		6,400
2012		2,815
2013		2,088
2014		1,145
Thereafter		152
Total	$	17,284

(1) A component of other current assets.

(2) Net of allowance for doubtful accounts of $0.7 million as of March 31, 2010 and $0.6 million as of December 31, 2009.

Note 7. Goodwill and Other Intangible Assets

Under ASC 350, Intangibles Goodwill and Other, goodwill and intangible assets with an indefinite life are not subject to amortization. Rather, we evaluate these assets for impairment at least annually or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable.

Goodwill and other intangible assets consist of the following (in thousands):

	March 31, 2010			December 31, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Finite-lived intangibles:							
Customer base	3,184	1,091	2,093	3,184	999	2,185	5-8 years
Acquired technology	9,364	8,278	1,086	9,364	7,888	1,476	3-6 years
Patents	562	124	438	455	110	345	20 years
Non-compete	720	553	167	720	493	227	3 years
Total finite-lived intangibles	13,830	10,046	3,784	13,723	9,490	4,233	
Goodwill	24,982		24,982	24,982		24,982	Indefinite
Net other intangibles & goodwill	$ 38,812	$ 10,046	$ 28,766	$ 38,705	$ 9,490	$ 29,215	

Amortization expense totaled $0.6 million and $0.6 million for the three months ended March 31, 2010 and 2009, respectively. Estimated annual expected amortization expense of the finite-lived intangible assets at March 31, 2010 is as follows (in thousands):

2010 (remaining nine months)	$	1,571
2011		424
2012		424
2013		424
2014		424
Thereafter		517
Total	$	3,784

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Note 8. Deferred Gross Profit

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

	March 31, 2010	December 31, 2009
Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed	$ 22,571	$ 20,876
Cost of revenues, excluding installation costs	(6,726)	(7,187)
Deferred gross profit	$ 15,845	$ 13,689

Note 9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2010	December 31, 2009
Pre-acquisition contingency	$ 5,266	$ 5,269
Accrued Group Purchasing Organization (GPO) fees	2,419	2,932
Rebates and lease buyouts	1,669	1,140
Taxes payable	906	912
Deferred rent	734	806
Advance payments from customers	432	662
Accrued professional fees	168	192
Other	73	84
Total	$ 11,667	$ 11,997

Note 10. Commitments

The following table summarizes our contractual obligations at March 31, 2010 (in thousands):

	Total	Less than one year	One to three years	Three to five years	More than five years
Operating leases(1)	$ 7,573	$ 3,610	$ 3,874	$ 89	$
Commitments to contract manufacturers and suppliers(2)	3,431	3,431			
Total	$ 11,004	$ 7,041	$ 3,874	$ 89	$

(1) Commitments under operating leases relate primarily to leasehold property and office equipment. Please refer to Note 13 Subsequent Event.

(2) We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. We record a liability for firm, non-cancelable, and unconditional purchase commitments.

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Note 11. Legal Proceedings

On December 11, 2007, we acquired Rioux Vision, Inc., which had an existing lawsuit in progress at the time of that acquisition. Omnicell is now defending that lawsuit, as Rioux Vision is a wholly-owned subsidiary of Omnicell. On October 26, 2006, Rioux Vision was served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Rioux Vision, Inc., Case Number 1:06-cv-02600, in the United States District Court for the Northern District of Georgia, alleging claims of patent infringement regarding certain features of the mobile carts sold by Rioux Vision. On December 11, 2008, we were served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Omnicell, Inc., Case Number 1:06-cv-02600, in the same Court alleging similar claims of patent infringement regarding Omnicell s sale of the mobile carts acquired in the Rioux acquisition. In accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, we included a pre-acquisition contingency based on our assessment of its fair value in our preliminary purchase price allocation. The fair value for this pre-acquisition contingency represents the amount we and Rioux agreed to adjust the purchase price as a result of our acceptance of any and all costs and risks relating to this contingency. The pre-acquisition contingency was recorded as an accrued liability as of the acquisition date and is recorded as of March 31, 2010. While we cannot predict the outcome of this matter, there can be no assurance should an unfavorable outcome arise, that such outcome would not have a material adverse effect on our financial position, results of operations or cash flows.

On March 4, 2009, we filed, but did not serve, a complaint against Flo Healthcare Solutions, or Flo, entitled Omnicell, Inc. v. Flo Healthcare Solutions LLC, Case Number C09 00923, in the United States District Court for the Northern District of California, with respect to the infringement of Omnicell s U.S. Patent Number 6,604,019. Flo received a courtesy copy of the complaint. On March 10, 2009, we consented to a motion that Flo filed requesting a stay of the Flo Healthcare Solutions LLC v. Rioux Vision, Inc. lawsuit pending the final outcome, including all appeals, of the inter parties reexamination of U.S. Patent No. 6,721,178, currently before the United States Patent and Trademark Office or the Reexamination, which was granted. We consented to a similar motion filed by Flo with respect to the stay of the Flo Healthcare Solutions LLC v. Omnicell, Inc. lawsuit, which was also granted. Under a tolling agreement between the parties, we agreed to dismiss without prejudice the Omnicell, Inc. v. Flo Healthcare Solutions LLC lawsuit, and Omnicell and Flo agreed to toll further actions under all three lawsuits pending the final outcome, including all appeals, of the Reexamination. The parties are awaiting a response from the appeal board of the United States Patent and Trademark Office following the filing of rebuttal briefs.

