

OMNICELL, Inc
Form 10-Q
November 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 000-33043

OmniceLL, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

94-3166458
(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 x No o

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

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o
(Do not check if a smaller reporting company)

Smaller reporting company o

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

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The number of shares of Registrant's common stock (par value \$0.001) outstanding as of October 26, 2011 was 33,218,378.

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| | September 30, 2011 (unaudited) | December 31, 2010 (1) |
|---|---|--------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 179,303 | \$ 175,635 |
| Short-term investments | 8,101 | 8,074 |
| Accounts receivable, net of allowances of \$512 and \$497 at September 30, 2011 and December 31, 2010, respectively | 45,987 | 42,732 |
| Inventories | 17,056 | 9,785 |
| Prepaid expenses | 10,643 | 11,959 |
| Deferred tax assets | 13,052 | 13,052 |
| Other current assets | 6,518 | 7,266 |
| Total current assets | 280,660 | 268,503 |
| Property and equipment, net | 16,890 | 14,351 |
| Non-current net investment in sales-type leases | 8,821 | 9,224 |
| Goodwill | 28,543 | 28,543 |
| Other intangible assets | 4,318 | 4,672 |
| Non-current deferred tax assets | 9,836 | 9,566 |
| Other assets | 9,442 | 8,365 |
| Total assets | \$ 358,510 | \$ 343,224 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 14,422 | \$ 13,242 |
| Accrued compensation | 7,062 | 7,731 |
| Accrued liabilities | 7,792 | 8,684 |
| Deferred service revenue | 19,637 | 16,788 |
| Deferred gross profit | 12,161 | 11,719 |
| Total current liabilities | 61,074 | 58,164 |
| Long-term deferred service revenue | 18,447 | 19,171 |
| Other long-term liabilities | 1,014 | 675 |
| Total liabilities | 80,535 | 78,010 |

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| | | | | |
|--|----|---------|----|---------|
| Stockholders' equity: | | | | |
| Total stockholders' equity | | 277,975 | | 265,214 |
| Total liabilities and stockholders' equity | \$ | 358,510 | \$ | 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 September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Product revenues | \$ 49,790 | \$ 43,241 | \$ 138,583 | \$ 127,559 |
| Services and other revenues | 14,649 | 13,045 | 44,021 | 37,580 |
| Total revenues | 64,439 | 56,286 | 182,604 | 165,139 |
| Cost of revenues: | | | | |
| Cost of product revenues | 22,429 | 19,449 | 59,995 | 57,723 |
| Cost of services and other revenues | 7,562 | 6,698 | 22,704 | 20,823 |
| Restructuring charges | | 39 | | 39 |
| Total cost of revenues | 29,991 | 26,186 | 82,699 | 78,585 |
| Gross profit | 34,448 | 30,100 | 99,905 | 86,554 |
| Operating expenses: | | | | |
| Research and development | 6,019 | 6,089 | 16,139 | 15,604 |
| Selling, general and administrative | 23,635 | 19,851 | 73,713 | 61,789 |
| Restructuring and asset impairment charges | | 1,157 | | 1,157 |
| Total operating expenses | 29,654 | 27,097 | 89,852 | 78,550 |
| Income from operations | 4,794 | 3,003 | 10,053 | 8,004 |
| Interest and other income (expense), net | (191) | 159 | (66) | 286 |
| Income before provision for income taxes | 4,603 | 3,162 | 9,987 | 8,290 |
| Provision for income taxes | 1,609 | 1,886 | 3,736 | 4,070 |
| Net income | \$ 2,994 | \$ 1,276 | \$ 6,251 | \$ 4,220 |
| Net income per share: | | | | |
| Net income per share-basic | \$ 0.09 | \$ 0.04 | \$ 0.19 | \$ 0.13 |
| Net income per share-diluted | \$ 0.09 | \$ 0.04 | \$ 0.18 | \$ 0.13 |
| Weighted average shares outstanding: | | | | |
| Basic | 33,209 | 32,822 | 33,132 | 32,534 |
| Diluted | 34,219 | 33,540 | 34,100 | 33,383 |

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)

| | Nine Months Ended September 30, | |
|---|------------------------------------|----------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 6,251 | \$ 4,220 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,820 | 6,493 |
| Loss on disposal of fixed assets | | 147 |
| Gain on legal settlement | | (2,439) |
| Provision for (recovery of) receivable allowance | (527) | (674) |
| Share-based compensation expense | 7,254 | 6,452 |
| Income tax benefits from employee stock plans | 3,208 | 2,365 |
| Excess tax benefits from employee stock plans | (3,553) | (4,473) |
| Provision for excess and obsolete inventories | 564 | 646 |
| Foreign currency remeasurement loss | 140 | 6 |
| Deferred income taxes | (270) | 1,577 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (3,286) | (4,139) |
| Inventories | (7,835) | 511 |
| Prepaid expenses | 1,316 | (2,419) |
| Other current assets | (953) | 320 |
| Net investment in sales-type leases | 917 | 1,007 |
| Other assets | 759 | 744 |
| Accounts payable | 1,180 | 3,312 |
| Accrued compensation | (669) | (1,513) |
| Accrued liabilities | 308 | (1,714) |
| Deferred service revenue | 3,224 | 1,016 |
| Deferred gross profit | 442 | (1,168) |
| Other long-term liabilities | 339 | 291 |
| Net cash provided by operating activities | 14,629 | 10,568 |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (8,097) | |
| Maturities of short-term investments | 8,143 | |
| Acquisition of intangible assets and intellectual property | (136) | (168) |
| Software development for external use | (3,523) | (1,612) |
| Purchases of property and equipment | (6,808) | (4,755) |
| Business acquisition, net of cash acquired | | (5,703) |
| Net cash used in investing activities | (10,421) | (12,238) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock under employee stock purchase and stock option plans | 6,607 | 6,598 |
| Stock repurchases | (10,560) | |
| Excess tax benefits from employee stock plans | 3,553 | 4,473 |

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| | | |
|--|------------|------------|
| Net cash (used in) provided by financing activities | (400) | 11,071 |
| Effect of exchange rate changes on cash and cash equivalents | (140) | (6) |
| Net increase in cash and cash equivalents | 3,668 | 9,395 |
| Cash and cash equivalents at beginning of period | 175,635 | 169,230 |
| Cash and cash equivalents at end of period | \$ 179,303 | \$ 178,625 |
| 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 and Summary of Significant Accounting Policies

Description of the Company. Omnicell, Inc. (Omnicell, our, us, we, or the Company) was incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our major products are medication and supply dispensing systems, with related services, which are sold in our principal market, the healthcare industry. Our market is located primarily 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 September 30, 2011, the results of operations for the three months and nine months ended September 30, 2011 and 2010 and the statement of cash flows for the nine months ended September 30, 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 and nine months ended September 30, 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.

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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 and reclassification of foreign currency measurement gains (losses). 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, *Fair Value Measurements and Disclosures*.

