OMNICELL, Inc
Form 10-Q
May 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission File Number 000-33043

Omnicell, Inc.

(Exact name of registrant as specified in its charter)

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

1201 Charleston Road

Mountain View, CA 94043

(650) 251-6100

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

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

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

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

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

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

The number of shares of Registrant s common stock (par value $0.001) outstanding as of May 2, 2011 was 33,119,177.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31, 2011 (unaudited)	December 31, 2010 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 173,669	$ 175,635
Short-term investments	8,109	8,074
Accounts receivable, net of allowances of $456 and $497 at March 31, 2011 and December 31, 2010, respectively	39,795	42,732
Inventories	15,399	9,785
Prepaid expenses	11,776	11,959
Deferred tax assets	13,052	13,052
Other current assets	6,337	7,266
Total current assets	268,137	268,503
Property and equipment, net	15,344	14,351
Non-current net investment in sales-type leases	9,251	9,224
Goodwill	28,543	28,543
Other intangible assets	4,533	4,672
Non-current deferred tax assets	10,103	9,566
Other assets	9,501	8,365
Total assets	$ 345,412	$ 343,224
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 13,870	$ 13,242
Accrued compensation	6,382	7,731
Accrued liabilities	8,734	8,684
Deferred service revenue	18,524	16,788
Deferred gross profit	11,009	11,719
Total current liabilities	58,519	58,164
Long-term deferred service revenue	18,897	19,171
Other long-term liabilities	650	675
Total liabilities	78,066	78,010

Stockholders equity:				
Total stockholders equity		267,346		265,214
Total liabilities and stockholders equity	$	345,412	$	343,224

(1) Information derived from our December 31, 2010 audited Consolidated Financial Statements.

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended March 31,	
	2011	**2010**
Revenues:		
Product	$ 42,575	$ 42,295
Services and other revenues	14,585	11,865
Total revenue	57,160	54,160
Cost of revenues:		
Cost of product revenues	17,836	19,265
Cost of services and other revenues	7,674	7,309
Total cost of revenues	25,510	26,574
Gross profit	31,650	27,586
Operating expenses:		
Research and development	4,840	4,565
Selling, general and administrative	25,781	21,512
Total operating expenses	30,621	26,077
Income from operations	1,029	1,509
Other income, net	54	74
Income before provision for income taxes	1,083	1,583
Provision for income taxes	413	604
Net income	$ 670	$ 979
Net income per share:		
Basic	$ 0.02	$ 0.03
Diluted	$ 0.02	$ 0.03
Weighted average shares outstanding:		
Basic	33,184	32,207
Diluted	34,098	33,153

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities:		
Net income	$ 670	$ 979
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,852	2,123
Provision for receivable allowance	(62)	(50)
Share-based compensation expense	2,392	2,156
Income tax benefits from employee stock plans	801	964
Excess tax benefits from employee stock plans	(921)	(1,115)
Provision for excess and obsolete inventories	345	385
Deferred income taxes	(537)	(339)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,968	808
Inventories	(5,959)	(30)
Prepaid expenses	183	351
Other current assets	(512)	143
Net investment in sales-type leases	210	534
Other assets	284	77
Accounts payable	628	290
Accrued compensation	(1,349)	(1,811)
Accrued liabilities	1,250	(330)
Deferred service revenue	1,607	1,438
Deferred gross profit	(710)	2,156
Other long-term liabilities	(25)	87
Net cash provided by operating activities	3,115	8,816
Cash flows from investing activities:		
Acquisition of intangible assets and intellectual property	(24)	(107)
Software development for external use	(1,823)	(883)
Purchases of property and equipment	(2,424)	(1,766)
Net cash used in investing activities	(4,271)	(2,756)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase and stock option plans	2,998	4,206
Stock repurchases	(4,729)	
Excess tax benefits from employee stock plans	921	1,115
Net cash (used in) provided by financing activities	(810)	5,321
Net (decrease) increase in cash and cash equivalents	(1,966)	11,381
Cash and cash equivalents at beginning of period	175,635	169,230
Cash and cash equivalents at end of period	$ 173,669	$ 180,611

Supplemental disclosure of non-cash operating activity			
Satisfaction of acquired legal contingency with indemnification asset (Note 2)	$	(1,200)	$

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

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OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization & Summary of Significant Accounting Policies

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

Basis of Presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of March 31, 2011, and the results of operations and cash flows for the three months ended March 31, 2011 and 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP), have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Our results of operations and cash flows for the three months ended March 31, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011, 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.

In 2010, we completed an acquisition of Pandora Data Systems, Inc. (Pandora). The consolidated financial statements include the results of operations from this business combination from September 29, 2010, the date of acquisition. Additional disclosure related to the acquisition is provided in Note 2, Acquisition.

Reclassifications. Certain reclassifications have been made to the prior year consolidated statement of cash flows to conform to the current period presentation, including software development for external use as investing cash flows instead of operating cash flows. None of these reclassifications are material to the consolidated financial statements.

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

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

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

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

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

At March 31, 2011 and December 31, 2010, our financial assets utilizing Level 1 inputs included cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. At March 31, 2011 and December 31, 2010 we had a short term investment in California revenue anticipation notes, the valuation inputs of which are classified as Level 2. We do not currently have any material financial instruments utilizing Level 3 inputs.

*Classification of marketable securities***.** Marketable securities for which we have the intent and ability to hold to maturity are classified as Held-to-maturity and are carried at their amortized cost, including accrued interest. At both March 31, 2011 and

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December, 31, 2010 we held $8.1 million of non-U.S. Government securities which are classified as Held-to-maturity short-term investments. We do not hold securities for purposes of trading. However, securities held as investments for the indefinite future, pending future spending requirements are classified as Available-for-sale and are carried at their fair value, with any unrealized gain or loss recorded to other comprehensive income until realized. At March 31, 2011 and December 31, 2010 we held $162.6 million and $150.4 million, respectively, of money market mutual funds classified as Available-for-sale cash equivalents.

Revenue recognition. We earn revenues from sales of our medication and supply dispensing systems, with related services, which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States. Our customer arrangements typically include one or more of the following deliverables:

- **Products** Software enabled equipment that manages and regulates the storage and dispensing of pharmaceuticals and other medical supplies.

- **Software** Additional software applications that enable incremental functionality of our equipment.

- **Installation** Installation of equipment as integrated systems at customers sites.

- **Post-installation technical support** Phone support, on-site service, parts and access to unspecified software upgrades and enhancements, if and when available.

- **Professional services** Other customer services such as training and consulting.

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

- **Persuasive evidence of an arrangement.** We use signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, we use a signed services agreement and a statement of work to evidence an arrangement.

- **Delivery has occurred.** Equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter providing evidence that we have delivered what a customer ordered. In instances of a customer self-installed installation, product delivery is deemed to have occurred upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on delivery of products to the customer, including transfer of title and risk of loss. We recognize revenue from sales of products to distributors upon delivery since we do not allow for rights of return or refund.

We recognize revenue for support services ratably over the related support services contract period. We recognize revenue on training and professional services as they are performed.

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

- **Collection is probable.** We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer s payment history and its current creditworthiness. If, in our judgment, collection of a fee is not probable, we defer the revenue until the uncertainty is removed, which generally means revenue is recognized upon our receipt of cash payment. Our historical experience has been that collection from our customers is generally probable.

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

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conditions, sales channels, internal costs and product margin objectives, and pricing practices. We regularly review and update our VSOE, TPE and BESP information and obtain formal approval by appropriate levels of management.

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

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

The adoption of the new revenue recognition guidance did not result in changes in what we identify as the individual deliverables to which revenue is allocated, or the timing of revenue recognition related to these individual deliverables. The change in the allocation method from residual to relative selling price did not have a material impact on our financial statements during the three months ended March 31, 2011. In addition, there is a time lag between when we receive a signed customer purchase order or contract and when we install the products, sometimes as long as one year or more, primarily due to the installation cycles and timing preferences of our customers. As a result, most of the revenue we recognized during the three months ended March 31, 2011 was not subject to the new revenue recognition guidance. In the future periods, we anticipate the cumulative impact of the adoption may increase, as additional arrangements become subject to the new revenue recognition guidance. However, the specific adjustments for any future quarter are not predictable, as they depend on the timing of our backlog shipments and installations and the nature of the orders we receive from new customers.

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

Accounts receivable, net and net investment in sales type leases. We actively manage our accounts receivable to minimize credit risk. We typically sell to customers for which there is a history of successful collection. New customers are subject to a credit review process, which evaluates the customers financial position and ability to pay. We continually monitor and evaluate the collectability of our trade receivables based on a combination of factors. We record specific allowances for doubtful accounts when we become aware of a specific customer s impaired ability to meet its financial obligation to us, such as in the case of bankruptcy filings or deterioration of financial position.