On July 8, 2009, Medacist Solutions Group LLC filed a complaint against Omnicell in U.S. District Court in the Southern District of New York, entitled Medacist Solutions Group LLC v. Omnicell, Inc., case number 09 CV 6128, alleging infringement of Medacist U.S. Patent Number 6,842,736. The complaint also, among other claims, alleges that Omnicell breached the terms of a nondisclosure agreement it had entered into with Medacist, or the NDA, and that Omnicell misappropriated Medacist trade secrets and confidential information in violation of the NDA. Omnicell has responded to the complaint and intends to defend the matter vigorously.

As required under ASC 450, Contingencies, we accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and such amounts are reflected in accrued liabilities in our consolidated financial statements. Except as otherwise indicated above, the outcomes in these matters are not probable and/or reasonably estimable. We believe that we have valid defenses with respect to legal matters pending against us. However, litigation is inherently unpredictable, and it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management s attention and the creation of significant expenses.

Note 12. Restructuring in First Quarter 2009

During the first quarter of 2009, we implemented a restructuring plan whereby we reduced our headcount from 844 full-time employees at December 31, 2008 to 756 full-time employees at March 31, 2009 to balance our expenses with our then-current business expectations. The restructuring plan accounted for a reduction of 103 employees, which was partially offset by hiring for newly created positions during the quarter. Affected employees were eligible to receive a severance package that included severance pay, continuation of benefits and outplacement services. We recorded a charge of $2.5 million in the first quarter of 2009 in connection with the restructuring. We did not incur any additional charges associated with this restructuring beyond the first quarter of 2009 and we paid all of the accrued severance costs by the end of 2009.

A summary of the restructuring activity during the twelve months ended December 31, 2009 are as follows (in thousands):

		Severance Costs
Balance of accrual as of December 31, 2008	$	
Charges		2,524
Payments		(2,524)
Balance of accrual as of December 31, 2009	$	

Note 13. Subsequent Event

In April 2010, the Company entered into a lease agreement to replace certain expiring leases with approximately 25,000 square feet of office space in Nashville, Tennessee. The new lease is for a term of 60 months, expected to commence July 2010, with two five-year renewal options. The base rental commitment for the initial five-year term totals $1.7 million.

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

Forward-Looking Statements

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

- the extent and timing of future revenues, including the amounts of our current backlog, which represent firm orders that have not completed installation and therefore have not been recognized as revenue;
- the size and/or growth of our market or market-share;
- the opportunity presented by new products or emerging markets;
- our expectations regarding our future backlog levels;
- the operating margins or earnings per share goals we may set;
- our ability to align our cost structure and headcount with our current business expectations;
- 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, ma potential, predicts, projects, should, will, would and similar expressions intended to identify forward-looking statements. Forward-lookin statements reflect our current views with respect to future events, are based on assumptions, and are subject to risks and uncertainties. We discuss many of these risks in this Quarterly Report on Form 10-Q in greater detail in Part II Section 1A. Risk Factors below. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should also read our Annual Report on Form 10-K and the documents that we reference in the Annual Report on Form 10-K and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to Omnicell, Inc., Omnicell, our, us, w or the Company collectively refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries.

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

Overview

We were incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. We are a leading provider of medication control and patient safety solutions for acute care health facilities. Over 1,600 hospitals have installed our automated hardware/software solutions for controlling, dispensing, acquiring, verifying and tracking medications and medical and surgical supplies. We have designed our products to enable healthcare professionals to improve patient safety through reduced medication errors, and improved administrative controls and medical safety, while simultaneously improving workflow and increasing operational efficiency. Our products are designed to allow nurses, pharmacists and other clinicians to spend more time on patient care while at the same time providing confirmation that the right patients are receiving the right medication, at the right time, in the right dose, via the right route.

We sell our medication dispensing and supply automation systems, and generate the substantial majority of our revenue, in the United States. However, we have seen an increase in our revenue from our international operations and we expect such revenue from our international operations to increase in future periods as we continue to grow our international business. Our sales force is organized by geographic region in the United States and Canada. We also sell through distributors in Asia, Australia, Europe, and South America. We have not sold in the past, and have no future plans to sell our products either directly or indirectly to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, and are subject to economic sanctions and export controls.

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We operate in one business segment, the design, manufacturing, selling and servicing of medication and supply dispensing systems. Our management team evaluates our performance based on company-wide, consolidated results. In general, we recognize revenue when our medication dispensing and supply automation systems are installed. Installation generally takes place two weeks to twelve months after our systems are ordered. The installation process at our customers sites includes internal procedures associated with large capital expenditures and additional time associated with adopting new technologies. Given the length of time necessary for our customers to plan for and complete their acceptance of the installation of our systems, our focus is on shipping products based on the installation dates requested by our customers and working at our customer s pace. The amount of revenue recognized in future periods may depend on, among other things, the terms and timing of lease contract renewals, additional product sales and the size of such transactions. We believe that future revenue will be affected by the competitiveness of our products and services.

Operating Environment During the Three Months Ended March 31, 2010

Our revenues have remained stable year-over-year with product revenue flat and service revenue showing steady gains. Our profitability improved with both product margins and service margins showing gains year over year. We believe our solutions are attractive relative to our competition. In particular:

- We have continued to differentiate ourselves through a strategy intended to create the best customer experience in healthcare;

- We have delivered industry-leading products with differentiated product features that are designed to appeal to nurses and pharmacists such as SinglePointe , Tissue Center System, and Anywhere RN ; and

- The market environment of increased patient safety awareness and increased regulatory control has driven our solutions to be a high priority in customers capital budgets.

