OMNICELL, Inc
Form 10-Q
August 08, 2008
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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 June 30, 2008

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 0-33043

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 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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of August 6, 2008**

Common Stock, $0.001 par value	31,066,184 shares

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

Omnicell, Inc.

Condensed Consolidated Balance Sheets

(In thousands)

	June 30, 2008 (unaudited)	December 31, 2007 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 122,783	$ 169,812
Accounts receivable, net	40,784	37,522
Inventories	15,533	13,732
Prepaid expenses	7,904	9,482
Deferred tax assets	11,830	11,830
Other current assets	9,536	9,806
Total current assets	208,370	252,184
Property and equipment, net	12,632	10,184
Non-current net investment in sales-type leases	11,434	12,633
Goodwill	24,309	23,076
Other intangible assets	8,034	9,467
Non-current deferred tax asset	10,273	12,881
Other assets	9,013	7,998
Total assets	$ 284,065	$ 328,423
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 12,186	$ 10,116
Accrued compensation	8,492	8,306
Advance payments from customers	63	156
Accrued liabilities	11,337	12,876
Deferred service revenue	12,243	11,263
Deferred gross profit	14,056	14,566
Obligation resulting from sale of receivables	313	538
Total current liabilities	58,690	57,821
Long-term deferred service revenue	17,249	15,726
Other long-term liabilities	140	237
Total liabilities	76,076	73,784
Stockholders equity:		
Total stockholders equity	207,986	254,639
Total liabilities and stockholders equity	$ 284,065	$ 328,423

(1) Information derived from our December 31, 2007 audited Consolidated Financial Statements.

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

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Omnicell, Inc.

Condensed Consolidated Statement of Operations

(in thousands, except per share data, unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues:				
Product revenues	$ 52,870	$ 42,654	$ 105,286	$ 82,895
Services and other revenues	10,504	9,168	20,179	17,088
Total revenues	63,374	51,822	125,465	99,983
Cost of revenues:				
Cost of product revenues	24,349	19,557	48,319	38,297
Cost of services and other revenues	6,665	4,917	12,440	9,095
Total cost of revenues	31,014	24,474	60,759	47,392
Gross profit	32,360	27,348	64,706	52,591
Operating expenses:				
Research and development	4,978	3,765	9,255	7,151
Selling, general and administrative	22,878	19,402	46,085	37,765
Total operating expenses	27,856	23,167	55,340	44,916
Income from operations	4,504	4,181	9,366	7,675
Interest and other income, net of other expense	722	1,272	2,131	2,020
Income before provision for (benefit from) income taxes	5,226	5,453	11,497	9,695
Provision for (benefit from) income taxes	2,473	(12,640)	5,011	(12,363)
Net income	$ 2,753	$ 18,093	$ 6,486	$ 22,058
Net income per share-basic	$ 0.09	$ 0.58	$ 0.20	$ 0.74
Net income per share-diluted	$ 0.08	$ 0.55	$ 0.19	$ 0.70
Weighted average shares outstanding:				
Basic	31,716	31,003	32,954	29,870
Diluted	32,549	32,831	34,065	31,696

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

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OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 6,486	$ 22,058
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,484	1,770
Provision for receivable allowance	133	212
Share-based compensation expense	6,000	5,197
Income tax benefits from employee stock option exercises	1,424	204
Provision for excess and obsolete inventories	527	1,199
Deferred income taxes	2,607	(12,907)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,361)	(2,990)
Inventories	(2,431)	342
Prepaid expenses	1,578	458
Other current assets	522	2,940
Net investment in sales-type leases	690	(21)
Other assets	(360)	(1,791)
Accounts payable	2,070	(211)
Accrued compensation	186	189
Advance payments from customers	(93)	(8,643)
Accrued liabilities	(1,539)	(657)
Deferred service revenue	1,646	4,080
Deferred gross profit	(509)	3,694
Other long-term liabilities	(97)	(556)
Net cash provided by operating activities	19,963	14,567
Cash flows from investing activities:		
Acquisition of intangible assets and intellectual property	(107)	(196)
Acquisition of privately held company, net of cash acquired	(1,233)	
Proceeds from sale of property and equipment	100	
Purchases of property and equipment	(5,291)	(1,333)
Net cash used in investing activities	(6,531)	(1,529)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan and option exercises	4,603	8,012
Net proceeds from public offering of common stock		90,231
Repurchases of common stock, net	(65,064)	
Net cash provided by (used in) financing activities	(60,461)	98,243
Net increase (decrease) in cash and cash equivalents	(47,029)	111,281
Cash and cash equivalents at beginning of period	169,812	60,856
Cash and cash equivalents at end of period	$ 122,783	$ 172,137

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. Overview

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. 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 and Summary of Significant Accounting Policies

These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of June 30, 2008, and the results of operations for the three and six month periods ended June 30, 2008 and 2007 and cash flows for the six months ended June 30, 2008 and 2007. 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 condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Certain prior period amounts in our Condensed Consolidated Statement of Cash Flows have been reclassified to conform to the current period presentation. Amounts reclassified include depreciation expenses and other non-current assets.

Our results of operations for the three and six months ended June 30, 2008 and cash flows for the six months ended June 30, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008, 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.

Sales of accounts receivable. We offer our customers multi-year, non-cancelable payment terms. For the three and six months ended June 30, 2008, sales of medication and supply dispensing systems sold with multi-year payment terms totaled approximately $20.2 million and $43.2 million, respectively. Sales of medication and supply dispensing systems sold with multi-year payment terms totaled approximately $19.0 million and $28.1 million, respectively for comparable periods in 2007. 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 the accounts receivables as true sales in accordance with Statement of Financial Accounting Standards, or SFAS, No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. During the six months ended June 30, 2008 and 2007, we transferred non-recourse accounts receivable totaling $36.2 million and $19.0 million, respectively, which approximated fair value, to leasing companies on a non-recourse basis. These sales of accounts receivable contain a non-current component related to the service portion of our non-recourse leases. At June 30, 2008 and December 31, 2007, accounts receivable included $1.2 million and $2.3 million, respectively, from leasing companies for transferred non-recourse accounts receivable. The non-current receivables from these sales, shown on our condensed consolidated balance sheet within Other Assets, were $7.1 million at June 30, 2008 and $6.3 million at December 31, 2007. In addition to the non-recourse receivables noted above, we recorded $0.5 million as of June 30, 2008 and $0.7 million as of December 31, 2007 as receivables subject to sales agreements containing recourse clauses.