Uncollectible amounts are charged off against trade receivables and the allowance for doubtful accounts when we make a final determination there is no reasonable expectation of recovery. Estimates are used in determining our allowances for all other customers based on factors such as current trends, the length of time the receivables are past due and historical collection experience. While we believe that our allowance for

doubtful accounts receivable is adequate and that the judgment applied is appropriate, such estimated amounts could differ materially from what will actually be uncollectible in the future.

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

Sales of accounts receivable. We offer our customers multi-year, non-cancelable payment terms. Generally we sell non-U.S. government receivables to third-party leasing companies on a non-recourse basis. We reflect the financing costs on the sale of these receivables as a component of our revenue. We record the sale of our accounts receivables as true sales in accordance with

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accounting guidance for transfers and servicing of financial assets. During the three months ended March 31, 2011 and 2010, we transferred non-recourse accounts receivable totaling $11.0 million and $17.5 million, respectively, which approximated fair value, to third party leasing companies. At March 31, 2011 and December 31, 2010, accounts receivable included $0.3 million and $0.3 million, respectively, due from third-party leasing companies for transferred non-recourse accounts receivable.

Concentration in revenues and in accounts receivable. There were no customers accounting for 10% or more of revenues in the three months ended March 31, 2011 and March 31, 2010. There were no customers accounting for 10% or more of accounts receivable at March 31, 2011 and at December 31, 2010.

Accounting policy for shipping costs. Outbound freight billed to customers is recorded as product revenue. The related shipping and handling cost is expensed as part of selling, general and administrative expense. Such shipping and handling expenses totaled $0.6 million and $0.5 million for the three months ended March 31, 2011 and 2010, respectively.

Dependence on suppliers. We have a significant supply agreement with a supplier for construction and supply of several sub-assemblies and inventory management of sub-assemblies used in our hardware products. There are no minimum purchase requirements. The contract may be terminated by either the supplier or by us without cause and at any time upon delivery of two months notice. Purchases from this supplier for the three months ended March 31, 2011 were approximately $5.7 million. Purchases from this supplier for the three months ended March 31, 2010 were approximately $5.3 million.

Income Taxes. We record a tax provision for the anticipated tax consequences of our reported results of operations. In accordance with GAAP, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which those tax assets and liabilities are expected to be realized or settled. In the event that we determine all or part of the net deferred tax assets are not realizable in the future, we will record a valuation allowance that would be charged to earnings in the period such determination is made.

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

Total comprehensive income (loss). Total comprehensive income (loss) was the same as net income for the three months ended March 31, 2011 and 2010.

Segment Information. We manage our business on the basis of one reportable segment. Our products and technologies share similar distribution channels and customers and are sold primarily to hospitals and healthcare facilities to improve patient safety and care and enhance operational

efficiency. Our single operating segment is medication and supply dispensing systems. Substantially all of our long-lived assets are located in the United States. For the three months ended March 31, 2011 and 2010, our revenues and gross profits were generated entirely from medication and supply dispensing systems.

Recently Issued Accounting Pronouncements.

In October 2009, the FASB issued Accounting Standards Updates 2009-13 and 2009-14, which amended ASC 605, Revenue Recognition, and ASC 985, Software, respectively. Both these updates were adopted by us, prospectively, for the fiscal year beginning January 1, 2011, as described in the revenue recognition policy above.

In July 2010, the FASB issued Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses as ASU 2010-20, amending ASC 310, Receivables. ASU 2010-20 requires certain disclosures about the credit quality of financing receivables and the related allowance for credit losses. In addition, disclosures are required related to the nature of credit risk inherent in the portfolio of financing receivables, how the credit risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The period end disclosures were effective for us for December 31, 2010, and the period-activity disclosures were effective beginning with the first quarter of 2011. As ASU 2010-20 is a disclosure standard, the adoption of this standard did not have any impact on our operating results, financial position or cash flows.

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Note 2. Acquisition

On September 29, 2010, we completed the acquisition of all of the outstanding capital stock of Pandora, a provider of analytical software for medication diversion detection and regulatory compliance, for $6.0 million in cash. Pandora solutions are installed in over 700 acute care hospitals in the United States and interface with all major medication management systems in the market.

In connection with the acquisition, we recorded $3.6 million of goodwill, equal to the excess of the purchase price over the fair values of the net tangible and intangible assets acquired, which is tax-deductible over a fifteen-year period. The following table summarizes the fair value acquisition accounting for Pandora on the September 29, 2010 purchase date (in thousands):

		Fair Values Acquired
Cash	$	297
Accounts receivable		416
Indemnification asset (see Note 18)		1,000
Intangibles		2,420
Goodwill		3,561
Deferred tax asset		108
Total assets		7,802
Accrued compensation/other		292
Deferred service revenue		510
Litigation contingency (see Note 18)		1,000
Total liabilities		1,802
Net assets acquired	$	6,000
Cash consideration	$	6,000

The $0.4 million fair value of accounts receivable consists of gross contractual commitments from customers less the amount not expected to be collected. The $0.5 million of deferred service revenue represents the fair value, using estimated discounted cash flows, of acquired remaining performance obligations under service contracts.

Additionally, an acquired legal contingency related to a contractual dispute between Pandora and a third party resulted in a liability accrual of $1.0 million, measured under ASC 450 Contingencies guidance. An indemnification asset of $1.0 million was also recorded, since the former shareholders of Pandora had agreed to indemnify Omnicell against losses related to the litigation and a portion of the purchase price was placed in escrow to secure the indemnification obligations of the former Pandora shareholders.

This lawsuit was settled February 17, 2011 for $1.2 million, the settlement amount of which was paid entirely from the selling shareholders escrow account. As this is considered a new development, rather than evidence of conditions existing at the September 29, 2010 acquisition date, the disclosure of this dispute in the original purchase price allocation was not adjusted. However, as a recognized subsequent event, on our balance sheet as of December 31, 2010 we recorded the updated $1.2 million values for the acquired legal contingency and the indemnification

asset. Furthermore, during the three months ended March 31, 2011, the $1.2 million asset and $1.2 million liability were reversed after settlement from the sellers escrow account. There was no impact on net income for either 2010 or 2011.

The fair values and useful lives for the identified intangible assets in the table below were determined by management, with assistance of valuation specialists. No residual values were assumed for the acquired intangible assets.

	Fair Value (in thousands)	Useful Life (years)
Trade name	$ 90	3
Customer relationships	1,290	16
Non-compete agreements	60	3
Acquired technology	980	7
Finite-lived intangibles acquired	$ 2,420	
Weighted average life of intangibles		11.5

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Operating results of Pandora have been combined with our operating results from the date of acquisition. Pro forma combined operating results for Omnicell and Pandora for the years ended December 31, 2010 and 2009 have been omitted since the results of operations of Pandora were not material.

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, potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. Since their impact is anti-dilutive, the total number of shares excluded from the calculations of diluted net income (loss) per share for the three months ended March 31, 2011 and 2010 were 2,033,842 and 1,847,913, respectively.

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

	Three Months Ended March 31,	
	2011	**2010**
Basic:		
Net income	$ 670	$ 979
Weighted average shares outstanding basic	33,184	32,207
Net income per share basic	$ 0.02	$ 0.03
Diluted:		
Net income	$ 670	$ 979
Weighted average shares outstanding basic	33,184	32,207
Add: Dilutive effect of employee stock plans	914	946
Weighted average shares outstanding - diluted	34,098	33,153
Net income per share diluted	$ 0.02	$ 0.03

Note 4. Cash and Cash Equivalents, Short-term Investments and Fair Value of Financial Instruments

Cash and cash equivalents and short-term investments consist of the following significant investment asset classes, with disclosure of amortized cost, gross unrealized gains and losses, and fair value as of March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011						
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Cash / cash equivalents**	**Short-term investments**	**Security classification (1)**
Cash	$ 11,070			$ 11,070	$ 11,070		N/A
Money market funds	162,599			162,599	162,599		Available for sale

Non-U.S. government securities	8,109	$ 23	8,132		$ 8,109	Held-to-maturity
Total cash, cash equivalents and short-term investments	$ 181,788	$ 23	$ 181,811	$ 173,669	$ 8,109	

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	December 31, 2010						
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash / cash equivalents	Short-term investments	Security classification (1)
Cash	$ 25,593			$ 25,593	$ 25,593		N/A
Money market funds	150,042			150,042	150,042		Available for sale
Non-U.S. government securities	8,074	$ 12		8,086		$ 8,074	Held-to-maturity
Total cash, cash equivalents and short-term investments	$ 183,709	$ 12		$ 183,721	$ 175,635	$ 8,074	

(1) For available-for-sale securities, fair value is the asset s carrying value, equal to the amortized cost plus any unrealized gains/losses. For held-to-maturity securities, the amortized cost is the asset s carrying value (since there are no other than temporary impairments) and the fair value gains/losses are not only unrealized, but also unrecorded.