We maintain a development staff with expertise in hospital logistics and computerized automated solutions that allows us to regularly deliver new innovations to the market. Our ability to grow revenue and maintain positive cash flow is dependent on our ability to continue to receive orders from customers, the volume of installations we are able to complete, our ability to meet customers needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

During the first quarter of 2010 we achieved similar performance levels compared to the fourth quarter of 2009. Product revenue decreased slightly, by $0.6 million, while service revenue increased slightly, by $0.1 million. Overall gross margins improved by 1.1% to 50.9% with product gross margins improving to 54.5% on revenue of $42.3 million as compared with 52.2% on revenue of $42.8 million in the prior quarter. This was offset by lower service gross margins of 38.4% on revenue of $11.9 million as compared with 41.1% margins on $11.8 million in revenue in the prior quarter. The product gross margin increase was driven primarily by product mix and, to a lesser degree, a decrease in international sales where margins tend to be lower, while the decrease in service gross margins was driven by higher cost of service replacement parts.

We believe that our gross margins will continue to fluctuate based on the mix of products installed, fluctuation in the percentage of revenues derived from our international business and the related costs and changes in service and installation headcount compared to our revenue level. International business carries lower gross margins because our international distributors bear the cost of installation, support and most of the sales effort, and therefore demand lower pricing. Cash increased during the quarter by $11.4 million on strong cash collections of accounts receivable and cash generated from stock option exercises. Net cash provided by operating activities totaled $7.9 million during the three months ended March 31, 2010.

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Critical Accounting Policies and Estimates

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

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

During the three months ended March 31, 2010, there were no significant changes in our critical accounting policies and estimates, except for the method in which we estimate our excess and obsolete inventory, as described below.

Estimating excess and obsolete inventory. Our adjustment of inventory to lower-cost-or-market includes the assessment of excess quantities and obsolete inventory items. In the first quarter of 2010, we based our determination for potential excess and obsolete exposure on twelve-months forecasted usage, considering scheduled installations and backlog, using new capabilities from our recent ERP implementation. Visibility into forward-looking data provides management a better understanding of potential exposures than previous twelve-months historical usage approach. This refinement in our estimating methodology did not materially affect our financial results.

Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2009 for a more complete discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

The Financial Accounting Standards Board, or FASB, has issued Accounting Standards Update, or ASU, 2010-09, which amends ASC 855, Subsequent Events. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This was effective upon issuance on February 24, 2010 and is not expected to impact our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Updates 2009-13 and 2009-14, or ASU 2009-13 and ASU 2009-14, which amended ASC 605, Revenue Recognition, and ASC 985, Software, respectively. ASU 2009-13 requires companies to allocate revenue in multiple-element arrangements based on an element s estimated selling price if vendor-specific or other third-party evidence of value is not available. ASU 2009-14 revises the guidance regarding the types of arrangements that fall under the scope of the software recognition guidance, providing a scope exception for many transactions that were previously within the scope of ASC 985-605, including tangible products containing software components and non-software components that function together to deliver the product s essential functionality and places them under ASC 605, thus requiring the new multiple-element revenue allocation under ASU 2009-13. Both ASU 2009-13 and ASU 2009-14 are effective for fiscal years beginning on or after June 15, 2010. Earlier application is permitted. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements. We expect that our adoption of these ASUs will require substantial amounts of management s time and attention and may result in increased operating expenses.

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Results of Operations

The table below shows the components of our results of operations as percentages of total revenues for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31,			
	2010	% of Revenue	2009	% of Revenue
	(in thousands, except for percentages)			
Revenues:				
Product revenues	$ 42,295	78.1%	$ 42,295	81.0%
Services and other revenues	11,865	21.9%	9,909	19.0%
Total revenues	54,160	100.0%	52,204	100.0%
Cost of revenues:				
Cost of product revenues	19,265	35.6%	20,280	38.9%
Cost of services and other revenues	7,309	13.5%	6,895	13.2%
Restructuring charges		%	1,209	2.3%
Total cost of revenues	26,574	49.1%	28,384	54.4%
Gross profit	27,586	50.9%	23,820	45.6%
Operating expenses:				
Research and development	4,565	8.4%	3,977	7.6%
Selling, general and administrative	21,512	39.7%	21,499	41.2%
Restructuring charges		%	1,315	2.5%
Total operating expenses	26,077	48.1%	26,791	51.3%
Income (loss) from operations	1,509	2.8%	(2,971)	(5.7)%
Interest and other income, net	74	0.1%	182	0.3%
Income (loss) before provision for (benefit from) income taxes	1,583	2.9%	(2,789)	(5.4)%
Provision for (benefit from) income taxes	604	1.1%	(918)	(1.8)%
Net income (loss)	$ 979	1.8%	$ (1,871)	(3.6)%

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Product Revenues, Cost of Product Revenues, Restructuring Charges and Gross Profit

The table below shows our product revenues, cost of product revenues, restructuring charges and gross profit for the three months ended March 31, 2010 and 2009 and the percentage change between those quarters:

	Three Months Ended March 31,		
	2010	2009	% Change
	(in thousands, except for percentages)		
Product revenues	$ 42,295	$ 42,295	%
Cost of product revenues	19,265	20,280	(5.0)%
Restructuring charges		1,008	(100.0)%
Gross profit	$ 23,030	$ 21,007	9.6%

Product revenues were flat in the three months ended March 31, 2010 as compared to the same period in 2009.

Cost of product revenues decreased by $1.0 million, or 5.0% in the three months ended March 31, 2010 as compared to the same period in 2009. The decrease was primarily due to a $1.0 million provision for excess and obsolete inventory recorded in the first quarter of 2009.

Restructuring charges of $1.0 million were recorded to cost of product revenue relating to our work force reduction during the first quarter of 2009. Costs recorded related primarily to severance pay, continuation of benefits and outplacement services. As part of the restructuring we reduced headcount by 50 employees in predominately manufacturing and field operations departments.

Gross profit on product revenue increased by $2.0 million, or 9.6% in the three months ended March 31, 2010 as compared to the same period in 2009. This increase was primarily a result of the aforementioned decrease in the provision for excess and obsolete inventory and no additional restructuring charges.