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Dependence on key suppliers. We have a 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 provision of the contract regarding construction and supply of assemblies may be terminated by either the supplier or by us without cause and at any time upon delivery of approximately four months notice. The provision of the contract regarding inventory management of assemblies may be terminated by either the supplier or by us without cause and at any time upon delivery of approximately six months notice. Purchases from this supplier for the three and six months ended June 30, 2008 were approximately $4.2 million and $8.8 million, respectively. Purchases from this supplier were approximately $3.1 million and $5.5 million, respectively, for comparable periods in 2007. We expect our third-party manufacturing supplier to build a substantial portion of the sub-assemblies which we previously built at our manufacturing facility in California. We anticipate reducing our risk of dependence on a single-source supplier by establishing additional supplier and manufacturing relationships and by securing single-source supplier secondary manufacturing sites.

Income Taxes. For the three and six months ended June 30, 2008, we recorded an income tax expense of $2.5 million and $5.0 million respectively as compared with an income tax benefit of $12.7 million and $12.4 million for the corresponding periods in 2007. The effective tax rate for the six months ended June 30, 2008 was 43.6% as compared to an effective tax rate of 40.5% for the three months ended March 31, 2008. The increase in the effective tax rate during the second quarter of 2008 was primarily due to a reduction of our forecasted income for the tax year which caused the rate impact related to the expensing of our stock based compensation to increase. The tax benefit of $12.4 million in the six months ended June 30, 2007 was due to a partial release of the valuation allowance carried against our deferred tax assets in 2007. As the balance of the valuation reserve was released at the end of 2007, we do not expect similar tax benefits in the future.

Other comprehensive income. Other comprehensive income is the same as net income for the three and six months ended June 30, 2008 and 2007.

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 sole operating segment is medication and supply dispensing systems. Substantially all of our long-lived assets are located in the United States. For the three and six months ended June 30, 2008 and 2007, substantially all of our total revenues and gross profits were generated by the medication and supply dispensing systems operating segment from customers in the United States and no one customer accounted for greater than 10% of the Company s revenues.

Recently Issued Accounting Pronouncements.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position, or FSP, 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FSP 157-2, Effective Date of FASB Statement No. 157. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for fiscal years beginning after November 15, 2007. We adopted the provisions of SFAS No. 157 effective January 1, 2008 and determined that it did not have a material impact on our condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an Amendment of FASB Statement No. 115, or SFAS No. 159, which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to measure at fair value will be recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts SFAS No. 157. We adopted the provisions of SFAS No. 159 effective January 1, 2008 and has elected not to apply the fair value option to any of our financial instruments.

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In December 2007, the FASB issued SFAS No. 141R, Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51. SFAS No. 141R may change how business acquisitions are accounted for and may impact the financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 may change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141R and SFAS No. 160 are effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. SFAS No. 141R and SFAS No. 160 will only impact the Company in relation to future business combination activities.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133, or SFAS No. 161. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of the pending adoption of SFAS No. 161 on our consolidated financial statements.

Note 2. Acquisition

In December 2007, we acquired 100% of the outstanding shares of Rioux Vision, Inc., or Rioux, a provider of system solutions to healthcare facilities, for an aggregate cash purchase price of $26.3 million of which $21.3 million was paid at the closing with the remaining $5.0 million held in escrow to satisfy indemnification claims, if any, made over the escrow period, provided for in the stock purchase agreement. Included in the purchase price were acquisition costs of $0.4 million. The acquisition of Rioux adds mobile cart technology to our line of medication-use systems.

During the second quarter of 2008, we continued to refine our valuation of the underlying net assets acquired and, based on the refinement of estimates of pre-existing liabilities at the acquisition date, we determined that an additional $1.1 million of goodwill, which is the excess of the purchase price over the fair value of the net assets acquired, was required, increasing the total goodwill from the acquisition to $21.2 million. The original acquisition accounting in December 2007, in accordance with SFAS No. 141, Business Combinations, included a pre-acquisition contingency on our assessment of Rioux s fair value in our preliminary purchase price allocation. The fair value of this pre-acquisition contingency represents the amount we and Rioux agreed to adjust the purchase price as a result of our acceptance of the costs and risk relating to this contingency. The pre-acquisition contingency relates to an unresolved patent infringement claim made against Rioux in October 2006 and is recorded as an accrued liability as of the acquisition date.

After the end of the purchase price allocation period, any adjustment to amounts recorded for the pre-acquisition contingency will be included in our results of operations in the period in which the adjustment is determined. The purchase price allocation is preliminary and may change if information becomes available that results in a change in the acquisition cost, assets acquired or liabilities assumed at the date of purchase. The purchase price and allocation will be finalized in the fourth quarter of 2008. The results of Rioux have been included in our condensed consolidated statements since December 11, 2007.

Note 3. Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted-average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income per share is computed by dividing net income for the period by the weighted-average number of shares less shares subject to repurchase plus, if dilutive, common stock equivalent shares outstanding during the period. Common stock equivalents include the effect of outstanding dilutive stock options and restricted stock units computed using the treasury stock method. The calculation of basic and diluted net income per share is as follows (in thousands, except per share amounts):

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	Three Months Ended June 30.		Six Months Ended June 30.	
	2008	2007	2008	2007
Basic:				
Net income	$ 2,753	$ 18,093	$ 6,486	$ 22,058
Weighted average shares outstanding basic	31,716	31,003	32,954	29,869
Net income per share basic	$ 0.09	$ 0.58	$ 0.20	$ 0.74
Diluted:				
Net income	$ 2,753	$ 18,093	$ 6,486	$ 22,058
Weighted average shares outstanding basic	31,716	31,003	32,954	29,869
Add: Dilutive effect of employee stock options	833	1,827	1,111	1,826
Weighted average shares outstanding diluted	32,549	32,830	34,065	31,695
Net income per share diluted	$ 0.08	$ 0.55	$ 0.19	$ 0.70