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

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

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

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

At September 30, 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 December 31, 2010 and again at September 30, 2011, we had a short-term investment in California revenue anticipation notes, the valuation inputs of which were classified as Level 2. We do not currently have any material financial instruments utilizing Level 3 inputs.

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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 December, 31, 2010, we held \$8.1 million of non-U.S. Government securities which were classified as Held-to-maturity short-term investments, and which matured on June 28, 2011. At September 30, 2011, we held \$8.1 million non-U.S. Government securities classified as Available-for-sale 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 September 30, 2011 and December 31, 2010 we held \$166.3 million and \$150.0 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 exists.** We use signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, we use a signed services agreement and a statement of work to evidence an arrangement.
- **Delivery has occurred.** Equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter, providing evidence that we have delivered what a customer ordered. In instances of a customer self-installed installation, product delivery is deemed to have occurred upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on delivery of products to the customer, including transfer of title and risk of loss, assuming all other revenue criteria are met. We recognize revenue from sales of products to distributors upon delivery, assuming all other revenue criteria are met since we do not allow for rights of return or refund. Assuming all other revenue criteria are met, we recognize revenue for support services ratably over the related support services contract period. We recognize revenue on training and professional services as they are performed.

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

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

In arrangements with multiple deliverables, assuming all other revenue criteria are met, we recognize revenue for individual delivered items if they have value to the customer on a standalone basis. 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,

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the price established by management with the relevant authority. We consider VSOE to exist when approximately 80% or more of our standalone sales of an item are priced within a reasonably narrow pricing range (plus or minus 15% of the median rates). We have established VSOE of fair value for our post-installation technical support services and professional services. When VSOE of fair value is not available, third-party evidence (TPE) of fair value for similar products and services is acceptable; however, our offerings and market strategy differ from those of our competitors, such that we cannot obtain sufficient comparable information about third parties' prices. If neither VSOE nor TPE are available, we use our best estimates of selling prices (BESP). We determine BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. We regularly review and update our VSOE, TPE and BESP information and obtain formal approval by appropriate levels of management.

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

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

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 or the nine months ended September 30, 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, less than half of the revenue we recognized during the nine months ended September 30, 2011 was subject to the new revenue recognition guidance. In 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. Under sales-type leases, we recognize revenue for our hardware and software products net of lease execution costs such as post-installation product maintenance and technical support, at the net present value of the lease payment stream once our installation obligations have been met. We optimize cash flows by selling a majority of our non-U.S. government leases to third-party leasing finance companies on a non-recourse basis. We have no obligation to the leasing company once the lease has been sold. Some of our sales-type leases, mostly those relating to U.S. government hospitals, are retained in-house. Interest income in these leases is recognized in product revenue using the 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.

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Sales of accounts receivable. We record the sale of our accounts receivables as true sales in accordance with accounting guidance for transfers and servicing of financial assets. During the three months ended September 30, 2011 and 2010, we transferred non-recourse accounts receivable totaling \$9.0 million and \$14.0 million, respectively, which approximated fair value, to third-party leasing companies. During the nine months ended September 30, 2011 and 2010, we transferred non-recourse accounts receivable totaling \$32.2 million and \$40.2 million, respectively, which approximated fair value, to third-party leasing companies. At September 30, 2011 and December 31, 2010, accounts receivable included \$2.5 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 September 30, 2011 and 2010. Additionally, there were no customers accounting for 10% or more of revenues in the nine months ended September 30, 2011 and 2010. There were no customers accounting for 10% or more of accounts receivable at September 30, 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 \$0.7 million and \$0.5 million for the three months ended September 30, 2011 and 2010, respectively. Shipping and handling expenses for the nine months ended September 30, 2011 and 2010 were \$2.1 million and \$1.5 million, 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 September 30, 2011 and 2010 were approximately \$4.9 million and \$5.2 million, respectively. Purchases from this supplier for the nine months ended September 30, 2011 and 2010 were approximately \$16.1 million and \$14.1 million, respectively.

Income Taxes. We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with GAAP, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply 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, *Tax Provisions*, we recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our financial condition and operating results.

Total comprehensive income. Total comprehensive income was immaterially different from net income for the three months and nine months ended September 30, 2011 and 2010. The only difference included in total comprehensive income for each period was the tax-effected unrealized gain on Available-for-sale securities for the holding period September 22, 2011 to September 30, 2011.

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 and nine months ended September 30, 2011 and 2010, our revenues and gross profits were generated entirely from medication and supply dispensing systems.

Recently Issued Accounting Pronouncements. In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Fair Value Measurement*, which amends the fair value guidance in ASC 820, thereby completing the joint project to achieve substantially converged fair value measurement and disclosure requirements for U.S. GAAP and International Financial Reporting Standards (IFRS). The new guidance changes some fair value measurement principles (such as extending the Level 1 prohibition of blockage discounts to Levels 2 and 3 in the fair value hierarchy) and expands disclosure requirements, primarily for Level 3 measurements. This update will be effective for us the first quarter of 2012, applied prospectively with no early adoption permitted. We do not anticipate it will have any significant impact on our financial position, operating results or cash flows.

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In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. This ASU prohibits equity statement presentation of other comprehensive income, requiring instead either a single continuous operating statement or two separate, but consecutive, statements of net income and other comprehensive income. The new guidance does not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings-per-share computation based on net income does not change. This update will be effective for us the first quarter of 2012, applied retrospectively with early adoption permitted. As of November 2011, FASB was considering deferral of some aspects of this ASU. As ASU 2011-05 is only a presentation standard, its adoption will not have any significant impact on our financial position, operating results or cash flows.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, giving entities the option to determine qualitatively whether they can bypass the two-step goodwill impairment test in ASC 350-20, *Intangibles, Goodwill and Other*. Under the new guidance, if an entity chooses to perform a qualitative assessment and determines that it is more likely than not (more than 50% likelihood) that the fair value of a reporting unit is less than its carrying amount, it would then perform Step 1 of the annual goodwill impairment test and, if necessary, proceed to Step 2. Otherwise, no further evaluation would be necessary. The entity may choose each reporting period for which reporting units, if any, the qualitative assessment will be made. This update will be effective for us for any 2012 goodwill impairment tests, with early adoption permitted. We do not anticipate it will have any significant impact on our financial position, operating results or cash flows, as we currently apply the existing Step 1 test for our single-reporting unit business.

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 fair value of the purchase consideration 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 | 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 | 1,000 |
| Total liabilities | 1,802 |

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| | | |
|--------------------------------|----|-------|
| Net assets acquired | \$ | 6,000 |
| Cash consideration, fair value | \$ | 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.

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This lawsuit was settled on 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 seller's 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 |

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 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 per share for the nine months ended September 30, 2011 and 2010 were 2,089,739 and 2,019,161, respectively.