We expect revenues to be stable for 2010 and we do not foresee any significant fluctuations in our gross margin beyond normal fluctuations caused by changes in product mix.

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

The table below shows our service and other revenues, cost of service and other revenues, restructuring charges and gross profit for the three months ended March 31, 2010 and 2009 and the percentage change between those quarters:

	Three Months Ended March 31,		
	2010	2009	% Change
	(in thousands, except for percentages)		
Service and other revenues	$ 11,865	$ 9,909	19.7%
Cost of service and other revenues	7,309	6,895	6.0%
Restructuring charges		201	(100.0)%
Gross profit	$ 4,556	$ 2,813	62.0%

Service and other revenues include revenues from service and maintenance contracts, rentals of automation systems, training and professional services. Service and other revenues increased by $2.0 million, or 19.7% in the three months ended March 31, 2010 as compared to the same period in 2009. The increase in service and other revenues was primarily the result of an expansion in our installed base of automation systems and a resulting increase in the number of support service contracts.

Cost of service and other revenues increased by $0.4 million, or 6.0% in the three months ended March 31, 2010 as compared to the same period in 2009. The increase was primarily due to an increase in replacement part costs in support of the expanded service base.

Restructuring charges of $0.2 million were recorded to cost of service revenue relating to our work force reduction during the first quarter of 2009. As part of the restructuring we reduced headcount by 10 employees in field, customer and technical service departments. Costs recorded related primarily to severance pay, continuation of benefits and outplacement services.

Gross profit on service and other revenues increased by $1.7 million, or 62.0% in the three months ended March 31, 2010 as compared to the same period in 2009. The increase in gross profit on service and other revenues was due to increased revenues from an expanded installed base without a significant growth in service cost. We expect our gross profit on service and other revenues to remain consistent in 2010.

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Operating Expenses

	Three Months Ended March 31,		
	2010	2009	% Change
	(in thousands, except for percentages)		
Research and development	$ 4,565	$ 3,977	14.8%
Selling, general and administrative	21,512	21,499	0.1%
Restructuring charges		1,315	(100.0)%
Total operating expenses	$ 26,077	$ 26,791	(2.7)%

Research and Development. Research and development expenses increased by $0.6 million, or 14.8% in the three months ended March 31, 2010 as compared to the same period in 2009. Research and development expenses represented 8.4% and 7.6% of total revenues in the three months ended March 31, 2010 and 2009, respectively. The increase was due primarily to a $0.4 million increase in consulting expenses related to new product development.

We expect research and development expenses to increase slightly as a percentage of our revenue and grow in absolute dollars in the future as our revenue grows to improve and enhance our existing technologies and to create new technologies in health care automation.

Selling, General and Administrative. Selling, general and administrative expenses increased slightly in the three months ended March 31, 2010 compared to the same period in 2009. Selling, general and administrative expenses represented 39.7% and 41.2% of total revenues in the three months ended March 31, 2010 and 2009, respectively. Selling, general and administrative expenses for the quarter ended March 31, 2010 as compared with the comparable period a year ago included increased GPO fees of $0.6 million as a result of higher cash collections, increased marketing spending of $0.4 million related to corporate branding activities, reduction in headcount related charges of $0.4 million, and a $0.1 million increase in other related general and administrative expenses offset primarily by a $0.6 million decrease in legal fees related to the settlement of the Rioux litigation, $0.5 million decrease in commissions and $0.4 million decrease in professional fees.

We expect selling, general and administrative expenses to stabilize in absolute dollars as we believe that we have aligned our cost structure to the current economic and market environments.

Restructuring charges. In the first quarter of 2009, we recorded $1.3 million related to our work force reduction. As part of this restructuring, we reduced our headcount by 12 employees in research and development, and 31 employees in selling, general and administrative positions. Costs recorded related primarily to severance pay, continuation of benefits and outplacement services.

Provision for Income Taxes

For the three months ended March 31, 2010, we recorded an income tax expense of $0.6 million compared to an income tax benefit of $(0.9) million in the same period last year. The estimated annual effective tax rates were 50.6% and 41.1% for the three months ended March 31, 2010 and 2009 respectively, before the accounting for discrete items. The increase in the current annual effective tax rate is primarily due to the federal research tax credit expiration. The effective tax rate differs from the statutory tax rate of 35% due primarily to state income taxes, non-deductible stock compensation charges under ASC 718 and disallowed tax deductions. The income tax benefit for the three months ended March 31, 2009 is primarily a result of net discrete income tax benefits realized in the period, which includes a benefit from the recording of restructuring expenses of approximately $1.0 million offset by the recording of deferred tax expense as a result of the re-measurement of our California deferred tax assets due to the enactment of California tax legislation.

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Liquidity and Capital Resources

We had cash and cash equivalents of $180.6 million at March 31, 2010, as compared to $169.2 million at December 31, 2009. All of our cash is in low risk short term money market funds or demand deposits. We have no long term investments. We believe our current cash and cash equivalent balances and cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next twelve months.

Cash Flows

Operating activities provided $7.9 million of cash during the three months ended March 31, 2010, as compared to a use of cash of $1.7 million for the three months ended March 31, 2009. The two primary differences in cash generated from operations between 2010 and 2009 were positive net income in 2010 of $1.0 million as opposed to a net operating loss of $1.9 million in 2009 and improved balance sheet management. Accounts receivable and deferred gross profit, in particular, changed from uses of cash in the first quarter of 2009 of $4.4 million and $5.0 million, respectively, to sources of cash in the first quarter of 2010, generating $0.8 million and $2.2 million, respectively.