Note 4. Stockholders Equity and Share Based Compensation

Stock Option Plans

As of June 30, 2008, we had three active stock option plans including the 1999 Equity Incentive Plan, the 2003 Equity Incentive Plan, and the 2004 Equity Incentive Plan, or, collectively, the Plans. Total shares of common stock reserved for future issuance under the Plans were 4,700,522 shares, 115,933 shares, and 200,000 shares, respectively, for total shares available for grant of 5,016,455 shares. At June 30, 2008, outstanding options had a weighted-average remaining vesting period of 2.3 years and an aggregate intrinsic value of $11.0 million. At June 30, 2008, exercisable options had an aggregate intrinsic value of $9.8 million. At June 30, 2008, there was $12.0 million of total unrecognized compensation cost related to non-vested stock options. For the three months ended June 30, 2008, the aggregate intrinsic value of options exercised was $0.3 million and the weighted-average fair value of options exercised was $8.63 per share.

A summary of option activity under the Plans for the six months ended June 30, 2008 is presented below:

Options:	Number of Shares (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2007	4,633	$ 12.87
Granted	476	$ 17.57
Exercised	(311)	$ 9.31
Forfeited	(83)	$ 19.11
Expired	(5)	$ 17.57
Outstanding at June 30, 2008	4,710	$ 13.47
Exercisable at June 30, 2008	2,912	$ 10.83

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, if 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 1999 Equity Incentive Plan, or 1999 Plan, is the product of the number of shares granted and the grant date fair value of our common stock as calculated under the 1999 Plan. Expected future compensation expense relating to RSUs outstanding on June 30, 2008 is $5.2 million over a weighted-average period of 3.2 years. A summary of activity of both restricted stock and RSUs as of June 30, 2008 is presented below:

	Restricted Stock			Restricted Stock Units		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Non-vested, December 31, 2007	14,136	$	22.63	180,145	$	24.35
Awarded	40,712	$	11.91	96,650	$	19.26
Released	(14,136)	$	22.63	(24,311)	$	19.74
Forfeited		$	0.00	(3,600)	$	22.44
Non-vested, June 30, 2008	40,712	$	11.91	248,884	$	22.85

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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 June 30, 2008, 1,999,114 shares had been issued under the ESPP and 710,015 shares are available for purchase through the ESPP.

Treasury Stock

In February 2008, our Board of Directors authorized a stock repurchase program for $40.0 million of our common stock, excluding broker commissions of $0.1 million that we completed in February and March 2008. In April 2008, our Board of Directors authorized an additional stock repurchase program to provide for the repurchase of up to an additional $50.0 million of our common stock.

The stock repurchase activity as of June 30, 2008 is summarized as follows (value of shares repurchased in thousands):

	Three Months Ended March 31, 2008	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Shares repurchased	2,133,898	1,932,398	4,066,296
Average Price per share	$ 18.745	$ 12.907	$ 15.971
Value of shares repurchased including commissions	$ 40,064	$ 25,000	$ 65,064

These repurchased shares are recorded as treasury stock and are accounted for under the cost method. No repurchased shares have been retired. The timing, price and volume of the repurchase of the remaining authorized shares will be based on market conditions, relevant securities laws and other factors.

Note 5. Share-Based Compensation

We have adopted the provisions of SFAS 123(R), Share-Based Payment, 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 SFAS No. 123(R).

The impact on our results for share-based compensation was as follows (in thousands):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cost of product and services	$ 416	$ 331	$ 926	$ 725
Research and development	304	231	616	485
Selling, general and administrative	2,213	1,976	4,458	3,987
Total share-based compensation expense	$ 2,933	$ 2,538	$ 6,000	$ 5,197

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

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Note 6. Inventories

Inventories consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Raw materials	$ 9,188	$ 9,002
Work in process	140	
Finished goods	6,205	4,730
Total Inventories	$ 15,533	$ 13,732

Note 7. 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):

	June 30, 2008	December 31, 2007
Net minimum lease payments to be received	$ 18,756	$ 19,830
Less unearned interest income portion	2,934	3,285
Net investment in sales-type leases	15,822	16,545
Less current portion(1)	4,388	3,912
Non-current net investment in sales-type leases(2)	$ 11,434	$ 12,633

The minimum lease payments under sales-type leases as of June 30, 2008:

2008 (remaining amount)	$ 2,992
2009	5,336
2010	4,892
2011	3,538
2012	1,787
Thereafter	211
Total	$ 18,756

(1) A component of other current assets

(2) Net of allowance for doubtful accounts of $0.4 million as of June 30, 2008 and December 31, 2007.

Note 8. Goodwill and Net Purchased Intangibles

Under SFAS No. 142 Goodwill and Other Intangible Assets, goodwill is not subject to amortization. Rather, we evaluate goodwill for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable. Goodwill increased during the three months ended June 30, 2008 by $1.1 million due to a refinement of our estimates of liabilities assumed in the acquisition of Rioux. Patents increased by $0.08 million for the three months ended June 30, 2008 as a result of additional investment in patent filing costs.

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Intangible assets consist of the following (in thousands):

	June 30, 2008			December 31, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Customer base	3,184	442	2,742	3,184	233	2,951	5-8 years
Service contracts	268	268		268	268		3-6 years
Acquired technology	9,364	5,436	3,928	9,364	4,312	5,052	3-5 years
Patents	435	53	382	332	30	302	17 years
Trade name	220	61	159	220	6	214	2 years
Non-compete	720	133	587	720	12	708	3 years
Backlog	10	5	5	10	1	9	1 year
Trade name	231		231	231		231	Indefinite
Total Other Intangibles	14,432	6,398	8,034	14,329	4,862	9,467	
Goodwill	24,309		24,309	23,076		23,076	Indefinite
Net Intangibles & Goodwill	38,741	6,398	32,343	37,405	4,862	32,543	

Amortization expense totaled $1.5 million for the six months ended June 30, 2008. Estimated annual expected amortization expense of intangible assets as of June 30, 2008 is as follows (in thousands):