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------|-------------------|----------|
| | September 30. | | September 30. | |
| | 2011 | 2010 | 2011 | 2010 |
| Basic: | | | | |
| Net income | \$ 2,994 | \$ 1,276 | \$ 6,251 | \$ 4,220 |
| Weighted average shares outstanding basic | 33,209 | 32,822 | 33,132 | 32,534 |

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| | | | | | | | | | |
|--|---------|----|--------|----|--------|----|--------|----|--------|
| Net income per share | basic | \$ | 0.09 | \$ | 0.04 | \$ | 0.19 | \$ | 0.13 |
| Diluted: | | | | | | | | | |
| Net income | | \$ | 2,994 | \$ | 1,276 | \$ | 6,251 | \$ | 4,220 |
| Weighted average shares outstanding | basic | | 33,209 | | 32,822 | | 33,132 | | 32,534 |
| Add: Dilutive effect of employee stock plans | | | 1,010 | | 718 | | 968 | | 849 |
| Weighted average shares outstanding | diluted | | 34,219 | | 33,540 | | 34,100 | | 33,383 |
| Net income per share | diluted | \$ | 0.09 | \$ | 0.04 | \$ | 0.18 | \$ | 0.13 |

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 September 30, 2011 and December 31, 2010 (in thousands):

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| | September 30, 2011 | | | | | | |
|---|--------------------|------------------|-------------------|------------|-------------------------|------------------------|-----------------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash / Cash Equivalents | Short-term Investments | Security Classification (1) |
| Cash | \$ 13,039 | \$ | \$ | \$ 13,039 | \$ 13,039 | \$ | N/A |
| Money market funds | 166,264 | | | 166,264 | 166,264 | | Available for sale |
| Non-U.S. Government securities | 8,098 | 3 | | 8,101 | | 8,101 | Available for sale |
| Total cash, cash equivalents and short-term investments | \$ 187,401 | \$ 3 | \$ | \$ 187,404 | \$ 179,303 | \$ 8,101 | |

| | 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, and 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 were comprised of California revenue anticipation notes, which matured in June 2011. In previous periods, these were recorded at their carrying cost as Held-to-maturity as we had both the ability and intent to keep these investments until they mature. The notes were considered 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 short term investments purchased in September 2011 are comprised of California revenue anticipation notes, which mature in June 2012. As this is the initial investment in a broader portfolio strategy for yield management, these are considered Available-for-sale. The notes are considered 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.

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The following table displays the financial assets measured at fair value, on a recurring basis, with money market funds recorded within cash and cash equivalents and non-U.S Government securities in short-term investments (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 September 30, 2011 | | | | |
| Money market funds | \$ 166,264 | \$ | \$ | \$ 166,264 |
| Non U.S. Government securities | | 8,101 | | 8,101 |
| Total | \$ 166,264 | \$ 8,101 | \$ | \$ 174,365 |
| At December 31, 2010 | | | | |
| Money market funds | \$ 150,042 | | \$ | \$ 150,042 |
| Total | \$ 150,042 | | \$ | \$ 150,042 |

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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 December 31, 2010 | | | | |
| Non-U.S. Government securities | | \$ 8,086 | | \$ 8,086 |
| Total | | \$ 8,086 | | \$ 8,086 |

Note 5. Inventories

Inventories consist of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|-----------------|-----------------------|----------------------|
| Raw materials | \$ 7,772 | \$ 4,252 |
| Work in process | 92 | 153 |
| Finished goods | 9,192 | 5,380 |
| Total | \$ 17,056 | \$ 9,785 |

Note 6. Property and Equipment

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

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| Equipment | \$ 24,286 | \$ 20,045 |
| Furniture and fixtures | 1,800 | 1,681 |
| Leasehold improvements | 3,686 | 3,182 |
| Purchased software | 19,595 | 18,095 |
| Capital in process | 2,284 | 1,689 |
| | 51,651 | 44,692 |
| Accumulated depreciation and amortization | (34,761) | (30,341) |
| Property and equipment, net | \$ 16,890 | \$ 14,351 |

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Depreciation and amortization of property and equipment totaled approximately \$1.5 million and \$1.5 million for the three months ended September 30, 2011 and 2010, respectively. Depreciation and amortization of property and equipment totaled approximately \$4.3 million and \$4.3 million for the nine months ended September 30, 2011 and 2010, respectively.

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):

| | September 30, 2011 | | December 31, 2010 |
|--|-----------------------|----|----------------------|
| Net minimum lease payments to be received | \$ 15,472 | \$ | 16,284 |
| Less unearned interest income portion | 1,636 | | 1,843 |
| Net investment in sales-type leases | 13,835 | | 14,441 |
| Less current portion(1) | 5,014 | | 5,217 |
| Non-current net investment in sales-type leases(2) | \$ 8,821 | \$ | 9,224 |

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The minimum lease payments under sales-type leases as of September 30, 2011 were as follows (in thousands):

| | | |
|-------------------------------|----|--------|
| 2011 (remaining three months) | \$ | 1,580 |
| 2012 | | 5,502 |
| 2013 | | 3,649 |
| 2014 | | 2,601 |
| 2015 | | 1,594 |
| Thereafter | | 546 |
| Total | \$ | 15,472 |

(1) A component of other current assets. This amount is net of allowance for doubtful accounts of \$0.2 million as of September 30, 2011 and \$0.1 million as of December 31, 2010.

(2) Net of allowance for doubtful accounts of \$0.2 million as of September 30, 2011 and \$0.3 million as of December 31, 2010.

The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest, as of September 30, 2011 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 September 30, 2011: | | | | | |
| Accounts individually evaluated for impairment | \$ | 210 | \$ | 210 | \$ |
| Accounts collectively evaluated for impairment | | 112 | | 13,947 | 13,835 |
| Ending balances: September 30, 2011 | \$ | 322 | \$ | 14,157 | \$ |
| 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 | \$ |

The following table summarizes the activity for the allowance for credit losses account for the investment in sales-type leases for the three months and nine months ended September 30, 2011 (in thousands):

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| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------|--------------------|------|
| | September 30, 2011 | | September 30, 2011 | |
| Allowance for credit losses, beginning of period | \$ | 353 | \$ | 411 |
| Current period provision (reversal) | | (7) | | (16) |
| Recoveries of amounts previously charged off | | (24) | | (73) |
| Allowance for credit losses at September 30, 2011 | \$ | 322 | \$ | 322 |

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.