We used $1.9 million of cash for investing activities during the three months ended March 31, 2010, an increase of $0.3 million over the cash used for investing activities during the three months ended March 31, 2009, due to a normal and expected cash requirement for growing and updating our capital infrastructure.

Cash generated in financing activities was $5.3 million during the three months ended March 31, 2010, as compared to $1.7 million in cash generated during the three months ended March 31, 2009. The cash generated during the three months ended March 31, 2010 was from exercises of stock options and sales of our common stock under our ESPP and excess tax benefits from employee stock plans. The cash generated in the corresponding period in 2009 was only from exercises of stock options and sales of our common stock.

Contractual Obligations

There have been no material changes to our contractual obligations during the three months ended March 31, 2010. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2009 for a description of our facility leases and contractual obligations and the Notes to the consolidated financial statements included therein.

Off-Balance Sheet Arrangements

As of March 31, 2010, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2010, there were no material changes to our disclosures to market risk from the disclosures set forth under the caption, Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2010. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of March 31, 2010, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On December 11, 2007, we acquired Rioux Vision, Inc., which had an existing lawsuit in progress at the time of that acquisition. Omnicell is now defending that lawsuit, as Rioux Vision is a wholly-owned subsidiary of Omnicell. On October 26, 2006, Rioux Vision was served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Rioux Vision, Inc., Case Number 1:06-cv-02600, in the United States District Court for the Northern District of Georgia, alleging claims of patent infringement regarding certain features of the mobile carts sold by Rioux Vision. On December 11, 2008, we were served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Omnicell, Inc., Case Number 1:06-cv-02600, in the same Court alleging similar claims of patent infringement regarding Omnicell s sale of the mobile carts acquired in the Rioux acquisition. In accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, we included a pre-acquisition contingency based on our assessment of its fair value in our preliminary purchase price allocation. The fair value for this pre-acquisition contingency represents the amount we and Rioux agreed to adjust the purchase price as a result of our acceptance of any and all costs and risks relating to this contingency. The pre-acquisition contingency was recorded as an accrued liability as of the acquisition date and is recorded as of December 31, 2009. While we cannot predict the outcome of this matter, there can be no assurance should an unfavorable outcome arise, that such outcome would not have a material adverse effect on our financial position, results of operations or cash flows.

On March 4, 2009, we filed, but did not serve, a complaint against Flo Healthcare Solutions, or Flo, entitled Omnicell, Inc. v. Flo Healthcare Solutions LLC, Case Number C09 00923, in the United States District Court for the Northern District of California, with respect to the infringement of Omnicell s U.S. Patent Number 6,604,019. Flo received a courtesy copy of the complaint. On March 10, 2009, we consented to a motion that Flo filed requesting a stay of the Flo Healthcare Solutions LLC v. Rioux Vision, Inc. lawsuit pending the final outcome, including all appeals, of the inter parties reexamination of U.S. Patent No. 6,721,178, currently before the United States Patent and Trademark Office or the Reexamination, which was granted. We consented to a similar motion filed by Flo with respect to the stay of the Flo Healthcare Solutions LLC v. Omnicell, Inc. lawsuit, which was also granted. Under a tolling agreement between the parties, we agreed to dismiss without prejudice the Omnicell, Inc. v. Flo Healthcare Solutions LLC lawsuit, and Omnicell and Flo agreed to toll further actions under all three lawsuits pending the final outcome, including all appeals, of the Reexamination. The parties are awaiting a response from the appeal board of the United States Patent and Trademark Office following the filing of rebuttal briefs.

On July 8, 2009, Medacist Solutions Group LLC filed a complaint against Omnicell in U.S. District Court in the Southern District of New York, entitled Medacist Solutions Group LLC v. Omnicell, Inc., case number 09 CV 6128, alleging infringement of Medacist U.S. Patent Number 6,842,736. The complaint also, among other claims, alleges that Omnicell breached the terms of a nondisclosure agreement it had entered into with Medacist, or the NDA, and that Omnicell misappropriated Medacist trade secrets and confidential information in violation of the NDA. Omnicell has responded to the complaint and intends to defend the matter vigorously.

As required under ASC 450, Contingencies, we accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and such amounts are reflected in accrued liabilities in our consolidated financial statements. Except as otherwise indicated above, the outcomes in these matters are not probable and/or reasonably estimable. We believe that we have valid defenses with respect to legal matters pending against us. However, litigation is inherently unpredictable, and it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management s attention and the creation of significant expenses.

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. We have marked with an asterisk (*) those risk factors below that reflect substantive changes from the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 24, 2010.

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

Our operating results have been and may continue to be adversely affected by unfavorable global economic and market conditions as well as a lessening demand in the capital equipment and information system markets. Customer demand for our products is significantly linked to the strength of the economy. If demand for capital equipment and information systems caused by weak economic conditions and decreased corporate and government spending, deferrals or delays of capital equipment and information system projects, longer time frames for capital equipment and information system purchasing decisions and generally reduced expenditures for capital and information systems solutions continues, we will experience decreased revenues and lower revenue growth rates and our operating results could be materially and adversely affected.

Additionally, as the U.S. Federal government rolls out and implements recently enacted healthcare reform legislation, there may be an impact on our business. Healthcare facilities may decide to postpone or scale back spending until the implications of such healthcare reform legislation are more clearly understood, which may affect the demand for our products and harm our business.

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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.