2008 (remaining amount)	$ 1,239
2009	2,327
2010	2,093
2011	390
2012	390
Thereafter	1,364
	$ 7,803

Note 9. Deferred Gross Profit

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

	June 30, 2008	December 31, 2007
Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed	$ 25,955	$ 26,038
Cost of sales, excluding installation costs	(11,899)	(11,472)
Deferred gross profit	$ 14,056	$ 14,566

Note 10. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Pre-acquisition contingency	$ 6,481	$ 7,000
Accrued Group Purchasing Organization (GPO) fees	1,850	1,795
Product quality accrual	1,088	1,150
Deferred rent	1,073	1,341
Taxes payable	395	699
Accrued professional fees	364	661
Other	86	230
Total	$ 11,337	$ 12,876

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Note 11. Commitments

The following table summarizes our contractual obligations at June 30, 2008 (in thousands):

	Total	Less than one year	One to three years	Three to five years	More than five years
Operating leases(1)	$ 6,623	$ 3,364	$ 2,545	$ 692	$ 22
Commitments to contract manufacturers and suppliers(2)	1,570	1,570			
Total	$ 8,193	$ 4,934	$ 2,545	$ 692	$ 22

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

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

Note 12. Legal Proceedings

On February 20, 2007, we were served with the third amended petition in a lawsuit entitled Alcala, et al. v. Cardinal Health, Inc., et al., case number 2006 09-4487-G, which named Omnicell as a defendant. This lawsuit was filed in the District Court of Cameron County, Texas. The lawsuit alleges claims against us for strict products liability, negligence and gross negligence arising from the use of our product by defendant Cardinal Health 109, Inc. in connection with the treatment of a patient who died after receiving treatment. The petition, which was filed by the family and estate of the deceased patient, alleges that defects in the design of our product contributed to the patient s death which was allegedly caused by the administration of the wrong medication. We deny any liability, have engaged our insurance carrier on this matter and intend to vigorously defend against these claims.

On December 19, 2007, we were served with an amended petition naming Omnicell, Inc. as an identified Doe defendant in a lawsuit entitled Tak Takahama; by and through her Guardian Ad Litem Donna Takahama v. Torrance Memorial Medical Center; and Does 1 through 20 Inclusive, case number YC 055726. This lawsuit was filed in the Superior Court for the State of California for the County of Los Angeles. The lawsuit alleges claims against us for negligence arising from the use of our product by Torrance Memorial Medical Center in connection with the treatment of a patient who received a different medication than what was prescribed by the patient s physician. We deny any liability, have engaged our insurance carrier on this matter and intend to vigorously defend against these claims.

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 is a wholly-owned subsidiary. On October 26, 2006, Rioux 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. We intend to defend the case vigorously.

Note 13. Facilities Closure

On May 13, 2008, we announced plans to relocate our mobile cart manufacturing from Elgin, South Carolina to subcontract suppliers and our existing facility in Livermore, California. The consolidation of mobile cart manufacturing services in near proximity to our other manufacturing and development facilities supports the strategy to integrate medication management system technology with mobile cart technology. We incurred approximately $0.3 million costs in the three months ended June 30, 2008 associated with the South Carolina facility closure, primarily in employee costs in eliminating 35 positions and fixed asset disposal costs. These costs were recorded approximately 80% in cost of goods sold and 20% in selling, general and administrative categories. We expect the majority of the remaining closure costs to be facilities related and to be completed by September 30, 2008.

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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;
- the size and/or growth of our market or market-share;
- the opportunity presented by new products or emerging markets;
- the operating margins or earnings per share goals we may set;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others; and
- our 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 1,100 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 substantially all our revenue, in the United States. Our sales force is organized by geographic region in the United States and Canada. We also sell through distributors in Australia, Europe, and South America. Omnicell has not sold in the past, and has no future plans to sell its 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 six to nine 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 the 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 June 30, 2008

Our business continues to experience year over year growth as was exhibited by an increase in revenue of 22.3% from $51.8 million during the three months ended June 30, 2007, to $63.4 million during the three months ended June 30, 2008. We believe that three factors were primarily responsible for this growth:

- 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; 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 continue to grow our headcount in order to keep pace with the increased sales and related operational demands as exhibited by an increase in our full-time employee headcount of 30.2% from 676 full-time employees at June 30, 2007 to 880 full-time employees at June 30, 2008. Despite this increase in headcount, we have continued to report positive operating cash flows, generating $20.0 million cash provided by operating activities during the six months ended June 30, 2008. Our ability to grow revenue and produce positive cash flow is dependent on our ability to continue to attract orders from customers, the volume of installations we are able to complete, our ability to access customer installation sites on a timely basis and our flexibility in manpower allocations among customers to complete installations on a timely basis.

Our overall gross profit remained relatively flat for the quarter ended June 30, 2008 as compared to the quarter ended June 30, 2007, primarily due to our integration of lower margin Rioux Vision mobile carts and costs associated with the closure and consolidation of our Elgin, South Carolina manufacturing facility with other existing facilities, which offset improvements in our costs of materials. Although we expect to see an improvement in gross margins during the remainder of 2008, we believe that our gross margins will continue to fluctuate in line with revenue growth, the mix of products sold, the related costs and changes in headcount.

As it pertains to our product offerings, we are on track to integrate medication control software with the mobile cart, which we acquired in the Rioux Vision transaction in December 2007, creating a new class of product solution offering. The first version of these integrated mobile carts became available in June 2008, providing a platform to integrate automated medication control into the bedside point of care environment. We expect further integration with new products, including SinglePointe, which is a software extension to both OmniRX and Mobile Cart products. SinglePointe allows pharmacists to automate the distribution of specially handled medications. SinglePointe is available today on OmniRX medication control systems and we anticipate will be available as a feature of the mobile cart platform during 2009.

On April 28, 2008, we announced a stock repurchase program to repurchase up to $50.0 million of our common stock. We initiated and completed a $25.0 million repurchase of shares of our common stock, inclusive of broker commissions, during the quarter ended June 30, 2008. We ended the quarter with cash and cash equivalents of $122.8 million.

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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 taxes on income.