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

| | September 30, 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 | \$ 1,479 | \$ 2,751 | \$ 4,230 | \$ 1,142 | \$ 3,088 | 5-16 years |
| Acquired technology | 980 | 140 | 840 | 980 | 35 | 945 | 3-7 years |
| Patents | 790 | 163 | 627 | 654 | 152 | 502 | 20 years |
| Trade name | 90 | 30 | 60 | 90 | 8 | 82 | 3 years |
| Non-compete agreements | 60 | 20 | 40 | 60 | 5 | 55 | 3 years |
| Total finite-lived intangibles | 6,150 | 1,832 | 4,318 | 6,014 | 1,342 | 4,672 | |
| Goodwill | 28,543 | | 28,543 | 28,543 | | 28,543 | Indefinite |
| Net intangibles and goodwill | \$ 34,693 | \$ 1,832 | \$ 32,861 | \$ 34,557 | \$ 1,342 | \$ 33,215 | |

Amortization expense totaled \$0.2 million and \$0.6 million for the three months ended September 30, 2011 and 2010, respectively. Amortization expense totaled \$0.5 million and \$1.7 million for the nine months ended September 30, 2011 and 2010, respectively. Estimated annual expected amortization expense of the finite-lived intangible assets at September 30, 2011 is as follows (in thousands):

| | | |
|-------------------------------|-----------|--------------|
| 2011 (remaining three months) | \$ | 163 |
| 2012 | | 653 |
| 2013 | | 641 |
| 2014 | | 601 |
| 2015 | | 579 |
| 2016 | | 229 |
| Thereafter | | 1,452 |
| Total | \$ | 4,318 |

Note 9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

| | September 30, 2011 | December 31, 2010 |
|--|--------------------|-------------------|
| Accrued Group Purchasing Organization (GPO) fees | \$ 2,081 | \$ 2,272 |
| Rebates and lease buyouts | 1,636 | 1,923 |
| Advance payments from customers | 1,463 | 1,978 |
| Share repurchases settled following period | 1,226 | |
| Pre-acquisition contingency | | 1,200 |
| Other | 1,386 | 1,311 |

| | | | | |
|-------|----|-------|----|-------|
| Total | \$ | 7,792 | \$ | 8,684 |
|-------|----|-------|----|-------|

Note 10. Deferred Gross Profit

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

| | September 30, 2011 | | December 31, 2010 |
|---|-------------------------------|----|------------------------------|
| Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed | \$ 23,164 | \$ | 18,739 |
| Cost of revenues, excluding installation costs | (11,003) | | (7,020) |
| Deferred gross profit | \$ 12,161 | \$ | 11,719 |

Table of Contents**Note 11. Commitments**

At September, 30, 2011, the minimum payments under our operating leases for each of the five succeeding fiscal years are as follows (in thousands):

| | | |
|-------------------------------|----|-------|
| 2011 (remaining three months) | \$ | 887 |
| 2012 | | 1,888 |
| 2013 | | 582 |
| 2014 | | 356 |
| 2015 | | 178 |
| Total | \$ | 3,891 |

Commitments under operating leases relate primarily to leasehold property and office equipment.

Please refer to Note 16 Subsequent event for discussion of our recently executed lease and future relocation plans, which were not part of the above presented commitments at September 30, 2011.

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 \$6.1 million as of September 30, 2011.

Note 12. Contingencies**Legal Proceedings**

Medacis Solutions Group, LLC. On July 8, 2009, Medacis Solutions Group LLC filed a complaint against Omnicell in U.S. District Court in the Southern District of New York, entitled Medacis Solutions Group LLC v. Omnicell, Inc., case number 09 CV 6128, alleging infringement of Medacis' 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 Medacis, and that Omnicell misappropriated Medacis' s trade secrets and confidential information in violation of the NDA. Medacis sought unspecified monetary damages and an injunction against the Company' s infringement of the specified patent and/or misuse of any of Medacis' s trade secrets pursuant to the NDA or in violation of California code.

On October 20, 2010, Omnicell filed a declaratory judgment complaint against Medacis Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacis Solutions Group, LLC, Case Number 10-cv-4746 (the California Action). Pandora Data Systems, Inc. had entered into a Settlement and License Agreement with Medacis in October 2008 (the Settlement Agreement) pursuant to which, among other things, Medacis granted to Pandora a non-exclusive license to

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Medacis's U.S. Patent Number 6,842,736. We sought an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., was entitled to certain rights and benefits under the license. On November 12, 2010, Medacis 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 Medacis'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). Also on November 12, 2010, Medacis filed a motion in the U.S. District Court in the District of Connecticut to reopen a litigation entitled Medacis 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. Medacis sought, 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 May 19, 2011, we entered into a final settlement agreement with Medacis, pursuant to which we agreed to pay Medacis \$1.0 million in exchange for a fully-paid, perpetual license to Medacis'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 Medacis in the event certain change-in-control conditions are met. The \$1.0 million loss for this settlement was accrued during the three months ended March 31, 2011 and recorded within selling, general and administrative expenses, and was paid during the quarter ended June 30, 2011.

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.

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During the three months ended September 30, 2011 we repurchased 182,784 shares at an average cost of \$14.01 per share, including commissions, through the stock repurchase program. During the nine months ended September 30, 2011 we repurchased 741,959 shares at an average cost of \$14.23 per share, including commissions, through the stock repurchase program. We repurchased none in both the three months and nine months ended September 30, 2010.

From the inception of the program in February 2008 through September 30, 2011, we repurchased a total of 4,808,255 shares at an average cost of \$15.73 per share through open market purchases. As of September 30, 2011 we had \$14.4 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs.

Note 14. Stock Option Plans and Share-Based Compensation**Stock Option Plans**

At September 30, 2011, a total of 2,818,935 shares of common stock was reserved for future issuance under our 2009 Equity Incentive Plan (the 2009 Plan). At September 30, 2011, \$5.9 million of total unrecognized compensation cost related to non-vested stock options was expected to be recognized over a weighted average period of 2.5 years.

A summary of aggregate option activity for the nine months ended September 30, 2011 is presented below:

| Options: | Number of Shares (in thousands) | Weighted- Average Exercise Price |
|-----------------------------------|------------------------------------|--|
| Outstanding at December 31, 2010 | 4,740 | \$ 12.86 |
| Granted | 287 | \$ 14.53 |
| Exercised | (318) | \$ 8.05 |
| Forfeited | (58) | \$ 13.71 |
| Expired | (35) | \$ 20.70 |
| Outstanding at September 30, 2011 | 4,616 | \$ 13.23 |
| Exercisable at September 30, 2011 | 3,560 | \$ 13.40 |

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

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compensation cost related to non-vested restricted stock at September 30, 2011 was approximately \$0.6 million and is expected to be recognized over a weighted-average period of 0.7 years. Expected future compensation expense relating to RSUs outstanding on September 30, 2011 is \$3.5 million over a weighted-average period of 2.3 years.

A summary of activity of both restricted stock and RSUs for the nine months ended September 30, 2011 is presented below:

| | Restricted Stock | | Restricted Stock Units | |
|--------------------------------|---------------------------------------|--|---------------------------------------|--|
| | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value Per Share | Number of Shares (in thousands) | Weighted - Average Grant Date Fair Value Per Share |
| Non-vested, December 31, 2010 | 77 | \$ 12.91 | 308 | \$ 12.98 |
| Granted | 68 | \$ 14.71 | 87 | \$ 14.22 |
| Vested | (77) | \$ 12.91 | (85) | \$ 14.77 |
| Forfeited | | | (8) | \$ 12.85 |
| Non-vested, September 30, 2011 | 68 | \$ 14.71 | 302 | \$ 12.64 |

Table of Contents**Performance-based Restricted Stock Units**

In 2011, we began incorporating performance-based restricted stock units (PSUs) as an element of our executive compensation plans. For 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 September 30, 2011 was approximately \$0.6 million and is expected to be recognized over a weighted-average period of 1.5 years.