The money market fund is a daily-traded cash equivalent with price of $1.00, making it a Level 1 asset class; its carrying cost closely approximates fair value. As the demand deposit (cash) balances vary with the timing of collections and payments, the money market fund can cover any surplus or deficit, and thus is considered available-for-sale.

The short term investments purchased in November 2010 are comprised of California revenue anticipation notes, which mature in June 2011. They are recorded at their carrying cost as held-to-maturity as we have both the ability and intent to keep these investments until they mature. The notes are a Level 2 asset class, because their pricing is drawn from multiple market-related inputs, but in general not from same-day, same-security trades.

The following table displays the financial assets measured at fair value, on a recurring basis, recorded within cash and cash equivalents (in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
At March 31, 2011				
Money market funds	$ 162,599			$ 162,599
Total	$ 162,599			$ 162,599
At December 31, 2010				
Money market funds	$ 150,042			$ 150,042
Total	$ 150,042			$ 150,042

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

The following table displays the financial assets measured at carrying cost, recorded in Short-term investments, for which disclosure of fair value is required on a recurring basis (in thousands):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
At March 31, 2011				
Non-U.S. Government securities	$	8,132	$	8,132
Total	$	8,132	$	8,132
At December 31, 2010				
Non-U.S. Government securities	$	8,086	$	8,086
Total	$	8,086	$	8,086

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Note 5. Inventories

Inventories consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Raw materials	$ 8,005	$ 4,252
Work in process	184	153
Finished goods	7,210	5,380
Total	$ 15,399	$ 9,785

Note 6. Property and Equipment

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

	March 31, 2011	December 31, 2010
Equipment	$ 21,125	$ 20,045
Furniture and fixtures	1,800	1,681
Leasehold improvements	3,659	3,182
Purchased software	18,580	18,095
Capital in process	2,050	1,689
	47,214	44,692
Accumulated depreciation and amortization	(31,871)	(30,341)
Property and equipment, net	$ 15,343	$ 14,351

Depreciation and amortization of property and equipment was approximately $1.4 million for both the three months ended March 31, 2011 and 2010.

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):

	March 31, 2011	December 31, 2010
Net minimum lease payments to be received	$ 16,244	$ 16,284

Less unearned interest income portion		1,841		1,843
Net investment in sales-type leases		14,403		14,441
Less current portion(1)		5,152		5,217
Non-current net investment in sales-type leases(2)	$	9,251	$	9,224

The minimum lease payments under sales-type leases as of March 31, 2011 are as follows (in thousands):

2011 (remaining nine months)	$	4,801
2012		5,029
2013		3,140
2014		2,044
2015		1,080
Thereafter		150
Total	$	16,244

(1) A component of other current assets. This amount is net of allowance for doubtful accounts of $0.2 million as of March 31, 2011 and $0.1 million as of December 31, 2010.

(2) Net of allowance for doubtful accounts of $0.2 million as of March 31, 2011 and $0.3 million as of December 31, 2010.

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The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest, as of March 31, 2010 and December 31, 2010 (in thousands):

	Allowance for credit losses	Recorded investment in sales-type leases- Gross	Recorded investment in sales-type leases - Net
Credit loss disclosure for March 31, 2011:			
Accounts individually evaluated for impairment	$ 256	$ 256	$
Accounts collectively evaluated for impairment	124	14,527	14,403
Ending balances: March 31, 2011	$ 380	$ 14,783	$ 14,403
Credit loss disclosure for December 31, 2010:			
Accounts individually evaluated for impairment	$ 283	$ 283	$
Accounts collectively evaluated for impairment	128	14,569	14,441
Ending balances: December 31, 2010	$ 411	$ 14,852	$ 14,441

The following table summarizes the activity for the allowance for credit losses account for the investment in sales-type leases for the three months ended March 31, 2011 (in thousands):

	Three Months Ended March 31, 2011
Allowance for credit losses at December 31, 2010	$ 411
Current period recovery	(4)
Direct write-downs charged against the allowance	
Recoveries of amounts previously charged off	(27)
Allowance for credit losses at March 31, 2011	$ 380

Note 8. Goodwill and Other Intangible Assets

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

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

	March 31, 2011			December 31, 2010			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Finite-lived intangibles:							
Customer relationships	$ 4,230	$ 1,254	$ 2,976	$ 4,230	$ 1,142	$ 3,088	5-16 years
Acquired technology	5,660	4,750	910	5,660	4,715	945	3-7 years
Patents	678	156	522	654	152	502	20 years
Non-compete agreements	780	730	50	780	725	55	3 years

Trade name	90	15	75	90	8	82	3 years
Total finite-lived intangibles	11,438	6,905	4,533	11,414	6,742	4,672	
Goodwill	28,543		28,543	28,543		28,543	Indefinite
Net other intangibles and goodwill	$ 39,981	$ 6,905	$ 33,076	$ 39,957	$ 6,742	$ 33,215	

Amortization expense totaled $0.2 million and $0.6 million for the three months ended March 31, 2011 and 2010, respectively. Estimated annual expected amortization expense of the finite-lived intangible assets at March 31, 2011 is as follows (in thousands):

2011 (remaining nine months)	$ 490
2012	653
2013	641
2014	601
2015	578
Thereafter	1,570
Total	$ 4,533

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Note 9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Accrued Group Purchasing Organization (GPO) fees	$ 2,137	$ 2,272
Advance payments from customers	1,836	1,978
Rebates and lease buyouts	1,318	1,923
Litigation settlement	1,000	
Pre-acquisition contingency		1,200
Other	2,443	1,311
Total	$ 8,734	$ 8,684

Note 10. Deferred Gross Profit

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

	March 31, 2011	December 31, 2010
Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed	$ 18,478	$ 18,739
Cost of revenues, excluding installation costs	(7,469)	(7,020)
Deferred gross profit	$ 11,009	$ 11,719

Note 11. Commitments

The minimum payments under our operating leases for each of the five succeeding fiscal years are as follows (in thousands):

2011 (remaining nine months)	$ 2,959
2012	1,832
2013	545
2014	351
2015	178
Total	$ 5,865

Commitments under operating leases relate primarily to leasehold property and office equipment. For the remaining nine months of 2011, we have $0.3 million of non-cancellable sublease income

We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. Our near-term commitments to our contract manufacturers and suppliers totaled $5.8 million as of March 31, 2011.

Note 12. Contingencies

Legal Proceedings

Medacist Solutions Group, LLC. On July 8, 2009, Medacist Solutions Group LLC filed a complaint against Omnicell in U.S. District Court in the Southern District of New York, entitled Medacist Solutions Group LLC v. Omnicell, Inc., case number 09 CV 6128, alleging infringement of Medacist s U.S. Patent Number 6,842,736. The complaint also, among other claims, alleges that

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Omnicell breached the terms of a nondisclosure agreement it had entered into with Medacist, and that Omnicell misappropriated Medacist s trade secrets and confidential information in violation of the NDA. Medacist is seeking unspecified monetary damages and an injunction against the Company s infringement of the specified patent and/or misuse of any of Medacist s trade secrets pursuant to the NDA or in violation of California code. Omnicell has responded to the complaint, denies the claims, and intends to defend the matter vigorously.

On October 20, 2010, the Company filed a declaratory judgment complaint against Medacist Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacist Solutions Group, LLC, Case Number 10-cv-4746 (the California Action). Pandora Data Systems, Inc. had entered into a Settlement and License Agreement with Medacist in October 2008 (the Settlement Agreement) pursuant to which, among other things, Medacist granted to Pandora a non-exclusive license to Medacist s U.S. Patent Number 6,842,736. The Company seeks an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., is entitled to certain rights and benefits under the license. On November 12, 2010, Medacist filed a motion to dismiss the California Action, or in the alternative, to transfer venue to the U.S. District Court for the District of Connecticut. On February 10, 2011, the Court granted Medacist s motion and dismissed the California Action without prejudice. On February 14, 2011, Omnicell and Pandora filed a notice of appeal regarding dismissal of the California Action with the U.S. Court of Appeals for the Ninth Circuit (the California Appeal). The California Appeal is now pending. Also on November 12, 2010, Medacist filed a motion in the U.S. District Court in the District of Connecticut to reopen a litigation entitled Medacist Solutions Group, LLC v. Pandora Data Systems, Inc., Case Number 3:07-CV-00692(JCH) (the Connecticut Litigation), which had been dismissed and administratively closed since October 29, 2008. Medacist seeks, among other things, relief from the Stipulation of Dismissal entered on October 29, 2008 dismissing the Connecticut Litigation for the limited purpose of interpreting and enforcing the Settlement Agreement, the entry of a temporary restraining order and preliminary and permanent injunctions prohibiting breaches of the Settlement Agreement, a finding that Pandora breached the Settlement Agreement and an award of monetary damages resulting from Pandora s alleged breaches. On December 3, 2010, the Company and Pandora filed a response to this motion. At this time, the Connecticut Litigation remains closed, and no hearings have been scheduled on Medacist s motion.