During the six months ended June 30, 2008, there were no significant changes in our critical accounting policies and estimates. Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2007 for a more complete discussion of our critical accounting policies and estimates.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the disclosure requirements regarding fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities as well as for non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis in the financial statements. In accordance with SFAS 157-2, Effective Date of FASB Statement No. 157, for all other non-financial assets and liabilities, SFAS No. 157 will be effective for fiscal years beginning after November 15, 2008. On January 1, 2008, we adopted the provisions of SFAS No. 157 on a prospective basis for our financial assets and liabilities which require that we determine the fair value of financial assets and liabilities using the fair value hierarchy established in SFAS No. 157.

SFAS No. 157 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.

We currently do not have any assets or liabilities which require revaluation under the guidance established in SFAS No. 157.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, or SFAS No. 141R, and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51, or SFAS No. 160. SFAS No. 141R may change how business acquisitions are accounted for and may impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 may change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. SFAS No. 141R and SFAS No. 160 are effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. SFAS No. 141R and SFAS No. 160 will only impact the Company in relation to future business combination activities.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133, or SFAS No. 161. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of the pending adoption of SFAS No. 161 on our condensed consolidated financial statements.

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Results of Operations

	Three Months Ended June 30, (in thousands, except percentages)				Six Months Ended June 30, (in thousands, except percentages)			
	2008		2007		2008		2007	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	% of Revenue
Revenues:								
Product revenue	$ 52,870	83.4%	$ 42,654	82.3%	$ 105,286	83.9%	$ 82,895	82.9%
Service and other revenues	10,504	16.6%	9,168	17.7%	20,179	16.1%	17,088	17.1%
Total revenues	63,374	100.0%	51,822	100.0%	125,465	100.0%	99,983	100.0%
Cost of revenues:								
Cost of product revenues	24,349	38.4%	19,557	37.7%	48,319	38.5%	38,297	38.3%
Cost of service and other revenues	6,665	10.5%	4,917	9.5%	12,440	9.9%	9,095	9.1%
Total cost of revenues	31,014	48.9%	24,474	47.2%	60,759	48.4%	47,392	47.4%
Gross profit	32,360	51.1%	27,348	52.8%	64,706	51.6%	52,591	52.6%
Operating expenses:								
Research and development	4,978	7.9%	3,765	7.3%	9,255	7.4%	7,151	7.2%
Selling, general and administrative	22,878	36.1%	19,402	37.4%	46,085	36.7%	37,765	37.8%
Total operating expenses	27,856	44.0%	23,167	44.7%	55,340	44.1%	44,916	44.9%
Income from operations	4,504	7.1%	4,181	8.1%	9,366	7.5%	7,675	7.7%
Interest and other income, net of other expense	722	1.1%	1,272	2.5%	2,131	1.7%	2,020	2.0%
Income before provision for (benefit from) income taxes	5,226	8.2%	5,453	10.5%	11,497	9.2%	9,695	9.7%
Provision for (benefit from) income taxes	2,473	3.9%	(12,640)	(24.4)%	5,011	4.0%	(12,363)	(12.4)%
Net income	$ 2,753	4.3%	$ 18,093	34.9%	$ 6,486	5.2%	$ 22,058	22.1%

Product Revenues, Cost of Product Revenues and Gross Profit

The table below shows our product revenues, cost of product revenues and gross profit for the three and six months ended June 30, 2008 and 2007 and the percentage change between those years:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	% Change	2008	2007	% Change
	(in thousands)			(in thousands)		
Product revenues	$ 52,870	$ 42,654	24.0%	$ 105,286	$ 82,895	27.0%
Cost of product revenues	24,349	19,557	24.5%	48,319	38,297	26.2%
Gross profit	$ 28,521	$ 23,097	23.5%	$ 56,967	$ 44,598	27.7%

Product revenues increased $10.2 million, or 24.0% in the three months ended June 30, 2008 as compared to the same period in 2007. Product revenues increased $22.4 million, or 27.0% in the six months ended June 30, 2008 as compared to the same period in 2007. The increase in product revenue for the three and six months ended June 30, 2008 was primarily due to an increase in the number of installations of medication and supply automation systems and central pharmacy products, from both existing and new customers. New product features, the overall hospital medication safety regulatory environment and an increased interest in automation products in hospitals contributed to these increases.

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Cost of product revenues increased by $4.8 million, or 24.5% in the three months ended June 30, 2008 as compared to the same period in 2007. The increase was primarily due to a $2.5 million increase in direct material cost, including $1.5 million from new mobile carts, and manufacturing costs associated with an increase in the number of installations and with changes in our product mix, a $1.3 million increase in labor costs, including a $0.1 million share-compensation charge associated with SFAS No. 123(R), and a $0.9 million increase in support expenses and other operating costs. Cost of product revenues increased by $10.0 million, or 26.2% in the six months ended June 30, 2008 as compared to the same period in 2007. The increase was primarily due to a $6.2 million increase in direct material, including increases associated with the inclusion of mobile carts, costs associated with increasing unit volume of sales and with changes in our product mix, a $2.4 million increase in labor costs, including a $0.2 million share-compensation charge associated with SFAS No. 123(R), and a $2.2 million increase in support expenses and other operating costs.

Gross profit on product revenue increased by $5.4 million, or 23.5% in the three months ended June 30, 2008 as compared to the same period in 2007. Gross profit on product revenue increased by $12.4 million, or 27.7% in the six months ended June 30, 2008 as compared to the same period in 2007. The increase in gross profit on product revenue for the three and six months ended June 30, 2008 was primarily a result of higher product revenues. Stationary medication dispensing systems contributed most of this gross profit growth due to changes in product mix and improved efficiencies and interest income recognized in association with our net investment in sales-type leases. Our new mobile carts have higher costs, as a percentage of revenue, which limited the overall margin growth.