Vesting for the PSU 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. Stock price appreciation is calculated based on the average closing prices of the applicable company's common stock for the 20 trading days ending on the last trading day of the year prior to the date of grant as compared to the average closing prices for the 20 trading days ended on the last trading day of the year of grant. The following table shows the percent of PSUs eligible for further time-based vesting based on our percentile placement:

| Percentile Placement of Our Total Shareholder Return | % of PSUs Eligible for Time-Based Vesting |
|---|--|
| Below the 35th percentile | 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 PSUs eligible for further time-based vesting is based on straight-line interpolation, where, for example, if the ranking is the 70th percentile, then the vesting percentage is 115%.

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 PSU awards eligible for further time-based vesting. The eligible PSU 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 nine months ended September 30, 2011 is presented below:

| Performance-based 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, September 30, 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 September 30, 2011, 3,404,995 shares had been issued

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under the ESPP. As of September 30, 2011 there were a total of 1,926,560 shares reserved for future issuance under the ESPP. During the three months and nine months ended September 30, 2011, 166,762 and 445,965 shares of common stock, respectively, were purchased under the ESPP.

Share-based Compensation

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

The impact on our results for share-based compensation for the three months and nine months ended September 30, 2011 and 2010 was as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|----------|---------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Cost of product and service revenues | \$ 358 | \$ 293 | \$ 1,108 | \$ 993 |
| Research and development expenses | 333 | 159 | 1,005 | 537 |
| Selling, general and administrative expenses | 1,720 | 1,746 | 5,141 | 4,922 |
| Total share-based compensation expenses | \$ 2,411 | \$ 2,198 | \$ 7,254 | \$ 6,452 |

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.

Note 15. Restructuring and Impairment

During the third quarter of 2010, we implemented a restructuring plan to close our offices in Bangalore, India and The Woodlands, Texas, and consolidate the activities of these two locations with our Mountain View, California and Nashville, Tennessee operations in an effort to increase the efficiency of operations and promote collaboration among our engineering teams. We substantially completed this consolidation by September 30, 2010.

The \$1.2 million of third quarter 2010 restructuring/impairment charges were recorded primarily in operating expenses, consisting of \$0.3 million in severance for departing employees, \$0.5 million relocation benefits for transferring employees, \$0.2 million of exit and disposal costs related to the closed facilities, and \$0.2 million for impairment of leasehold improvements and certain service tax reimbursement claims. The majority of the \$0.2 million remaining restructuring accrued liabilities at December 31, 2010 were paid by September 30, 2011, except for the final legal/administrative exit costs for the India operation.

Note 16. Subsequent Event

In October 2011, we entered into a lease agreement for approximately 100,000 square feet of office space. Pursuant to the lease agreement, the landlord will construct a single, three-story building of rentable space located at 590 Middlefield Road in Mountain View, California which we will subsequently lease. The term of the lease agreement is for a period of 120 months, expected to commence November 2012, with a base lease commitment of approximately \$40.0 million. We have two options to extend the term of the lease agreement at market rates; both extensions are for an additional 60 month term.

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:

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- 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, may, 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 collectively 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. Over 2,500 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

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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 and Nine Months Ended September 30, 2011

Our revenues have grown year-over-year for both product and services, with overall revenue growth of 14.5%, comparing \$64.4 million for the third quarter of 2011 with \$56.3 million for the third quarter of 2010. Overall revenue growth was 10.6% for the nine month period ending September 30, 2011 at \$182.6 million as compared to \$165.1 million for the same period in 2010. Product revenue growth is reflective of installations as allowed for by our customers' schedules while service revenue growth reflects a growing installed base. Our profitability improved with both product margins and service margins showing gains for the nine month period ended September 30, 2011 over the prior year period. Product and service margins were virtually unchanged for the three months ended September 30, 2011 over the prior year quarter.

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 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 third quarter of 2011, we achieved higher performance in total revenues and net income compared to the second quarter of 2011. Product revenue increased by \$3.6 million or 7.7%, while service revenue decreased slightly, by \$0.1 million. Overall gross margins for the third quarter of 2011 declined to 53.5% from 55.4% in the prior quarter. Product gross margins declined to 55.0% on revenue of \$49.8 million as compared with 57.3% on revenue of \$46.2 million in the second quarter of 2011. Service gross margins also declined, to 48.4% on revenue of \$14.7 million as compared to 49.5% margins on \$14.8 million in revenue in the prior quarter. The initial supply of our new computer console for the G4 platform was produced in our factory in California to assure a smooth transition and quick correction of any initial production issues.

Consequently, we carried inventories of components and finished goods normally carried by our suppliers. That early production carried a higher cost than products supplied through our normal manufacturing partners in China, which contributed to a decrease in gross margin to 53.4% between the second and third quarters. We have now transitioned the bulk of our production to China, and expect to see product gross margins increase again as the California-based production is consumed.

Cash, cash equivalents and short-term investments increased during the third quarter of 2011 from \$181.3 million to \$187.4 million, with a \$3.2 million sequential quarter improvement in operating cash flow deriving primarily from stabilization of gross inventories after the preceding six months of inventory growth in support of our transition to our G4 platform. Additionally, settlements for share repurchases required \$1.3 million of cash during the three months ended September 30, 2011.

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

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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 nine months ended September 30, 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 exists.** We use signed customer contracts and signed customer purchase orders as evidence of an arrangement for leases and sales. For service engagements, we use a signed services agreement and a statement of work to evidence an

arrangement.

- **Delivery has occurred.** Equipment and 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 upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on delivery of products to the customer, including transfer of title and risk of loss assuming all other revenue criteria are met. We recognize revenue from sales of products to distributors upon delivery assuming all other revenue criteria are met since we do not allow for rights of return or refund. Assuming all other revenue criteria are met, we recognize revenue for support services ratably over the related support services contract period. We recognize revenue on training and professional services as they are performed.

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

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

In arrangements with multiple deliverables, assuming all other revenue criteria are met, we recognize revenue for individual delivered items if they have value to the customer on a standalone basis. 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

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

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

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

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 or the nine months ended September 30, 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, less than half of the revenue we recognized during the nine months ended September 30, 2011 was 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.