The medication management and supply chain solutions market is intensely competitive. We expect continued and increased competition from current and future competitors, many of which have significantly greater financial, technical, marketing and other resources than we do. Our current direct competitors in the medication management and supply chain solutions market include CareFusion Corporation (a spinoff from Cardinal Health, Inc., which includes Pyxis Corporation), McKesson Automation Inc. (a business unit of McKesson Corporation), AmerisourceBergen Corporation (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Emerson Electronic Co. (through its acquisitions of Flo Healthcare LLC, Lionville Systems, Inc. and medDispense), PHACTS LLC, Talyst, Inc., Stinger Medical, InfoLogix, Inc. Ergotron, Inc., Capso Solutions, (through their acquisition of Artromick International, Inc.), Rubbermaid Medical Solutions (a business unit of Newell Rubbermaid Inc), WaveMark Inc., ParExcellence Systems, Inc., and Lawson Software, Inc.

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

- 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;

- 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;

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

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

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

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.

Our current and potential customers may have other business relationships with our competitors and consider those relationships when deciding between our products and services and those of our competitors.

Many of our competitors are large companies that sell a variety of products and services into the healthcare market to our current and potential customers and may be better positioned to sell products with similar functionality. As a result, if a potential customer is a customer of one of these competitors, the customer may be motivated to purchase medication and supply dispensing systems or other automation solutions from our competitor in order to maintain or enhance their business relationship with that competitor, regardless of the products performance or capabilities.

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

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

In addition, our medication and supply dispensing systems typically represent a sizeable 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 could decrease demand for our medication and supply dispensing systems and related services and reduce our revenues.

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Changing customer requirements could decrease the demand for our products and services.

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. As the medication management and supply chain solutions market could erode rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. Our future success will depend in part upon our ability to enhance our existing products and services and to develop and introduce new products and services to meet changing customer requirements. The process of developing products and services such as those we offer is extremely complex and is expected to become increasingly more complex and expensive in the future as new technologies are introduced. If we are unable to enhance our existing products or develop new products to meet changing customer requirements, demand for our products could decrease.

If we experience delays in or loss of sales of, delays in installations of, or delays in the recognition of revenue associated with our medication and supply dispensing systems, our competitive position, results of operations and financial condition could be harmed.

The purchase of our medication and supply dispensing systems is often part of a customer s larger initiative to re-engineer its pharmacy, distribution and materials management systems and as a result, our sales cycles are often lengthy. The purchase of our medication and supply dispensing systems often entail larger strategic purchases by customers that frequently require more complex and stringent contractual requirements and generally involves 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 affect upon our operating results and could harm our business.

In addition, and in part as a result of the complexities inherent in larger transactions, the average time between the purchase and installation of our systems has increased over the past few years for reasons that are often outside of our control. Since we recognize revenue only upon installation of our systems at a customer s site, any delay in installation by our customers or delays in the determination that the earnings process is complete also causes a delay in the recognition of revenue for that system.

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

As a part of our business strategy we may seek to acquire businesses, technologies or products in the future. We cannot assure you 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;

- 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 of an acquired business; and

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

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 we cannot assure you that we will 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 and other forms of equity compensation as key components of our

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employee compensation program in order to align employees interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. The effect of managing share-based compensation expense may make it less favorable for us to grant stock options, 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 and we cannot assure you that we will receive such approvals. Failure to receive such approvals could prevent us from granting equity compensation at market 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, failure to receive 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.

We have experienced substantial changes in our revenue levels and we cannot be sure that we will be able to respond proactively to future changes in customer demand.

Our revenue increased by $2.0 million or 3.8% to $54.2 million for the quarter ended March 31, 2010 compared to $52.2 million for the quarter ended March 21, 2009. However, for the preceding quarter over quarter comparison, the first quarter 2009 revenues declined 15.9% or by $9.9 million dollars from the first quarter 2008 revenues of $62.1 million. Current macroeconomic and general market conditions have contributed to revenue volatility, and an overall decline in our revenues from 2008 levels. Our ability to adjust to rapid reductions in our revenue while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If macroeconomic and general market conditions improve and return to historical levels, our ability to grow revenue profitably will also be dependent on our ability to continue to manage costs and control expenses. If our revenue increases rapidly, we may not be able to manage this growth effectively. Future growth is dependent on our ability to continue to receive orders from customers, 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.

Our expense control is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our assumptions regarding our reorganization of personnel and financial resources, 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 a reduction in our revenue, which could harm our results of operations and financial position.

Due to the lack of available credit opportunities, some of our customers may experience more difficulty in securing funds from third-parties to purchase our products, which could adversely affect the demand for our products or require us to extend credit terms to our customers.

Many of the products we sell and lease to our customers are capital equipment, and many of those customers finance their large capital equipment purchases or leases with funds secured from third-party lenders. Any deterioration in the general economic climate and in the credit market could make it more difficult for our customers to secure financing on large capital equipment transactions such as ours. To the extent that a tightening in the credit market results in difficulty for our customers in financing purchases or leases of our products from third-parties, demand for our products could decline and in order to sell our products, we may be required to extend credit to certain customers, which would negatively impact our cash balances, affect the classification of our short and long-term receivables and increase the risk of collections from such customers.

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:

- the 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 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 relative proportions of revenues we derive from products and services;
- fluctuations in the percentage of sales attributable to our international business;

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- our customers budget cycles;
- changes in our operating expenses and our ability to stabilize expenses;
- our ability to generate cash from our accounts receivable on a timely basis;
- the performance of our products;
- changes in our business strategy;
- macroeconomic and political conditions, including fluctuations in interest rates and tax increases; and
- volatility in our stock price and its effect on share-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.

Our current Group Purchasing Organization contracts include AmeriNet, Inc., Broadlane Inc., First Choice Management, HealthTrust Purchasing Group, L.P., MAGNET Group, MedAssets Supply Chain Systems, Novation, LLC, Premier, Inc., Resources Optimization & Innovation, Carolinas Shared Services, LLC and U.S. General Services Administration. 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 increase our revenues. We cannot assure you that these organizations will renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire.