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

The table below shows our service and other revenues, cost of service and other revenues and gross profit for the three and six month periods ended June 30, 2008 and 2007 and the percentage change between those years:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	% Change	2008	2007	% Change
	(in thousands)			(in thousands)		
Service and other revenues	$ 10,504	$ 9,168	14.6%	$ 20,179	$ 17,088	18.1%
Cost of service and other revenues	6,665	4,917	35.5%	12,440	9,095	36.8%
Gross profit	$ 3,839	$ 4,251	(9.7)%	$ 7,739	$ 7,993	(3.2)%

Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. Service and other revenues increased by $1.3 million, or 14.6% in the three months ended June 30, 2008 as compared to the same period in 2007. Service and other revenues increased by $3.1 million, or 18.1% in the six months ended June 30, 2008 as compared to the same period in 2007. The increases in service and other revenues for the three and six months ended June 30, 2008 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 $1.7 million, or 35.5% in the three months ended June 30, 2008 as compared to the same period in 2007. The increase was primarily due to $1.1 million increase in labor costs in support of the expanded service base and a $0.6 million increase in support costs. Cost of service and other revenues increased by $3.3 million, or 36.8% in the six months ended June 30, 2008 as compared to the same period in 2007. The increase was primarily due to $2.0 million increase in labor costs in support of the expanded service base, a $0.4 million increase in materials costs associated with increased volumes and a $1.0 million increase in support costs.

Gross profit on service and other revenues decreased by $0.4 million, or 9.7% in the three months ended June 30, 2008 as compared to the same period in 2007. Gross profit on service and other revenues decreased by $0.3 million, or 3.2% in the six months ended June 30, 2008 as compared to the same period in 2007. The decrease in gross margin on service and other revenues for the three and six months ended June 30, 2008 was due primarily to providing an additional level of infrastructure costs to maintain our high level of customer service.

Operating Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	% Change	2008	2008	% Change
	(in thousands)			(in thousands)		
Research and development	$ 4,978	$ 3,765	32.2%	$ 9,255	$ 7,151	29.4%
Selling, general and administrative	22,878	19,402	17.9%	46,085	37,765	22.0%
Total operating expenses	$ 27,856	$ 23,167	20.2%	$ 55,340	$ 44,916	23.2%

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Research and Development. Research and development expenses increased by $1.2 million, or 32.2% in the three months ended June 30, 2008 as compared to the same period in 2007. Research and development expenses represented 7.9% and 7.3% of total revenues in the three months ended June 30, 2008 and 2007, respectively. The increase was due primarily to a $1.0 million increase in labor expenses, including $0.1 million in expenses related to share-based compensation charges associated with SFAS No. 123(R), and $0.2 million in support costs. Research and development expenses increased by $2.1 million, or 29.4% in the six months ended June 30, 2008 as compared to the same period in 2007. Research and development expenses represented 7.4% and 7.2% of total revenues in the six months ended June 30, 2008 and 2007, respectively.The increase was due primarily to a $1.9 million increase in labor expenses, including $0.1 million in expenses related to share-based compensation charges associated with SFAS No. 123(R), and $0.2 million in support costs.

We expect research and development expenses to grow in absolute dollars due to planned additional spending to improve and enhance our existing technologies and to create new technologies in health care automation.

Selling, General and Administrative. Selling, general and administrative expenses increased by $3.5 million, or 17.9% in the three months ended June 30, 2008 as compared to the same period in 2007. Selling, general and administrative expenses represented 36.1% and 37.4% of total revenues in the three months ended June 30, 2008 and 2007, respectively.

In the three months ended June 30, 2008, the increase in selling, general and administrative expenses was primarily due to a $1.6 million increase in labor costs, including $0.2 million in share-based compensation charges associated with SFAS No. 123(R), and a $1.9 million increase in support expenses, including a $0.7 million increase in facility expenses and a $0.5 million increase in depreciation, both reflecting our expansion to a new administrative building.

Selling, general and administrative expenses increased by $8.3 million, or 22.0% in the six months ended June 30, 2008 as compared to the same period in 2007. Selling, general and administrative expenses represented 36.7% and 37.8% of total revenues in the three months ended June 30, 2008 and 2007, respectively.

In the six months ended June 30, 2008, the increase in selling, general and administrative expenses was primarily due to a $4.4 million increase in labor costs which includes $0.5 million in share-based compensation charges associated with SFAS No. 123(R), and a $3.9 million increase in support expenses which includes a $0.9 million increase in Group Purchasing Organization, or GPO, expenses associated with higher sales volume to customers affiliated with such GPOs, a $1.4 million increase in facility expenses and a $1.0 million increase in depreciation, both reflecting our expansion to a new administrative building.

We expect selling, general and administrative expenses to grow in absolute dollars as we continue to add headcount to support a greater unit volume of customer sales and to support the installation of customer orders.

Provision for Income Taxes

For the three and six months ended June 30, 2008, we recorded income tax expenses of $2.5 million and $5.0 million respectively as compared with income tax benefits of $12.7 million and $12.4 million for the corresponding periods for 2007. The effective tax rate for the six months ended June 30, 2008 was 43.6% as compared to an effective tax rate of 40.5% for the three months ended March 31, 2008. The increase in the effective tax rate during the second quarter of 2008 was primarily due to a reduction of our forecasted income for the tax year which caused the rate impact related to the expensing of our stock based compensation to increase. The tax benefit of $12.4 million in the six months ended June 30, 2007 was due to a partial release of the valuation allowance carried against our deferred tax assets in 2007. As the balance of the valuation reserve was released at the end of 2007, we do not expect similar tax benefits in the future.

Liquidity and Capital Resources

We had cash and cash equivalents of $122.8 million at June 30, 2008, as compared to $169.8 million at December 31, 2007 and $142.6 million at March 31, 2008. We believe our current cash balances and cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures whether or not we complete a repurchase of the additional $25.0 million common stock.

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Cash Flows

Operating activities generated $20.0 million of cash during the six months ended June 30, 2008, as compared to $14.6 million for the six months ended June 30, 2007. The most significant contributor to the increase in cash from operations was an increase in collections of $25.9 million, in line with revenue growth. The increased cash collections resulted primarily from both improved collecting on past due balances and increased leasing company receipts, which were up $6.2 million in the comparable period. Offsetting this increase were headcount driven expenditures resulting from an additional 204 regular employees in the headcount on June 30, 2008 as compared to the headcount on June 30, 2007.