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 management's evaluation of our disclosure controls and procedures as of September 30, 2011, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures as of September 30, 2011 were not effective at the reasonable assurance level. Our remediation efforts commenced in connection with the identified material weakness described below have not yet been completed, and therefore we continue to have such material weakness which was evaluated in the same manner 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

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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 our 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 nine months ended September 30, 2011, we took the following remediation steps:

- We engaged our third-party tax consultant to enhance the tax provision review process. These enhancements include 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 firm.
- We commenced a search for a Senior Tax Manager.
- We continued 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 September 30, 2011, our consolidated results of operations for the three months and nine months ended September 30, 2011 and our cash flows for the nine months ended September 30, 2011.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement*, which amends the fair value guidance in ASC 820, thereby completing the joint project to achieve substantially converged fair value measurement and disclosure requirements for U.S. GAAP and IFRS. The new guidance changes some fair value measurement principles (such as extending the Level 1 prohibition of blockage discounts to Levels 2 and 3 in the fair value hierarchy) and expands disclosure requirements, primarily for Level 3 measurements. This update will be effective for us the first quarter of 2012, applied prospectively with no early adoption permitted. We do not anticipate it will have any significant impact on our financial position, operating results or cash flows.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. This ASU prohibits equity statement presentation of other comprehensive income, requiring instead either a single continuous operating statement or two separate, but consecutive, statements of net income and other comprehensive income. The new guidance does not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings-per-share computation based on net income does not change. This update will be effective for us the first quarter of 2012, applied retrospectively with early adoption permitted. As of November 2011, FASB was considering deferral of some aspects of this ASU. As ASU 2011-05 is only a presentation standard, its adoption will not have any significant impact on our financial position, operating results or cash flows.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, giving entities the option to determine qualitatively whether they can bypass the two-step goodwill impairment test in ASC 350-20, *Intangibles, Goodwill and Other*. Under the new guidance, if an entity chooses to perform a qualitative assessment and determines that it is more likely than not (more than 50% likelihood) that the fair value of a reporting unit is less than its carrying amount, it would then perform Step 1 of the annual goodwill impairment test and, if necessary, proceed to Step 2. Otherwise, no further evaluation would be necessary. The entity may choose each reporting period for which reporting units, if any, the qualitative assessment will be made. This update will be effective for us for any 2012 goodwill impairment tests, with early adoption permitted. We do not anticipate it will have any significant impact on our financial position, operating results or cash flows, as we currently apply the existing Step 1 test for our single-reporting unit business.

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The table below shows the components of our results of operations as percentages of total revenues for the three months and nine months ended September 30, 2011 and 2010:

| | Three Months Ended September 30, (in thousands, except percentages) | | | | Nine Months Ended September 30, (in thousands, except percentages) | | | |
|--|--|-----------------|-----------|-----------------|---|-----------------|------------|-----------------|
| | 2011 | % of Revenue | 2010 | % of Revenue | 2011 | % of Revenue | 2010 | % of Revenue |
| | \$ | | \$ | | \$ | | \$ | |
| Revenues: | | | | | | | | |
| Product revenue | \$ 49,790 | 77.3% | \$ 43,241 | 76.8% | \$ 138,583 | 75.9% | \$ 127,559 | 77.2% |
| Service and other revenues | 14,649 | 22.7% | 13,045 | 23.2% | 44,021 | 24.1% | 37,580 | 22.8% |
| Total revenues | 64,439 | 100.0% | 56,286 | 100.0% | 182,604 | 100.0% | 165,139 | 100.0% |
| Cost of revenues: | | | | | | | | |
| Cost of product revenues | 22,429 | 34.8% | 19,449 | 34.5% | 59,995 | 32.9% | 57,723 | 35.0% |
| Cost of service and other revenues | 7,562 | 11.8% | 6,698 | 11.9% | 22,704 | 12.4% | 20,823 | 12.6% |
| Restructuring charges | | % | 39 | 0.1% | | % | 39 | % |
| Total cost of revenues | 29,991 | 46.6% | 26,186 | 46.5% | 82,699 | 45.3% | 78,585 | 47.6% |
| Gross profit | 34,448 | 53.4% | 30,100 | 53.5% | 99,905 | 54.7% | 86,554 | 52.4% |
| Operating expenses: | | | | | | | | |
| Research and development | 6,019 | 9.3% | 6,089 | 10.8% | 16,139 | 8.8% | 15,604 | 9.4% |
| Selling, general and administrative | 23,635 | 36.7% | 19,851 | 35.3% | 73,713 | 40.4% | 61,789 | 37.4% |
| Restructuring /asset impairment charges | | % | 1,157 | 2.0% | | % | 1,157 | 0.7% |
| Total operating expenses | 29,654 | 46.0% | 27,097 | 48.1% | 89,852 | 49.2% | 78,550 | 47.5% |
| Income from operations | 4,794 | 7.4% | 3,003 | 5.4% | 10,053 | 5.5% | 8,004 | 4.9% |
| Interest and other income (expense) | (191) | (0.3)% | 159 | 0.3% | (66) | % | 286 | 0.2% |
| Income before provision for income taxes | 4,603 | 7.1% | 3,162 | 5.7% | 9,987 | 5.5% | 8,290 | 5.1% |
| Provision for income taxes | 1,609 | 2.5% | 1,886 | 3.4% | 3,736 | 2.1% | 4,070 | 2.5% |
| Net income | \$ 2,994 | 4.6% | \$ 1,276 | 2.3% | \$ 6,251 | 3.4% | \$ 4,220 | 2.6% |

Product Revenues, Cost of Product Revenues and Gross Profit

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The table below shows our product revenues, cost of product revenues and gross profit for the three months and nine months ended September 30, 2011 and 2010 and the percentage changes between those periods:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------------------|----------------------------------|-----------|----------|---------------------------------|------------|----------|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Product revenues | \$ 49,790 | \$ 43,241 | 15.1% | \$ 138,583 | \$ 127,559 | 8.6% |
| Cost of product revenues | 22,429 | 19,449 | 15.3% | 59,995 | 57,723 | 3.9% |
| Gross profit | \$ 27,361 | \$ 23,792 | 15.0% | \$ 78,588 | \$ 69,836 | 12.5% |

Product revenues increased by \$6.5 million, or 15.1% in the three months ended September 30, 2011 as compared to the same period in 2010. Product revenues increased by \$11.0 million, or 8.6% in the nine months ended September 30, 2011 as compared to the same period in 2010. Our ability to grow revenue 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 customer needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues is primarily dependent on when our customers schedules allow for installations. Timing of installations, as well as increased sales to customers, in part due to revenues generated from our G4 cabinet console platform, resulted in increased revenue in the three and nine months ended September 30, 2011.

Cost of product revenues increased by \$3.0 million, or 15.3% in the three months ended September 30, 2011 as compared to the same period in 2010, and increased by \$2.3 million, or 3.9% in the nine months ended September 30, 2011 as compared to the same period in 2010. The increase for both the three month and nine month comparisons was primarily a function of revenue growth. Cost of product revenues was also unfavorably impacted by product mix and higher product costs related to the manufacturing cost of the new G4 cabinet console platform released on May 2, 2011. The early production units of the G4 cabinet console were at a higher

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product cost than our previous generation product. This is due to initial production line ramp up and longer production cycles to validate the manufacturability and quality of the new console. The majority of the higher production line cost was absorbed in the three months ended September 30, 2011, and our future cost of product revenues are expected to be more reflective of the previous product.