As of March 31, 2011, we reached a tentative settlement agreement with Medacist, pursuant to which we agreed to pay Medacist $1.0 million in exchange for a fully-paid, perpetual license to Medacist s patented technology and the parties agreed to dismiss all pending lawsuits and fully release each other from all claims. In addition, we agreed that a license transfer fee payment of $0.5 million would be made to Medacist in the event certain change-in-control conditions are met. While the tentative agreement substantiates that the contingent loss is both probable and estimable for accrual in the first quarter of 2011, the final settlement would be effective only after all terms are negotiated and executed in formal documents, which has yet to occur. The $1.0 million contingent loss for this settlement was recorded within selling, general and administrative expenses during the three months ended March 31, 2011.

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

Note 13. Stockholders Equity

Treasury Stock

During 2008, our Board of Directors authorized stock repurchase programs for the repurchase of up to $90.0 million of our common stock. All repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired. The timing, price and volume of the repurchases have been based on market conditions, relevant securities laws and other factors. The stock repurchase program does not obligate us to repurchase any specific number of shares, and we may terminate or suspend the repurchase program at any time. From the inception of the program in February 2008 through March 31, 2011, we repurchased a total of 4,407,396 shares at an average cost of $15.84 per share through open market purchases.

During the three months ended March 31, 2011 we repurchased 341,100 shares through the 2008 stock repurchase program but repurchased none in the three months ended March 31, 2010. As of March 31, 2011 we had $20.2 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs.

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Note 14. Stock Option Plans and Share-Based Compensation

Stock Option Plans

At March 31, 2011, a total of 3,007,477 shares of common stock was reserved for future issuance under our 2009 Equity Incentive Plan (the 2009 Plan). At March 31, 2011, $7.6 million of total unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted average period of 2.7 years.

A summary of aggregate option activity for the three months ended March 31, 2011 is presented below:

Options:	Number of Shares (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2010	4,740	$ 12.86
Granted	199	$ 14.10
Exercised	(117)	$ 7.42
Forfeited	(21)	$ 13.05
Expired	(6)	$ 21.00
Outstanding at March 31, 2011	4,795	$ 13.04
Exercisable at March 31, 2011	3,558	$ 13.16

Restricted Stock, and Time-based Restricted Stock Units

The non-employee members of our Board of Directors are granted restricted stock on the day of our annual meeting of stockholders and such shares of restricted stock vest on the date of the subsequent year s annual meeting of stockholders, provided such non-employee director remains a director on such date. Restricted stock units (RSUs) are granted to certain of our employees and generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. The fair value of both restricted stock and RSUs granted pursuant to our stock option plans is the product of the number of shares granted and the grant date fair value of our common stock. Our unrecognized compensation cost related to non-vested restricted stock at March 31, 2011 was approximately $0.1 million and is expected to be recognized over a weighted average period of 0.2 years. Expected future compensation expense relating to RSUs outstanding on March 31, 2011 is $4.3 million over a weighted-average period of 2.7 years.

A summary of activity of both restricted stock and RSUs for the three months ended March 31, 2011 is presented below:

	Restricted Stock		Restricted Stock Units	
		Weighted - Average		Weighted - Average

	Number of Shares (in thousands)	Grant Date Fair Value Per Share	Number of Shares (in thousands)	Grant Date Fair Value Per Share
Non-vested, December 31, 2010	77	$ 12.91	308	$ 12.98
Granted			56	$ 14.08
Vested			(15)	$ 16.37
Forfeited			(2)	$ 12.19
Non-vested, March 31, 2011	77	$ 12.91	347	$ 13.02

Performance-based Restricted Stock Units

Additionally, beginning in 2011 we are incorporating performance-based restricted stock units (PSUs) as an element of our executive compensation plans. For the executive officers, the 2011 grants totaled 100,000 stock options, 50,000 time-based RSUs and 100,000 PSUs. Our unrecognized compensation cost related to non-vested performance-based restricted stock units at March 31, 2011 was approximately $0.9 million and is expected to be recognized over a weighted average period of 2.0 years.

Vesting for the performance-based restricted stock unit awards is based on the percentile placement of our total shareholder return among the companies listed in the NASDAQ Healthcare Index (the Index) and time-based vesting. We calculate total shareholder return based on the one year annualized rates of return reflecting price appreciation plus reinvestment of dividends. The stock price appreciation is calculated based on the average closing prices of the applicable company s common stock for the 20 trading days ending on the last trading day of the year prior to the date of grant as compared to the average closing prices for the 20 trading days ended on the last trading day of the year of grant. The following table shows the percent of performance-based restricted stock unit awards eligible for further time-based vesting based on our percentile placement:

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Percentile Placement of Our Total Shareholder Return	% of Performance-Based RSUs Eligible for Time-Based Vesting
Below the 35th percentile	0%
At least the 35th percentile, but below the 50th percentile	50%
At least the 50th percentile, but below the 65th percentile	100%
At least the 65th percentile, but below the 75th percentile	110% to 119%(1)
At or above the 75th percentile	120%

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

After the last trading day of 2011, the Compensation Committee of our Board of Directors will determine the percentile rank of the company s total shareholder return and the number of performance-based restricted stock unit awards eligible for further time-based vesting. The eligible performance-based restricted stock unit awards will vest as follows: 25% of the eligible awards will vest immediately with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year period. Vesting is contingent upon continued service. Depending on our market-based performance, the 100,000 PSUs awarded in 2011 could result in actual shares released of none, 50,000, 100,000 or linear interpolation between 110,000 and 120,000 shares, with 120,000 shares as the maximum result for market performance at or above the 75th percentile in the industry.

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

A summary of activity of the PSUs for the three months ended March 31, 2011 is presented below:

Performance Stock Units	Number of Shares (in thousands)	Weighted - Average Grant Date Fair Value Per Share
Non-vested, December 31, 2010		
Granted	100	$ 11.15
Vested		
Forfeited		
Non-vested, March 31, 2011	100	$ 11.15

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (ESPP), under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of $25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of March 31, 2011, 3,238,233 shares had been issued under the ESPP. As of March 31, 2011, there were a total of 2,093,322 shares reserved for future issuance under the ESPP. During the three months ended March 31, 2011, 279,203 shares of common stock were purchased under the ESPP.

Share-based Compensation

We account for share-based awards granted to employees and directors including employee stock option awards, restricted stock and RSUs issued pursuant to the 2009 Plan and employee stock purchases made under our ESPP using the estimated grant date fair value method of accounting in accordance with ASC 718, Stock Compensation.

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The impact on our results for share-based compensation for the three months ended March 31, 2011 and 2010 was as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Cost of product and service revenues	$ 367	$ 321
Research and development expenses	327	244
Selling, general and administrative expenses	1,698	1,591
Total share-based compensation expenses	$ 2,392	$ 2,156

We value options and ESPP shares using the Black-Scholes-Merton option-pricing model. Restricted stock and time-based RSUs are valued at the grant date fair value of the underlying common shares. The PSUs are valued via Monte Carlo simulation, as described above.

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

Forward-Looking Statements

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

- the extent and timing of future revenues, including the amounts of our current backlog, which represent firm orders that have not completed installation and therefore have not been recognized as revenue;

- the size and/or growth of our market or market-share;

- the opportunity presented by new products or emerging markets;

- our expectations regarding our future backlog levels;

- the operating margins or earnings per share goals we may set;

- our ability to align our cost structure and headcount with our current business expectations;

- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;

- our ability to conduct acquisitions for strategic value, and successfully integrate each one into our operations; and

- our ability to generate cash from operations and our estimates regarding the sufficiency of our cash resources.

In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, ma potential, predicts, will, would and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions, and are subject to risks and uncertainties. We discuss many of these risks in this Quarterly Report on Form 10-Q in greater detail in Part II Section 1A. Risk Factors below. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should also read our Annual Report on Form 10-K and the documents that we reference in the Annual Report on Form 10-K and have filed as exhibits, completely and with the understanding that our actual future results may be materially different from what we expect. All references in this report to Omnicell, Inc., Omnicell, our, us, we or the Company collective to Omnicell, Inc., a Delaware corporation, and its subsidiaries.

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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 automated solutions for hospital medication and supply management. Our healthcare automation solutions are designed to enable healthcare facilities to acquire, manage, dispense and administer medications and medical-surgical supplies, and are intended to enhance patient safety, reduce medication errors, improve workflow and increase operational efficiency. When used in combination, our products and services provide healthcare facilities with a comprehensive solution designed to enhance patient safety and improve operational efficiency. Approximately 2,300 hospitals utilize one or more of our products, of which more than 1,600 hospitals in the United States have installed our automated hardware/software solutions for controlling, dispensing, acquiring, verifying and tracking medications and medical and surgical supplies.