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. For example, the shift to managed care in the 1990s put pressure on healthcare organizations to reduce costs, and the Balanced Budget Act of 1997 significantly reduced Medicare reimbursement to healthcare organizations. Recently enacted legislation such as the American Recovery and Reinvestment Act and health reform legislation may cause customers to postpone purchases of our products while the impact of the legislation on their operations is determined. Our automation solutions often involve a significant financial commitment by our customers and, as a result, our ability to grow our business is largely dependent on our customers capital and operating budgets. To the extent healthcare spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

Many healthcare providers have consolidated to create larger healthcare delivery organizations to achieve greater market power. If this consolidation continues, it could reduce the number of our target customers. In addition, the resulting organizations could have greater bargaining power, which may lead to price erosion.

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

During the three months ended March 31, 2010, our common stock traded between $11.15 and $15.38 per share. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

- changes in our operating results;
- developments in our relationships with corporate customers;
- changes in the ratings of our common stock by securities analysts;
- announcements by us or our competitors of technological innovations or new products; 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.

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We depend on a limited number of suppliers for our medication and supply dispensing systems and our business may suffer if we were required to change suppliers to obtain an adequate supply of components and equipment 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 have generally been able to obtain adequate supplies of all components in a timely manner from existing sources, or where necessary, from alternative sources of supply. We engaged multiple single source third-party manufacturers to build several of our sub-assemblies. The risk associated with changing to alternative vendors, if necessary, for any of the numerous components used to manufacture our products could limit our ability to manufacture our products and harm our business. Our reliance on a few single source partners to build our hardware sub-assemblies, 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 addition, this impact could damage customer relationships and any failure of a contractor to perform adequately could harm our business.

Complications in connection with our business information system ongoing upgrades as well as the integration with recently issued 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. 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 its anticipated timeline and will incur additional costs. In addition, effective for our fiscal 2011, we are required to adopt ASU 2009-13 and 2009-14, which we anticipate will have the effect of modifying our revenue recognition policy. We further anticipate that integration of these ASUs will require a substantial amount of management s time and attention and require integration with the recently implemented enterprise resource planning system. The implementation of the system and the adoption of the recently issued ASUs, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to perform necessary business transactions. All of these risks 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 frequently grant stock options to our employees. At March 31, 2010, we had options outstanding to purchase approximately 4.7 million shares of our common stock at exercise prices ranging from $2.00 to $29.16 per share, averaging $12.74 per share. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

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.

If we fail to maintain the adequacy of our internal controls, 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 controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could negatively impact the market price of our common stock.

If our U.S. government customers that lease our equipment do not receive their annual funding, or if the government contracting mandates require unilateral changes to our contract with government customers that lease, our ability to enter into lease arrangements or to recognize revenues on such future leases to U.S. government customers, to sell our U.S. government receivables to third-party leasing companies or to collect payments on unsold receivables from U.S. government customers could be impaired.

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 collectable. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. As of March 31, 2010, the balance of our unsold leases to U.S. government customers was $15.0 million.

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

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

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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.

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. We cannot assure you that we will file any patent applications in the future, and that any of our patent applications will result in issued patents or that, if issued, such patents will provide significant protection for our technology and processes. Furthermore, we cannot assure you that others will not develop technologies that are similar or superior to our technology or that others will not design around the patents we own. All of our system software is copyrighted and subject to the protection of applicable copyright laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary, which could harm our competitive position.

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

We expect that developers of medication and supply dispensing systems 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. In addition, in connection with our 2007 acquisition of Rioux Vision, Inc., we have taken on the defense of a lawsuit filed against Rioux Vision that claims that certain mobile carts designed and sold by Rioux Vision infringe a patent owned by Flo Healthcare Solutions, LLC. In connection with those proceedings, in December of 2008, Flo Healthcare Solutions, LLC filed a lawsuit against Omnicell alleging infringement of the same patent by the same carts from Rioux Vision that Omnicell markets. Also, in July, 2009, Medacist Solutions Group LLC filed a lawsuit against us alleging among other things, that certain of our ProServ 1 offerings infringe a patent owned by Medacist. 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 software only products. Although we perform extensive testing prior to releasing software products, these products may contain undetected errors or bugs when first released. These may not be discovered until the product has been used by customers in different application environments. Failure to discover product deficiencies or bugs could require design modifications to previously shipped products or cause unfavorable publicity or negatively impact system shipments, any of which could harm our business, financial condition and results of operations.

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

Our products provide medication management and supply chain 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 liability claims, regardless of any outcome, could result in substantial cost to us, divert management s attention from operations and decrease market acceptance of our products. We possess a variety of insurance policies that include coverage for general commercial liability, technology errors and omissions liability, and we attempt to mitigate these risks through contractual terms negotiated with our customers. However, these policies and protective contractual terms may not be adequate against product liability claims. A successful claim brought against us, or any claim or product recall that results in negative publicity about us, could harm our competitive position, results of operations and financial condition. Also, in the event that any of our products is defective, we may be required to recall or redesign those products.

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If our new product solutions do not achieve market acceptance, our sales and operating results will be affected.

We regularly introduce new products. Our ability to achieve our business goals is dependent in part on customer acceptance of these new products. We cannot assure you that we will be successful in marketing these products, that these products will compete effectively with similar products sold by our competitors or that the level of market acceptance of such products will be sufficient to generate expected revenues and synergies with our other products. Deployment of these new products often requires interoperability with other Omnicell products as well as with healthcare facilities existing information management systems. If these products fail to satisfy these demanding technological objectives, our customers may be dissatisfied and we may be unable to generate future sales. Failure to establish a significant base of customer references will significantly reduce our ability to sell these products to additional customers.