We used $6.5 million of cash for investing activities during the six months ended June 30, 2008, as compared to $1.5 million for the six months ended June 30, 2007. The increase was primarily due to a $5.2 million increase in property and equipment stemming from increases to our information technology infrastructure and our implementation of new Enterprise Resource Planning, or ERP software. The majority of the expenditures for the new ERP hardware and software has already been expended and we expect the implementation to be substantially complete by September 30, 2008.

Cash used in financing activities was $60.5 million during the six months ended June 30, 2008, as compared to $98.2 million in cash generated during the six months ended June 30, 2007. The cash use was primarily for the repurchase of shares of our common stock with an aggregate value of $65.0 million, plus brokerage fees, that occurred in the six months ended June 30, 2008. We generated $90.2 million cash in connection with a secondary offering of our common stock in the corresponding period in 2007.

Contractual Obligations

There have been no material changes to our contractual obligations during the second quarter of fiscal 2008. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2007 for a description of our facility leases and contractual obligations and the Notes to the condensed consolidated financial statements included therein.

Off-Balance Sheet Arrangements

As of June 30, 2008, 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 June 30, 2008, 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, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2008. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2008, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2008 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

There were no new material legal proceedings, no material developments to existing legal proceedings, and no terminations of existing legal proceedings during the quarter ended June 30, 2008.

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, 2007, filed with the Securities and Exchange Commission on March 17, 2008.

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 and is characterized by evolving technologies and industry standards, frequent new product introductions and dynamic customer requirements. 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 Pyxis Corporation (a division of Cardinal Health, Inc.), McKesson Automation Inc. (a business unit of McKesson Corporation), AmerisourceBergen Corporation (through its acquisition of MedSelect, Inc. and Automed), Talyst, the Baxter Medication Delivery business of Baxter International Inc., Cerner Corporation, Eclipsys Corporation, IDX Systems Corporation (a division of GE Healthcare) and Siemens Medical Solutions (a division of Siemens AG).

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;

- 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 price reductions of our products and services, fewer customer orders and reduced gross margins, any of which could harm our business.

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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 intensely competitive and 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 a result, our position in 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.

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. Many healthcare facilities still use traditional approaches that do not include 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. 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. In addition, these budgets are often characterized by limited resources and conflicting spending priorities among different departments. Any decrease in expenditures by these healthcare facilities, particularly our significant customers, could decrease demand for our medication and supply dispensing systems and related services and reduce our revenues. We may not continue to be successful in marketing our medication and supply dispensing systems, and the level of market acceptance of our systems may not continue to be sufficient to generate operating income.

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 drug and medical-surgical supply distribution companies that sell their distribution services to our current and potential customers. As a result, if a customer is a distribution customer of one of our 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.

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. As a result, 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 cause our operating results to vary significantly from quarter to quarter 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 also causes a delay in the recognition of revenue for that system. Further, the larger, more complex transactions often require us to include negotiated contractual terms that have the effect of delaying revenue recognition under the accounting rules that apply to us.

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We have experienced substantial growth and we cannot assure you that we will be able to manage future growth.*

Our revenue grew by 25.5% in the six months ended June 30, 2008 compared to the same period in 2007. Our ability to continue to grow revenues profitably is dependent on our ability to continue to manage costs and control expenses. We expect our revenues to continue to grow, and we may not be able to manage this anticipated growth effectively. Management of our anticipated growth will require the devotion of significant time and attention.

Our revenue 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 revenue growth rate may slow in the future if our revenues increase to higher levels.

Our expense control is dependent on our ability to continue to develop and leverage effective and efficient human and information technology systems, our ability to gain efficiencies in our workforce through the local and worldwide labor markets and our ability to grow our outsourced vendor supply model. Our expense growth rate may equal or exceed our revenue growth rate if we are unable to streamline our operations, or fail to reduce the costs or increase the margins of our products.

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 employee compensation program in order to align employees interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. Share-based compensation expense recorded under SFAS No. 123(R) could make it more difficult and less favorable for us to grant stock options to employees in the future. If employees believe that the incentives that they would receive under any such modified strategy are less attractive, we may find it difficult to attract, retain and motivate employees. Failure to attract and retain key personnel could harm our competitive position, results of operations and financial condition.

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, during the past year we acquired a mobile cart company, Rioux Vision, Inc. based in Elgin, South Carolina, and may seek to acquire other businesses, technologies or products in the future. We cannot assure you that the Rioux Vision 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. As an example, we recently closed the Elgin, South Carolina facility and elected to move manufacturing operations to our Livermore, California facility. 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;

- 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 not realizable;

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

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. 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 information technology budgets. To the extent healthcare information technology 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 with 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 we are unable to maintain our relationships with group purchasing organizations or other similar organizations, we may have difficulty selling our products and services.

We have contracts with various group purchasing organizations, such as AmeriNet, Inc., Consorta, Inc., HealthTrust Purchasing Group, L.P., MAGNET Group, Novation, LLC, and Premier, Inc., which enable us to more readily sell our products and services to customers represented by these organizations. 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.

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 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;

- our customers budget cycles;

- changes in our operating expenses;

- the performance of our products; changes in our business strategy; and

- economic and political conditions, including fluctuations in interest rates and tax increases.

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.

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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 six months ended June 30, 2008, our common stock traded between $10.83 and $30.30 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.

We have outstanding options that have the potential to dilute stockholder value and cause our stock price to decline.*

We frequently grant stock options to our employees. At June 30, 2008, we had options outstanding to purchase approximately 4.7 million shares of our common stock at exercise prices ranging from $1.80 to $29.16 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.

Beginning with fiscal 2006, we recognized expense for share-based compensation related to employee stock options and employee stock purchases. We cannot assure you that the expense we are required to recognize measures the accurate value of our share-based payment awards, and the recognition of this expense could cause the trading price of our common stock to decline.

On January 1, 2006, we adopted SFAS No. 123 (R) (revised 2004) Share-Based Payment, or SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based compensation based on estimated fair values. As a result, starting with fiscal 2006, our operating results contain a charge for share-based compensation expense related to employee stock options and employee stock purchases. The application of SFAS No. 123(R) requires the use of an option- pricing model to determine the fair value of share-based payment awards. This determination of fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behavior.