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

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

Operating Environment During the Three Months Ended March 31, 2011

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

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

- We have delivered industry-leading products with differentiated product features that are designed to appeal to nurses and pharmacists such as our recently announced G4 platform, the Savvy Mobile Medication System, SinglePointe , Tissue Center System, and Anywhere RN ; and

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

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

During the first quarter of 2011, we achieved similar performance in total revenues and net income compared to the fourth quarter of 2010. Product revenue decreased modestly, by $1.0 million, while service revenue increased slightly, by $0.9 million. Overall gross margins improved by 0.6% to 55.4% with product gross margins improving to 58.1% on revenue of $42.6 million as compared with 57.2% on revenue of $43.5 million in the prior quarter. The service gross margins were stable, with 47.4% on revenue

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of $14.6 million as compared with 47.1% margins on $13.7 million in revenue in the prior quarter. The product gross margin increase was driven primarily by product mix and reduction in intangible amortization.

We believe that our gross margins will continue to fluctuate based on the mix of products installed and changes in service and installation headcount compared to our revenue level.

Cash decreased during the quarter by $2.0 million due to $4.5 million of stock repurchases during the three months ended March 31, 2011, which more than offset the $2.9 million of net cash provided by operating activities.

The humanitarian and environmental tragedy unfolding in Japan due to catastrophic earthquakes and tsunamis in March 2011 also has broadly-felt and long-term economic impacts. However, our overall assessment of our business risks and uncertainties has not appreciably changed. We have no significant investment or customer base in Japan. Our principal Japan-based supplier has advised us there will be no material disruptions in our scheduled deliveries. Please refer to Item 1A risk factors for further discussion regarding catastrophic events.

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

During the three months ended March 31, 2011, there were no significant changes in our critical accounting policies and estimates, except for the initial adoption of revised revenue recognition guidance for multiple element deliverables, as described below.

Revenue recognition. We earn revenues from sales of our medication and supply dispensing systems, with related services, which are sold in our principal market, which is the healthcare industry. Our market is primarily located in the United States. Our customer arrangements typically include one or more of the following deliverables:

- **Products** Software enabled equipment that manages and regulates the storage and dispensing of pharmaceuticals and other medical supplies.

- **Software** Additional software applications that enable incremental functionality of our equipment.

- **Installation** Installation of equipment as integrated systems at customers sites.

- **Post-installation technical support** Phone support, on-site service, parts and access to unspecified software upgrades and enhancements, if and when available.

- **Professional services** Other customer services such as training and consulting.

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

- **Persuasive evidence of an arrangement.** We use signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, we use a signed services agreement and a statement of work to evidence an arrangement.

- **Delivery has occurred.** Equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter providing evidence that we have delivered what the customer ordered. In instances of a customer self-installed installation, product delivery is deemed to have occurred

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upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on delivery of products to the customer, including transfer of title and risk of loss. We recognize revenue from sales of products to distributors upon delivery since we do not allow for rights of return or refund.

We recognize revenue for support services ratably over the related support services contract period. We recognize revenue on training and professional services as they are performed.

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

- **Collection is probable.** We assess the probability of collecting from each customer at the outset of the arrangement based on a number of factors, including the customer s payment history and its current creditworthiness. If, in our judgment, collection of a fee is not probable, we defer the revenue until the uncertainty is removed, which generally means revenue is recognized upon our receipt of cash payment. Our historical experience has been that collection from our customers is generally probable.

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

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

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

incremental equipment functionality and thus are not deemed to deliver its essential functionality, and the related post-installation technical support, as these products and services continue to be accounted for under software revenue recognition rules.

The adoption of the new revenue recognition guidance did not result in changes in what we identify as the individual deliverables to which revenue is allocated, or the timing of revenue recognition related to these individual deliverables. The change in the allocation method from residual to relative selling price did not have a material impact on our financial statements during the three months ended March 31, 2011. In addition, there is a time lag between when we receive a signed customer purchase order or contract and when we install the products, sometimes as long as one year or more, primarily due to the installation cycles and timing preferences of our customers. In the future periods, we anticipate the cumulative impact of the adoption may increase, as additional arrangements become subject to the new revenue recognition guidance. However, the specific adjustments for any future quarter are not predictable, as they depend on the timing of our backlog shipments and installations and the nature of the orders we receive from new customers.

A portion of our sales are made through multi-year lease agreements. We recognize product related revenue under sales-type leases, net of lease execution costs such as post-installation product maintenance and technical support, at the net present value of the lease payment stream once our installation obligations have been met. We optimize cash flows by selling a majority of our non-U.S.

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government leases to third-party leasing finance companies on a non-recourse basis. We have no obligation to the leasing company once the lease has been sold. Some of our sales-type leases, mostly those relating to U.S. government hospitals, are retained in-house. Interest income in these leases is recognized in product revenue using the interest method.

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, 2010 for a more complete discussion of our critical accounting policies and estimates.

Material Weakness in Internal Control Over Financial Reporting

Based on our management evaluation of disclosure controls and procedures as of March 31, 2011, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures as of March 31, 2011 were not effective at the reasonable assurance level. Since our remediation efforts are not yet completed, we remain subject to the material weakness described below and identified by the similar evaluation conducted at December 31, 2010 and set forth in our Annual Report on Form 10-K for the year ended December 31, 2010.

As of December 31, 2010, our management had concluded that our internal control over financial reporting was not effective in providing reasonable assurance that a material misstatement of our interim or annual financial statements would be prevented or detected on a timely basis. That 2010 evaluation concluded that we have a material weakness related to accounting for income taxes. Specifically, our processes, procedures and controls related to the preparation and review of the annual tax provision were not effective to ensure that amounts recorded for the tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. generally accepted accounting principles. Additionally, we did not maintain effective controls over the review and analysis of supporting work papers for such tax balances.

Our management has committed to the following corrective actions for the current fiscal year:

- Re-assessing the relationship with our third party consultant to ensure that there is an adequate level of review of the tax provision performed by the consultant and an appropriate level of oversight and validation by our management;

- Ensuring the internal review processes are carefully executed and monitored to properly account for changes to the underlying supporting documentation; and

- Implementing and utilizing income tax software to ensure a comprehensive reconciliation of all balance sheet tax accounts to our financial reporting system.

During the three months ended March 31, 2011, we took the following remediation steps:

- We signed an engagement letter with our third party tax consultant enhancing the tax provision review process. These enhancements have included the tax consultant s detailed review of the income tax provision, regular discussions with our management, and consultation, as necessary with our independent registered public accounting form.

- We commenced a search for a Senior Tax Manager.

- We continue the implementation of certain tax software packages.

Notwithstanding the above-mentioned material weakness, we believe that the consolidated financial statements included in this report fairly represent our consolidated financial position as of March 31, 2011, and consolidated results of operations and cash flows for the three months ended March 31, 2011 and 2010.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Updates 2009-13 and 2009-14 which amended ASC 605, Revenue Recognition, and ASC 985, Software, respectively. Both these updates were adopted by us, prospectively, for the fiscal year beginning January 1, 2011, as described in the revenue recognition policy above.

In July 2010, the FASB issued Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses as ASU 2010-20, amending ASC 310, Receivables. ASU 2010-20 requires certain disclosures about the credit quality of financing receivables and the related allowance for credit losses. In addition, disclosures are required related to the nature of credit risk inherent in the portfolio of financing receivables, how the credit risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The period end disclosures were effective for us for December 31, 2010, and the period-activity disclosures were effective beginning with the first quarter of 2011. As ASU 2010-20 is a disclosure standard, the adoption of this standard did not have any impact on our operating results, financial position or cash flows.

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Results of Operations

The table below shows the components of our results of operations as percentages of total revenues for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,			
	2011	% of Revenue	2010	% of Revenue
	(in thousands, except for percentages)			
Revenues:				
Product revenues	$ 42,575	74.5%	$ 42,295	78.1%
Services and other revenues	14,585	25.5%	11,865	21.9%
Total revenues	57,160	100.0%	54,160	100.0%
Cost of revenues:				
Cost of product revenues	17,836	31.2%	19,265	35.6%
Cost of services and other revenues	7,674	13.4%	7,309	13.5%
Total cost of revenues	25,510	44.6%	26,574	49.1%
Gross profit	31,650	55.4%	27,586	50.9%
Operating expenses:				
Research and development	4,840	8.5%	4,565	8.4%
Selling, general and administrative	25,781	45.1%	21,512	39.7%
Total operating expenses	30,621	53.6%	26,077	48.1%
Income from operations	1,029	1.8%	1,509	2.8%
Interest and other income, net	54	0.1%	74	0.1%
Income before provision for income taxes	1,083	1.9%	1,583	2.9%
Provision for income taxes	413	0.7%	604	1.1%
Net income	$ 670	1.2%	$ 979	1.8%

Product Revenues, Cost of Product Revenues and Gross Profit

The table below shows our product revenues, cost of product revenues and gross profit for the three months ended March 31, 2011 and 2010 and the percentage change between those quarters:

	Three Months Ended March 31,		
	2011	2010	% Change
	(in thousands, except for percentages)		
Product revenues	$ 42,575	$ 42,295	0.7%
Cost of product revenues	17,836	19,265	(7.4)%
Gross profit	$ 24,739	$ 23,030	7.4%

The timing of our product revenues is primarily dependent on when our customers schedules allow for installation. Product revenues increased modestly by $0.3 million or 0.7% in the three months ended March 31, 2011 as compared to the same period in 2010.