We are dependent on technologies provided by third-party vendors.

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

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, consisting of software development and customer support through our India subsidiary, international sales efforts centered in Europe and Asia and supply chain sourcing in Asia. Our international operations subject us to a variety of risks, including:

- the difficulty of managing an organization operating in various countries;
- growing political sentiment against international outsourcing of support services and development;
- reduced protection for intellectual property rights in some countries;
- changes in foreign regulatory requirements;

- the requirement to comply with a variety of international laws and regulations, including local labor ordinances and changes in tariff rates;

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

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

Our success depends, in part, on our ability to anticipate and address these risks. We cannot assure you that these or other factors will not adversely affect our business or operating results.

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

While the manufacture and sale of our current products are not regulated by the United States Food and Drug Administration, or FDA, or the Drug Enforcement Administration, or DEA, these products, or our future products, if any, may be regulated in the future by these or other federal agencies due to future legislative and regulatory initiatives or reforms. Direct regulation of our business and products by 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.

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While we have implemented a Privacy and Use of Information Policy and adhere to established privacy principles, use of customer information guidelines and related federal and state statutes, we cannot assure you that we will be in compliance with all federal and state healthcare information privacy and security laws that we are directly or indirectly subject to, including, without limitation, the Health Insurance Portability and Accountability Act of 1996, or HIPAA. Among other things, this legislation required the Secretary of Health and Human Services, or HHS, to adopt national standards governing the conduct of certain electronic health information transactions and protecting the privacy and security of personally identifiable health information maintained or transmitted by covered entities, which include pharmacies and other healthcare providers with which we do business. The standards adopted to date include, among others, the Standards for Privacy of Individually Identifiable Health Information, which restrict the use and disclosure of personally identifiable health information by covered entities, and the Security Standards, which require covered entities to implement administrative, physical and technical safeguards to protect the integrity and security of certain electronic health information. Under HIPAA, we are considered a business associate in relation to many of our customers that are covered entities, and as such, most of these customers have required that we enter into written agreements governing the way we handle and safeguard certain patient health information we may encounter in providing our products and services and may impose liability on us for failure to meet our contractual obligations. Further, pursuant to recent changes in HIPAA under the American Recovery and Reinvestment Act of 2009, or 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. In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our customers to obtain, use or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

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

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

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. Further, many of these systems are housed or supported in or around our corporate headquarters located in California, near major earthquake faults, and where a significant portion of our research and development activities and other critical business operations take place. 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, our stockholders rights plan and under Delaware law may 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 the 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 the 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

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possibilities, the 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.

In February 2003, our board of directors adopted a stockholder rights plan that may have the effect of discouraging, delaying or preventing a change in control of our company that is beneficial to our stockholders. Pursuant to the terms of the plan, when a person or group, except under certain circumstances, acquires 15% or more of our outstanding common stock (other than two current stockholders and their affiliated entities, which will not trigger the rights plan unless they acquire beneficial ownership of 17.5% and 22.5% or more, respectively, of our outstanding common stock) or ten business days after commencement or announcement of a tender or exchange offer for 15% or more of our outstanding common stock, the rights (except those rights held by the person or group who has acquired or announced an offer to acquire 15% or more of our outstanding common stock) would generally become exercisable for shares of our common stock at a discount. Because the potential acquiror s rights would not become exercisable for our shares of common stock at a discount, the potential acquiror would suffer substantial dilution and may lose its ability to acquire us. In addition, the existence of the plan itself may deter a potential acquiror from acquiring us. As a result, either by operation of the plan or by its potential deterrent effect, a change in control of our company that our stockholders may consider in their best interests may not occur.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

None.

Item 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title
3.1(1)	Amended and Restated Certificate of Incorporation of Omnicell, Inc.
3.2(2)	Certificate of Designation of Series A Junior Participating Preferred Stock.
3.3(3)	Bylaws of Omnicell, Inc., as amended.
4.1(1)	Form of Common Stock Certificate.
4.2	Reference is made to Exhibits 3.1, 3.2 and 3.3.
4.3(4)	Rights Agreement, dated February 6, 2003, between Omnicell, Inc. and EquiServe Trust Company, N.A.
10.1(5)	2010 Executive Officer Compensation
10.1(6)	Omnicell 2010 Quarterly Executive Bonus Plan
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350).

(1) Previously filed as an exhibit to the Registrant s Registration Statement on Form S-1 (File No. 333-57024), and amendments thereto, originally filed with the Securities and Exchange Commission on March 14, 2001, and incorporated herein by reference.

(2) Previously filed as an exhibit to the Registrant s Annual Report on Form 10-K (File No. 000-33043), and amendments thereto, originally filed with the Securities and Exchange Commission on March 28, 2003, and incorporated herein by reference.

(3) Previously filed as an exhibit to the Registrant s Quarterly Report on Form 10-Q (File No. 000-33043) filed with the Securities and Exchange Commission on August 9, 2007, and incorporated herein by reference.

(4) Previously filed as an exhibit to the Registrant s Current Report on Form 8-K (File No. 000-33043) filed with the Securities and Exchange Commission on February 14, 2003, and incorporated herein by reference.

(5) Previously filed as an exhibit to the Registrant s Current Report on Form 8-K (File No. 000-33043) filed with the Securities and Exchange Commission on February 8, 2010, and incorporated herein by reference. Reference is made to Item 5.02 of the Current Report on Form 8-K and incorporated herein by reference.

(6) Previously filed as an exhibit to the Registrant s Current Report on Form 8-K (File No. 000-33043) filed with the Securities and Exchange Commission on March 17, 2010, and incorporated herein by reference.

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SIGNATURES

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

OMNICELL, INC.

Date: May 10, 2010

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

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