As a result of the adoption of SFAS No. 123(R), beginning with fiscal 2006, our earnings were lower than they would have been had we not been required to adopt SFAS No. 123(R). This will continue to be the case for future periods. We cannot predict the effect that this adverse impact on our reported operating results will have on the trading price of our common stock.

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.

Based on our testing of enhanced control procedures, our management has determined that, as of December 31, 2007, we remediated a material weakness in internal control over financial reporting previously reported in fiscal year ending December 31, 2006. However, in the future, 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.

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If our U.S. government customers do not receive their annual funding, our ability to recognize revenues on future sales 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 sign contracts with five-year non-cancelable payment terms but are subject to one-year government budget funding cycles. 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 could impair our ability to sell 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 to U.S. government customers. As of June 30, 2008, the balance of our unsold leases to U.S. government customers was $17.3 million.

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. In 2006 and 2007, 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.

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.

If we are unable to successfully integrate 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 integrate with their existing information systems. This may require substantial cooperation, investment and coordination on the part of our customers. There is little uniformity in the systems currently used by our customers, which complicates the integration process. If these systems are not successfully integrated, 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, 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.

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

We are aware of one third-party patent issued several years ago that may relate to certain of our products. Although we have received no notice alleging infringement from this third-party to date, there can be no assurance that such third party will not assert an infringement claim against us in the future. Other than this patent, we do not believe that any of our products infringe upon the proprietary rights of any third parties. In the future, third parties may claim that we have infringed upon their intellectual property rights with respect to current or future products. 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 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. 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 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 software products. These software products include OmniLinkRx, SecureVault, OmniRx, OptiFlex, SafetyMed, OmniBuyer and Omnicell Interface Services. 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 delay product introductions, require design modifications to previously shipped products, 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. For example, in February 2007, we were named as a defendant in a lawsuit filed by the family and estate of a deceased patient that alleges that defects in the design of one of our products contributed to the patient s death, which was allegedly caused by the administration of the wrong medication. Similarly, in December 2007, we were named as a defendant in a lawsuit alleging that our negligence contributed to the harm of a patient who received medication different than that which was prescribed. 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. However, these policies 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 are defective, we may be required to recall or redesign those products.

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

We occasionally 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.

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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 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 primarily of software development and customer support through our India subsidiary. 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.

Due to the recent tightening credit market, some of our customers may experience more difficulty in securing funds to buy our products, which could adversely affect the demand for our products.

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. Although to date we have not experienced any customer unable to secure credit specifically based on recent changes in the overall credit market, the recent troubles in the credit and mortgage markets could make it more difficult in the future for our customers to secure financing on large capital equipment deals such as ours. To the extent the troubles in the general credit market result in difficulty for our customers in financing purchases or leases of our products, demand for our products could decline.

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 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

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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 Joint Commission requirements could decrease demand for our products and harm our competitive position, results of operations and financial condition.

While we have implemented a Privacy and Use of Information Policy and adhere to established privacy principles, use of customer information guidelines and related federal and state statutes, we cannot assure you that we will be in compliance with all federal and state healthcare information privacy and security laws that we are directly or indirectly subject to, including, without limitation, the Health Insurance Portability and Accountability Act of 1996, or HIPAA. Among other things, this legislation required the Secretary of Health and Human Services, 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. While we are not directly regulated as a covered entity under HIPAA, we are a business associate to many of our customers that are covered entities. Many of these customers have required that we enter into written agreements governing the way we handle and safeguard any patient information we may encounter in providing our products and services and may impose liability on us for failure to meet our contractual obligations. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may 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, expansion of 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 limitations on our operations.

In mid-2009, the lease term of our headquarters will expire and we may be faced with significant increased lease rates at the time we renew or renegotiate the terms of our lease.

Our headquarters and principal facilities are located in an area where rents have been increasing significantly. Upon renewal, we may be subjected to significantly higher lease rates than we pay now, which may increase our cost of revenues and operating expenses.

Our headquarters and principal facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other natural disaster or any other catastrophic event could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Our headquarters and principal facilities are located near known earthquake fault zones and are vulnerable to significant damage from earthquakes. We are also vulnerable to damage from other types of disasters, including fires, floods, power loss, communications failures and similar events, including the effects of war or acts of terrorism. The occurrence of an earthquake, other natural disaster or any other catastrophic event could cause damage to our facilities and equipment, which could require us to cease or suspend operations at our facilities partially or completely impairing our ability to operate our business. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.

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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 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

The following table sets forth the number of shares of common stock we repurchased pursuant to the $50 million stock repurchase publicly announced in April 2008 and partially executed in April and May:

Issuer Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
April 1 30, 2008	250,000	12.215	250,000	$ 46.9 million
May 1 31, 2008	1,682,398	13.045	1,932,398	$ 25.0 million
June 1 30, 2008				$ 25.0 million
Total	1,932,398	$ 12.937	1,932,398	$ 25.0 million

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our 2008 Annual Meeting of Stockholders on April 22, 2008. Our stockholders voted on two (2) proposals, the results of the voting were as follows:

1. Proposal to elect three (3) Class I directors to hold office until our 2011 Annual Meeting of Stockholders:

	Votes	
Nominee	**For**	**Authority Withheld**
Randy D. Lindholm	31,536,090	1,238,128
Sara J. White	32,537,563	236,655
William H. Younger, Jr.	31,502,355	1,271,863

Our Class II directors, Randall A. Lipps, Mary E. Foley and Joseph E. Whitters, will each continue to serve on our board of directors until our 2009 Annual Meeting of Stockholders and until his or her successor is elected and has qualified, or until his or her earlier death, resignation or removal. Our Class III directors, James T. Judson, Gary S. Petersmeyer, and Donald C. Wegmiller, will each continue to serve on our board of directors until our 2010 Annual Meeting of Stockholders and until his successor is elected and has qualified, or until his earlier death, resignation or removal.

2. Proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008:

For	Against	Abstain	Broker Non-Votes
31,470,291	1,207,937	95,990	

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.
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.

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SIGNATURES

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

OMNICELL, INC.

Date: August 8, 2008

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

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