Gross profit on product revenue increased by \$3.6 million, or 15.0% in the three months ended September 30, 2011 as compared to the same period in 2010. Gross profit on product revenue increased by \$8.8 million, or 12.5% in the nine months ended September 30, 2011 as compared to the same period in 2010. The increases for both periods were the result of the increase in revenue and the higher initial costs of the new G4 cabinet console detailed above.

We expect total revenues in 2011 to increase approximately 10% compared to 2010, 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.

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

The table below shows our service and other revenues, cost of service and other revenues and gross profit for the three months and nine months ended September 30, 2011 and 2010 and the percentage change between those periods:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|------------------------------------|----------------------------------|-----------|----------|---------------------------------|-----------|----------|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Service and other revenues | \$ 14,649 | \$ 13,045 | 12.3% | \$ 44,021 | \$ 37,580 | 17.1% |
| Cost of service and other revenues | 7,562 | 6,698 | 12.9% | 22,704 | 20,823 | 9.0% |
| Restructuring charges | | 39 | (100.0)% | | 39 | (100.0)% |
| Gross profit | \$ 7,087 | \$ 6,308 | 12.3% | \$ 21,317 | \$ 16,718 | 27.5% |

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 \$1.6 million, or 12.3% in the three months ended September 30, 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. Service and other revenues increased by \$6.4 million, or 17.1% in the nine months ended September 30, 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, higher professional service revenues, growth in analytical services and support and higher month-to-month rentals.

Cost of service and other revenues increased by \$0.9 million, or 12.9% in the three months ended September 30, 2011 as compared to the same period in 2010. Cost of service and other revenues increased by \$1.9 million, or 9.0% in the nine months ended September 30, 2011 as compared to the same period in 2010. This increase was primarily due to an increase in service support headcount and spare parts expense in support of the expanded service base.

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Gross profit on service and other revenues increased by \$0.8 million, or 12.3% in the three months ended September 30, 2011 as compared to the same period in 2010. Gross profit on service and other revenues increased by \$4.6 million, or 27.5% in the nine months ended September 30, 2011 as compared to the same period in 2010. This increase 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 for the remainder of 2011.

Operating Expenses

The table below shows our operating expenses for the three months and nine months ended September 30, 2011 and 2010 and the percentage changes between those periods:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|----------------------------------|-----------|----------|---------------------------------|-----------|----------|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| | (in thousands) | | | (in thousands) | | |
| Research and development | \$ 6,019 | \$ 6,089 | (1.1)% | \$ 16,139 | \$ 15,604 | 3.4% |
| Selling, general and administrative | 23,635 | 19,851 | 19.1% | 73,713 | 61,789 | 19.3% |
| Restructuring / asset impairment charges | | 1,157 | (100.0)% | | 1,157 | (100.0)% |
| Total operating expenses | \$ 29,654 | \$ 27,097 | 9.4% | \$ 89,852 | \$ 78,550 | 14.4% |

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Research and Development. Research and development expenses decreased by \$0.1 million, or 1.1% in the three months ended September 30, 2011 as compared to the same period in 2010. Research and development expenses represented 9.3% and 10.8% of total revenues in the three months ended September 30, 2011 and 2010, respectively. The decrease was due primarily to a \$0.8 million increase in compensation costs related to increased staffing, offset by decreased spending of \$0.4 million and \$0.3 million for outside services and prototypes, respectively, and a \$0.2 million decrease reflecting higher labor capitalized for software development in the current period. The capitalization of software development costs increased from \$0.2 million for the third quarter of 2010 to \$0.4 million for the third quarter of 2011, due to modestly higher beta testing of new products in the current period.

Research and development expenses increased \$0.5 million, or 3.4% in the nine months ended September 30, 2011 as compared to the corresponding period in 2010. Research and development represented 8.8% and 9.4% of total revenues in the nine months ended September 30, 2011 and 2010, respectively. The increase was due primarily to a \$2.3 million increase in compensation costs related to increased staffing, \$0.3 million from the year ago period's favorable timing effect on expenses due to a reduction in accrued vacation and \$0.3 million in other increases. These increases were offset by decreased spending of \$0.5 million for outside services and a \$1.9 million decrease reflecting higher labor capitalized for software development in the current period. The capitalization of software development costs increased from \$1.6 million for the nine months ended September 30, 2010 to \$3.5 million for the nine months ended September 30, 2011, due to the higher level of beta testing that preceded several new product introductions in the third quarter of 2011.

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 \$3.8 million, or 19.1% in the three months ended September 30, 2011 compared to the same period in 2010. This increase was primarily due to a \$1.4 million increase in compensation costs related to increased sales and marketing staffing and a \$0.8 million increase in freight and travel costs, as well as a \$2.4 million increase due to the non-recurrence, in the 2011 period, of the September 2010 Flo litigation settlement, which resulted in release of the \$2.4 million liability in excess of the amounts settled as a favorable third quarter 2010 expense adjustment. These increases were partially offset by reductions of \$0.6 million in professional services and \$0.2 million of other costs. Selling, general and administrative expenses represented 36.7% and 35.3% of total revenues in the three months ended September 30, 2011 and 2010, respectively.

Selling, general and administrative expenses increased \$11.9 million, or 19.3% in the nine months ended September 30, 2011 as compared to the corresponding period in 2010. This increase was primarily due to a \$6.3 million increase in compensation costs related to increased sales and marketing staffing, \$0.6 million from the year ago period's favorable timing effect on expenses due to a reduction in accrued vacation, the aforementioned \$2.4 million increase from the September 2010 Flo litigation liability release, a \$1.0 million increase for the 2011 Medacast litigation settlement and related legal costs, and a \$2.2 million increase in freight, travel and other costs. Reduced outside service spending of \$0.6 million partially offset these increases. Selling, general and administrative expenses represented 40.4% and 37.4% of total revenues in the nine months ended September 30, 2011 and 2010, respectively.

We expect selling, general and administrative expenses to be consistent in absolute dollars for the remainder of 2011 as we have aligned our cost structure to the current economic and market environments.

Restructuring charges. Operating expenses for the three months and nine months ended September 30, 2010 included restructuring charges of \$1.2 million related to facilities consolidation involving closure of our facilities in The Woodlands, Texas and Bangalore, India. Costs recorded related primarily to severance and relocation pay, lease terminations, asset impairment, consulting and travel. Additionally, the tax provision of \$1.9 million for the three months ended September 30, 2010 included \$0.6 million of discrete tax impacts from the closure of the Bangalore, India facility, related to repatriation of accumulated foreign earnings. We substantially completed this consolidation by September 30, 2010. Most of the remaining restructuring related accrued liabilities have been paid by September 30, 2011, except for the immaterial final legal/administrative exit costs for the India operation.