Cost of product revenues decreased by $1.4 million, or 7.4% in the three months ended March 31, 2011 as compared to the same period in 2010. The decrease was primarily due to lower material costs from our cost reduction efforts and to favorable product mix.

Gross profit on product revenue increased by $1.7 million, or 7.4% in the three months ended March 31, 2011 as compared to the same period in 2010. This increase was primarily a result of the aforementioned decreases in product cost, as revenue growth provided only $0.3 million of the improved margins.

We expect total revenues to increase between 8% to 10% in 2011, but we do not foresee any significant changes in the percentage of total revenues represented by product revenue or our gross margin beyond normal fluctuations caused by changes in product mix.

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

The table below shows our service and other revenues, cost of service and other revenues and gross profit for the three months ended March 31, 2011 and 2010 and the percentage change between those quarters:

	Three Months Ended March 31,		
	2011	2010	% Change
	(in thousands, except for percentages)		
Service and other revenues	$ 14,585	$ 11,865	22.9%
Cost of service and other revenues	7,674	7,309	5.0%
Gross profit	$ 6,911	$ 4,556	51.7%

Service and other revenues include revenues from service and maintenance contracts, rentals of automation systems, training and professional services. Service and other revenues increased by $2.7 million, or 22.9% in the three months ended March 31, 2011 as compared to the same period in 2010. The increase in service and other revenues was primarily the result of an expansion in our installed base of automation systems and a resulting increase in the number of support service contracts. Additional factors affecting the current quarter include higher professional service revenues, growth in analytical services and support, and higher month-to-month rentals.

Cost of service and other revenues increased by $0.4 million, or 5.0% in the three months ended March 31, 2011 as compared to the same period in 2010. The increase was primarily due to an increase in field service costs in support of the expanded service base.

Gross profit on service and other revenues increased by $2.4 million, or 51.7% in the three months ended March 31, 2011 as compared to the same period in 2010. The increase in gross profit on service and other revenues was due to increased revenues from an expanded installed base without a significant and proportional growth in service cost. We expect our gross profit on service and other revenues to remain consistent in 2011.

Operating Expenses

	Three Months Ended March 31,		
	2011	2010	% Change
	(in thousands, except for percentages)		
Research and development	$ 4,840	$ 4,565	6.0%
Selling, general and administrative	25,781	21,512	19.8%
Total operating expenses	$ 30,621	$ 26,077	17.4%

Research and Development. Research and development expenses increased by $0.3 million, or 6.0% in the three months ended March 31, 2011 as compared to the same period in 2010. The increase was due primarily to a $0.9 million increase in compensation costs related to increased staffing, $0.4 million increased facilities offset by the $0.9 million higher amount of expenses capitalized for software development. This increased from $0.9 million for the first quarter 2010 to $1.8 million for the first quarter 2011, due to the higher level of beta testing for new product features in the current period. Research and development expenses represented 8.5% and 8.4% of total revenues in the three months

ended March 31, 2011 and 2010, respectively.

We expect gross research and development expenses to increase slightly as a percentage of our revenue and grow in absolute dollars in the future as our revenue grows to improve and enhance our existing technologies and to create new technologies in health care automation. However, the net research and development costs expensed to operations in any period may vary based on the extent of software development eligible for capitalization.

Selling, General and Administrative. Selling, general and administrative expenses increased by $4.3 million or 19.8% in the three months ended March 31, 2011 compared to the same period in 2010. Selling, general and administrative expenses represented 45.1% and 39.7% of total revenues in the three months ended March 31, 2011 and 2010, respectively. Selling, general and administrative expenses for the quarter ended March 31, 2011 as compared with the comparable period in the prior year included increased salary and benefits of $2.7 million, primarily related to expanded direct sales force hired in late 2010, and a litigation settlement accrual of $1.0 million with related legal fees of $0.5 million.

We expect selling, general and administrative expenses to stabilize in absolute dollars, excluding the one-time litigation settlement and related legal costs.

Share-based Compensation

The impact of share-based compensation on our operating results for the three months ended March 31, 2011 is discussed in Note 14, Stock Option Plans and Share-Based Compensation

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Provision for Income Taxes

We provide for income taxes for each interim period based on the estimated annual effective tax rate for the year, adjusting for discrete items in the quarter in which they arise. The annualized effective tax rates before discrete items were 42% and 51% for the three months ended March 31, 2011 and 2010, respectively. The 2011 annualized effective tax rate differed from the statutory rate of 35% primarily due to the impact of state income taxes, non-deductible equity charges under ASC 740-718, and the federal research credit. The 2010 annualized effective tax rate differed from the statutory rate of 35% primarily due to the impact of state income taxes and non-deductible equity charges under ASC 740-718. Our effective tax rate for the three-month periods ended March 31, 2011 and 2010 was approximately 38% for both periods. Net discrete income tax benefits for the three months ended March 31, 2011 and 2010 consisted primarily of stock compensation disqualifying dispositions.

Liquidity and Capital Resources

We had cash and cash equivalents, plus short-term investments, of $181.8 million at March 31, 2011, as compared to $183.7 million at December 31, 2010. All of our cash is in low risk short term money market funds or demand deposits, plus we have $8.1 million short term investments held as California revenue anticipation notes. We have no long term investments. We believe our current cash and cash equivalent balances and cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next twelve months.

Cash flows for the three months ended March 31, 2011 and 2010 consisted of the following (in thousands):

	Three Months Ended March 31,	
	2011	2010
Net cash provided by operating activities	$ 3,115	$ 8.816
Net cash used in investing activities	(4,271)	(2,756)
Net cash (used in) provided by financing activities	(810)	5,321
Net (decrease) increase in cash and cash equivalents	$ (1,966)	$ 11,381

Operating activities provided $3.1 million of cash during the three months ended March 31, 2011, compared to $8.8 million for the three months ended March 31, 2010. The two primary drivers for the $5.7 million reduction in cash generated from operations in these two quarters were the $5.9 million dollar difference in the change in inventory, in anticipation of several product introductions in May 2011, and a $2.9 million decrease in cash flow from the change in deferred gross profit. This decrease was partially offset in the current quarter by a $2.2 million cash flow increase from collections of accounts receivable and the non-cash effect of the $1.0 million litigation settlement.

We used $4.3 million of cash for investing activities during the three months ended March 31, 2011, an increase of $1.5 million over the cash used for investing activities during the three months ended March 31, 2010, primarily due to a $0.9 million increase in spending in the current quarter for beta testing of several new software applications for external use, and a $0.5 million increase in spending on property and equipment and internal patent acquisition.

Cash used in financing activities was $0.8 million during the three months ended March 31, 2011, as compared to cash generation of $5.3 million during the three months ended March 31, 2010. Cash usage in the three months ended March 31, 2011 included $4.7 million spent to acquire our stock under our stock repurchase program in the period as compared to no such activities in the year-ago period. Additionally, cash generated from exercises of stock options was $1.4 million lower during three months ended March 31, 2011 compared to the prior year period.

Contractual Obligations

There have been no material changes to our contractual obligations during the three months ended March 31, 2011. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2010 for a description of our facility leases and contractual obligations and the Notes to the consolidated financial statements included therein.

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The following table summarizes our contractual obligations at March 31, 2011 (in thousands):

	Total	Less than one year	One to three years	Three to five years	More than five years
Operating leases(1)	$ 5,865	$ 3,822	$ 1,601	$ 442	$
Commitments to contract manufacturers and suppliers(2)	5,796	5,796			
Total	$ 11,661	$ 9,618	$ 1,601	$ 442	$

(1) Commitments under operating leases relate primarily to leasehold property and office equipment. For the remaining nine months of 2011, we have $0.3 million of non-cancellable sublease income

(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.

Off-Balance Sheet Arrangements

As of March 31, 2011, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2011, 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, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of March 31, 2011. Based on such evaluation, our chief executive officer and chief financial officer have concluded that our efforts to remediate the material weakness described below and identified by the same evaluation conducted at December 31, 2010 and set forth in our Annual Report on Form 10-K for the year ended December 31, 2010 were not yet completed, and therefore our disclosure controls and procedures as of March 31, 2011 were not effective to ensure that the information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and instructions for such reports.

Notwithstanding the above-mentioned material weakness, we believe that the consolidated financial statements included in this report fairly present our consolidated financial position as of March 31, 2011, and consolidated results of operations and cash flows for the three months ended March 31, 2011 and 2010.

Changes in Internal Control Over Financial Reporting

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s interim or annual financial statements will not be prevented or detected on a timely basis.

In the year ended December 31, 2010, we identified one material weakness in our internal control over financial reporting as of that date, related to our accounting for income taxes. Specifically, our processes, procedures and controls related to the preparation and review of the annual tax provision were not effective to ensure that amounts recorded for the tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. generally accepted accounting principles. Additionally, we did not maintain effective controls over the review and analysis of supporting work papers for such tax balances.

We are in the process of implementing remediation actions designed to address this material weakness.

Other than the material weakness noted above, there have been no changes in our internal control over financial reporting during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Legal Proceedings

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

On October 20, 2010, the Company filed a declaratory judgment complaint against Medacist Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacist Solutions Group, LLC, Case Number 10-cv-4746 (the California Action). Pandora Data Systems, Inc. had entered into a Settlement and License Agreement with Medacist in October 2008 (the Settlement Agreement) pursuant to which, among other things, Medacist granted to Pandora a non-exclusive license to Medacist s U.S. Patent Number 6,842,736. The Company seeks an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., is entitled to certain rights and benefits under the license. On November 12, 2010, Medacist filed a motion to dismiss the California Action, or in the alternative, to transfer venue to the U.S. District Court for the District of Connecticut. On February 10, 2011, the Court granted Medacist s motion and dismissed the California Action without prejudice. On February 14, 2011, Omnicell and Pandora filed a notice of appeal regarding dismissal of the California Action with the U.S. Court of Appeals for the Ninth Circuit (the California Appeal). The California Appeal is now pending. Also on November 12, 2010, Medacist filed a motion in the U.S. District Court in the District of Connecticut to reopen a litigation entitled Medacist Solutions Group, LLC v. Pandora Data Systems, Inc., Case Number 3:07-CV-00692(JCH) (the Connecticut Litigation), which had been dismissed and administratively closed since October 29, 2008. Medacist seeks, among other things, relief from the Stipulation of Dismissal entered on October 29, 2008 dismissing the Connecticut Litigation for the limited purpose of interpreting and enforcing the Settlement Agreement, the entry of a temporary restraining order and preliminary and permanent injunctions prohibiting breaches of the Settlement Agreement, a finding that Pandora breached the Settlement Agreement and an award of monetary damages resulting from Pandora s alleged breaches. On December 3, 2010, the Company and Pandora filed a response to this motion. At this time, the Connecticut Litigation remains closed, and no hearings have been scheduled on Medacist s motion.

As of March 31, 2011, we reached a tentative settlement agreement with Medacist, pursuant to which the Company agreed to pay Medacist $1.0 million in exchange for a fully-paid, perpetual license to Medacist s patented technology and the parties agreed to dismiss all pending lawsuits and fully release each other from all claims. In addition, we agreed that a license transfer fee payment of $0.5 million would be made to Medacist in the event certain change-in-control conditions are met. While the tentative agreement substantiates that the contingent loss is both probable and estimable for accrual in the first quarter of 2011, the final settlement would be effective only after all terms are negotiated and executed in formal documents, which has yet to occur. The $1.0 million contingent loss for this settlement was recorded within selling, general and administrative expenses during the three months ended March 31, 2011.

As required under ASC 450, Contingencies, we accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and such amounts are

reflected in accrued liabilities in our consolidated financial statements. Except as otherwise indicated above, we believe that the outcomes in these matters are not probable or reasonably estimable. We believe that we have valid defenses with respect to legal matters pending against us. However, litigation is inherently unpredictable, and it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies or because of the diversion of management s attention and the creation of significant expenses

Item 1A. RISK FACTORS

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

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

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

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

The medication management and supply chain solutions market is highly competitive and we may be unable to compete successfully against new entrants and established companies with greater resources.

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

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

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

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

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

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

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

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

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

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

Our medication and supply dispensing systems represent only one approach to managing the distribution of pharmaceuticals and supplies at healthcare facilities. A significant portion of domestic and international healthcare facilities still use traditional approaches in some form that do not include fully automated methods of medication and supply dispensing management. As a result, we must continuously educate existing and prospective customers about the advantages of our products, which requires significant

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sales efforts and can cause longer sales cycles. Despite our significant efforts and extensive time commitments in sales to healthcare facilities, we cannot be assured that our efforts will result in sales to these customers.

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

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

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

In the second quarter of 2011, we announced the G4 platform, the Savvy Mobile Medication System, SinglePointe , Tissue Center System, and Anywhere RN . We cannot assure you that we will be successful in marketing these or any new products or services, that new products or services will compete effectively with similar products or services sold by our competitors or that the level of market acceptance of such products or services will be sufficient to generate expected revenues and synergies with our other products or services. Deployment of new products or services often requires interoperability with other Omnicell products or services as well as with healthcare facilities existing information management systems. If these products or services fail to satisfy these demanding technological objectives, our customers may be dissatisfied and we may be unable to generate future sales.

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

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

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

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

In addition, and in part as a result of the complexities inherent in larger transactions, the average time between the purchase and installation of our systems has increased over the past few years for reasons that are often outside of our control. Since we

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recognize revenue only upon installation of our systems at a customer s site, any delay in installation by our customers or delays in the determination that the earnings process is complete also causes a delay in the recognition of revenue for that system.

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

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

- difficulties in combining previously separate businesses into a single unit;

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

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

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

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

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

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

Our success is highly dependent upon the continuing contributions of our key management, sales, technical and engineering staff. We believe that our future success will depend upon our ability to attract, train and retain highly skilled and motivated personnel. As more of our products

are installed in increasingly complex environments, greater technical expertise will be required. As our installed base of customers increases, we will also face additional demands on our customer service and support personnel, requiring additional resources to meet these demands. We may experience difficulty in recruiting qualified personnel. Competition for qualified technical, engineering, managerial, sales, marketing, financial reporting and other personnel can be intense and we cannot assure you that we will be successful in attracting and retaining qualified personnel. Competitors have in the past attempted, and may in the future attempt, to recruit our employees.

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

If we are unable to make effective use of our increased sales staff, we will have higher expenses without the benefits of increased market penetration and profitable sales growth.

During the last six months, we have increased direct territory sales staff by approximately 30%. We expect an increase in the sales productivity of these new hires as they are trained and begin to develop sales leads in their assigned territories, however, there is no guarantee that this increased sales staff will result in a proportional increase in new business. If we encounter obstacles to the effectiveness of our sales staff, we will adjust our efforts to support their success, and this may result in higher expenses without corresponding increases in market penetration or sales growth.

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

Our revenue increased by $8.9 million or 4.2% to $222.4 million for the year ended December 31, 2010 compared to $213.5 million for 2009. However, revenues for the year ended December 31, 2009 declined by $38.4 million or 15.2% from $251.9 million in 2008.

Current macroeconomic and general market conditions have contributed to revenue volatility and an overall decline in our revenues from 2008 levels. Our ability to adjust to rapid reductions in our revenue while still achieving or sustaining profitability is dependent upon our ability to manage costs and control expenses. If macroeconomic and general market conditions improve and return to historical levels, our ability to grow revenue and profitability will also be dependent on our ability to continue to manage costs and control expenses. If our revenue increases rapidly, we may not be able to manage this growth effectively. Future growth is dependent on our ability to continue to receive orders from customers, the volume of installations we are able to complete, our ability to continue to meet our customers needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

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

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

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

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

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

- our ability to successfully install our products on a timely basis and meet other contractual obligations necessary to recognize revenue;

- the size, product mix and timing of orders for our medication and supply dispensing systems, and their installation and integration;

- the overall demand for healthcare medication management and supply chain solutions;

- changes in pricing policies by us or our competitors;

- the number, timing and significance of product enhancements and new product announcements by us or our competitors;

- the timing and significance of any acquisition or business development transactions that we may consider or negotiate and the revenues, costs and earnings that may be associated with these transactions;

- the relative proportions of revenues we derive from products and services;

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

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

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

We sell our products through a number of group purchasing organizations, including AmeriNet, Inc., Broadlane Inc., HealthTrust Purchasing Group, L.P., MedAssets Supply Chain Systems, Novation, LLC, Premier, Inc., and Resources Optimization & Innovation. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our revenue targets or increase our revenues. We cannot assure you that these organizations will renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire.

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

The healthcare industry has faced, and will likely continue to face, significant financial constraints. For example, the shift to managed care in the 1990s put pressure on healthcare organizations to reduce costs, and the Balanced Budget Act of 1997 significantly reduced Medicare reimbursement to healthcare organizations. Recently enacted legislation such as the American Recovery and Reinvestment Act in 2009, the Patient Protection and Affordable Care Act in 2010 and other health reform legislation may cause customers to postpone purchases of our products while the impact of the legislation on their operations is determined. Our automation solutions often involve a significant financial commitment by our customers and, as a result, our ability to grow our business is largely dependent on our customers capital and operating budgets. To the extent healthcare spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

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

Our disclosure controls and procedures for internal control over financial reporting were not effective as of December 31, 2010 and March 31, 2011. Our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could cause our stock price to decline.

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

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As of December 31, 2010 and at March 31, 2011our management determined that our internal control over financial reporting was not effective under the Section 404 criteria, as a result of a material weakness in our income tax accounting. Specifically, our processes, procedures and controls related to the preparation and review of the annual tax provision were not effective to ensure that amounts recorded for the tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. generally accepted accounting principles.

Notwithstanding the above-mentioned material weakness, we believe that the consolidated financial statements are fairly stated in all material respects as of the year ended December 31, 2010 and for the three months ended March 31, 2011. Our management has committed to corrective actions for the current fiscal year to remediate this material weakness, as described under Item 2 in Management s Discussion and Analysis of Financial Condition and Results of Operations Material Weakness in Internal Control Over Financial Reporting.

We will be required to report on the status of our remediation efforts with regard to this material weakness in every future periodic filing, until such material weakness is fully-remediated and attested to by our independent registered public accounting firm. If we cannot in the future favorably assess, or our independent registered public accounting firm is unable to provide an unqualified attestation report on our assessment of, the effectiveness of our internal control over financial reporting, investors may lose confidence in the reliability of our financial reports, which could cause our stock price to decline.

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

During the three months ended March 31, 2011, our common stock traded between $12.97 and $15.24 per share. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

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

- general economic and market conditions.

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

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

Although we generally use parts and components for our products with a high degree of modularity, certain components are presently available only from a single source or limited sources. We have generally been able to obtain adequate supplies of all components in a timely manner from existing sources, or where necessary, from alternative sources of supply. We engaged multiple single source third-party manufacturers to build several of our sub-assemblies. The risk associated with changing to alternative vendors, if necessary, for any of the numerous components used to manufacture our products could limit our ability to manufacture our products and harm our business. Our reliance on a few single source partners to build our hardware sub-assemblies, a reduction or interruption in supply from our partners or suppliers, or a significant increase in the price of one or more components could have an adverse impact on our business, operating results and financial condition. In addition, this impact could damage customer relationships and any failure of a contractor to perform adequately could harm our business.

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Complications in connection with our ongoing business information system upgrades as well as the adoption of recently issued accounting standards may impact our results of operations, financial condition and cash flows.

We continue to upgrade our enterprise-level business information system with new capabilities. Based upon the complexity of some of the upgrades, there is risk that we will not see the expected benefit from the implementation of these upgrades in accordance with their anticipated timeline and will incur additional costs. In addition, beginning in fiscal year 2011, we adopted ASU 2009-13 and 2009-14, which required us to modify our revenue recognition policy. We further anticipate that integration of these ASUs will require a substantial amount of management s time and attention and require integration with the recently implemented enterprise resource planning system. The implementation of the system and the adoption of the recently issued ASUs, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to record necessary business transactions timely. All of these risks could adversely impact our results of operations, financial condition and cash flows.

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

We frequently grant stock options to our employees. At March 31, 2011, we had options outstanding to purchase approximately 4.8 million shares of our common stock at exercise prices ranging from $2.70 to $29.16 per share, at a weighted-average exercise price of $13.04 per share. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

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

U.S. government customers that lease our equipment typically sign contracts with five-year payment terms that are subject to one-year government budget funding cycles. Further, the government has in certain circumstances mandated unilateral changes in its Federal Supply Services contract that could render our lease terms with the government less attractive. In our judgment and based on our history with these accounts, we believe these receivables are collectable. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. As of March 31, 2011, the balance of our unsold leases to U.S. government customers was $13.0 million.

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

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

operations.

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

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

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

Our success depends in part on our ability to obtain patent protection for technology and processes and our ability to preserve our trademarks, copyrights and trade secrets. We have pursued patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and for technology that offers us a potential competitive advantage for our products. We intend to continue to pursue such protection in the future. Our issued patents relate to various features of our medication and supply dispensing systems. We cannot assure you that we will file any patent applications in the future, and that any of our patent applications will result in issued patents or that, if issued, such patents will provide significant protection for our technology and processes. Furthermore, we cannot assure you that others will not develop technologies that are similar or superior to our technology or that

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others will not design around the patents we own. All of our system software is copyrighted and subject to the protection of applicable copyright laws. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary, which could harm our competitive position.

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

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

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

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

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

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

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

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

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

We currently have operations outside of the United States, consisting of customer support activity through a contractor in India, international sales efforts centered in Canada, Europe, the Middle East and Asia and supply chain sourcing in Asia, supported by an office in Hong Kong. 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;
- reduced protection for intellectual property rights in some countries;

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- 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 repatriating funds from certain countries; and

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

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

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

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

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

The standards adopted to date include, among others, the Standards for Privacy of Individually Identifiable Health Information, which restrict the use and disclosure of personally identifiable health information by covered entities, and the Security Standards, which require covered entities to implement administrative, physical and technical safeguards to protect the integrity and security of certain electronic health information. Under HIPAA, we are considered a business associate in relation to many of our customers that are covered entities, and as such, most of these customers have required that we enter into written agreements governing the way we handle and safeguard certain patient health information we may encounter in providing our products and services and may impose liability on us for failure to meet our contractual obligations. Further, pursuant to recent changes in HIPAA under the American Recovery and Reinvestment Act of 2009, or ARRA, we are now also covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties and other sanctions. In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our customers to obtain, use or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

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

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

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

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

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

We rely on our network infrastructure, data centers, enterprise applications, and technology systems for the development, marketing, support and sales of our products, and for the internal operation of our business. These systems are susceptible to disruption or failure in the event of a major earthquake, fire, flood, cyber-attack, terrorist attack, telecommunications failure, or other catastrophic event. Further, many of these systems are housed or supported in or around our corporate headquarters located in California, near major earthquake faults, and where a significant portion of our research and development activities and other critical business operations take place. Disruptions to or the failure of any of these systems, and the resulting loss of critical data, which is not quickly recoverable by the effective execution of disaster recovery plans designed to reduce such disruption, could cause delays in our product development, prevent us from fulfilling our customers orders, and could severely affect our ability to conduct normal business operations, the result of which would adversely affect our operating results.

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

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to the stockholders. Our anti-takeover provisions include provisions in our certificate of incorporation providing that stockholders meetings may only be called by the board of directors and provisions in our bylaws providing that the stockholders may not take action by written consent and requiring that stockholders

that desire to nominate any person for election to the board of directors or to make any proposal with respect to business to be conducted at a meeting of our stockholders be submitted in appropriate form to our Secretary within a specified period of time in advance of any such meeting. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until the holder has held the stock for three years unless, among other 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 may be 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 then 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 acquirer s rights would not become exercisable for our shares of common stock at a discount, the potential acquirer would suffer substantial dilution and may lose its ability to acquire us. In addition, the existence of the plan itself may deter a potential acquirer 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.

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

The following table sets forth the number of shares of common stock repurchased by the Company during the three months ended March 31, 2011:

Period	Total number of shares (or units) purchased (1)	Average price paid per share (or unit), including commissions	Total number of Shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
January 1 31, 2011		$		$ 25.0 million
February 1 28, 2011				$ 25.0 million
March 1 31, 2011	346,920	13.86	341,100	$ 20.2 million
Total	346,920	$ 13.86	341,100	

(1) Of the total, 341,100 shares of common stock were repurchased under our 2008 stock repurchase program, and 5,820 shares of common stock were withheld in satisfaction of tax withholding obligations upon vesting of restricted stock units.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

None.

Item 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title
3.1(1)	Amended and Restated Certificate of Incorporation of Omnicell, Inc.
3.2(2)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc.
3.3(3)	Certificate of Designation of Series A Junior Participating Preferred Stock.
3.4(4)	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, 3.3 and 3.4.
4.3(5)	Rights Agreement, dated February 6, 2003, between Omnicell, Inc. and EquiServe Trust Company, N.A.
10.1(6)	2011 Executive Officer Compensation.
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 Quarterly Report on Form 10-Q (File No. 000-33043) filed with the Securities and Exchange Commission on August 9, 2010, and incorporated herein by reference.

(3) 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.

(4) 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.

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

(6) Previously filed as Item 5.02 to the Registrant s Current Report on Form 8-K (File No. 000-33043) filed with the Securities and Exchange Commission on February 8, 2011, as amended by the Registrant s Current Report on Form 8-K/A (File No. 000-33043) filed with the Securities and Exchange Commission on April 15, 2011, and incorporated herein by reference.

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SIGNATURES

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

OMNICELL, INC.

Date: May 9, 2011

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

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