Share-based Compensation. The impact of share-based compensation on our operating results for the three months and nine months ended September 30, 2011 is discussed in Note 14, Stock Option Plans and Share-Based Compensation.

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 rate before discrete items was 40% and 45% for the nine-month periods ended September 30, 2011 and 2010, respectively. The 2011 annualized effective tax rate differed from the

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statutory rate of 35% primarily due to the negative impact of state income taxes, and non-deductible equity charges under ASC 740-718, which were partially offset by the benefit of 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 nine-month periods ended September 30, 2011 and 2010 was approximately 37% and 49%, respectively.

Liquidity and Capital Resources

We had cash and cash equivalents of \$179.3 million at September 30, 2011, as compared to \$175.6 million at December 31, 2010, plus an additional \$8.1 million of short term investments at each reporting date. All of our cash is in low risk short term money market funds or demand deposits. The \$8.1 million of short term investments held at September 30, 2011 consisted of California revenue anticipation notes which are scheduled to mature June 26, 2012. 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 nine months ended September 30, 2011 and 2010 consisted of the following (in thousands):

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2011 | 2010 |
| Net cash provided by operating activities | \$ 14,629 | \$ 10,568 |
| Net cash used in investing activities | (10,421) | (12,238) |
| Net cash (used in) provided by financing activities | (400) | 11,071 |
| Effect of exchange rate changes on cash and cash equivalents | (140) | (6) |
| Net increase in cash and cash equivalents | \$ 3,668 | \$ 9,395 |

Operating activities provided \$14.6 million of cash during the nine months ended September 30, 2011, compared to \$10.6 million for the nine months ended September 30, 2010. The main drivers for the \$4.0 million increase in cash generated from operations were a \$2.0 million increase in net income, a \$3.7 million increase from the change in prepaid expenses, a \$2.0 million increase from the change in accrued liabilities and a \$2.2 million increase from the change in deferred service revenue. This increase was primarily offset by an \$8.3 million difference in the change in inventory due to purchase and ramp up in anticipation of several product introduced in May 2011 and a \$2.1 million change in accounts payable.

Cash used in investing activities totaled \$10.4 million during the nine months ended September 30, 2011, compared to \$12.2 million of cash used in investing activities during the nine months ended September 30, 2010. This \$1.8 million decrease in cash used was primarily due to the prior year's \$5.7 million acquisition of Pandora on September 29, 2010, offset by a \$1.9 million increase in spending in the current period for beta testing of several new software applications for external sale or lease and a \$2.1 million increase in spending on property and equipment.

Cash used in financing activities was \$0.4 million during the nine months ended September 30, 2011, as compared to cash generation of \$11.1 million during the nine months ended September 30, 2010, a difference of \$11.5 million in cash used. Cash usage in the nine months ended September 30, 2011 included \$10.6 million to acquire our stock under our stock repurchase program in the period as compared to no such activities in the prior year period. Additionally, cash generated from exercises of stock options was \$0.9 million lower during the nine months

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ended September 30, 2011 as compared to the prior year period.

Contractual Obligations

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

The following table summarizes our contractual obligations at September 30, 2011 (in thousands):

| | Total | Less than one year | One to three years | Three to five years | More than five years |
|---|-----------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------|
| Operating leases(1) | \$ 3,891 | \$ 2,595 | \$ 1,029 | \$ 267 | \$ |
| Commitments to contract manufacturers and suppliers(2) | 6,064 | 6,064 | | | |
| Total | \$ 9,955 | \$ 8,659 | \$ 1,029 | \$ 267 | \$ |

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

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

In October 2011, we entered into a lease agreement for approximately 100,000 square feet of office space. Pursuant to the lease agreement, the landlord will construct a single, three-story building of rentable space located at 590 Middlefield Road in Mountain View, California which we will subsequently lease. The term of the lease agreement is for a period of 120 months, expected to commence November 2012, with a base lease commitment of approximately \$40.0 million. We have two options to extend the term of the lease agreement at market rates; both extensions are for an additional 60 month term.

Off-Balance Sheet Arrangements

As of September 30, 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 September 30, 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 September 30, 2011. Based on such evaluation, our chief executive officer and chief financial officer have concluded that our efforts to remediate the material

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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 September 30, 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 September 30, 2011, our consolidated results of operations for the three months and nine months ended September 30, 2011, and our cash flows for the nine months ended September 30, 2011.

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 September 30, 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

Medacis Solutions Group, LLC. On July 8, 2009, Medacis Solutions Group LLC filed a complaint against Omnicell in U.S. District Court in the Southern District of New York, entitled *Medacis Solutions Group LLC v. Omnicell, Inc.*, case number 09 CV 6128, alleging infringement of Medacis' 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 Medacis, and that Omnicell misappropriated Medacis' s trade secrets and confidential information in violation of the NDA. Medacis is sought unspecified monetary damages and an injunction against the Company' s infringement of the specified patent and/or misuse of any of Medacis' s trade secrets pursuant to the NDA or in violation of California code.

On October 20, 2010, Omnicell filed a declaratory judgment complaint against Medacis Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled *Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacis Solutions Group, LLC*, Case Number 10-cv-4746 (the *California Action*). Pandora Data Systems, Inc. had entered into a Settlement and License Agreement with Medacis in October 2008 (the *Settlement Agreement*) pursuant to which, among other things, Medacis granted to Pandora a non-exclusive license to Medacis' s U.S. Patent Number 6,842,736. We sought an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., was entitled to certain rights and benefits under the license. On November 12, 2010, Medacis 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 Medacis' 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*). Also on November 12, 2010, Medacis filed a motion in the U.S. District Court in the District of Connecticut to reopen a litigation entitled *Medacis 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. Medacis sought, 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 May 19, 2011, we entered into a final settlement agreement with Medacis, pursuant to which we agreed to pay Medacis \$1.0 million in exchange for a fully-paid, perpetual license to Medacis' 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 Medacis in the event certain change-in-control conditions are met. The \$1.0 million loss for this settlement was accrued during the three months ended March 31, 2011 and recorded within selling, general and administrative expenses, and was paid during the quarter ended June 30, 2011.

Item 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Our business faces significant risks and the risks described below may not be the only risks we face. Additional risks not presently

known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations or financial condition could suffer and the market price of our common stock could decline.

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

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, and as Congress, regulatory agencies and other state legislatures continue to review and assess additional healthcare legislation and regulations, there may be an impact on our business. Healthcare facilities may decide to postpone or scale back spending until the implications of such healthcare enactments are more clearly understood, which may affect the demand for our products and harm our business.

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

The medication management and supply chain solutions market is intensely competitive. We expect continued and increased competition from current and future competitors, many of which have significantly greater financial, technical, marketing and other resources than we do. Our current direct competitors in the medication management and supply chain solutions market include CareFusion Corporation (a spinoff from Cardinal Health, Inc., which includes Pyxis Corporation), McKesson Automation Inc. (a business unit of McKesson Corporation), AmerisourceBergen Corporation (through its acquisition of MedSelect, Inc. and Automed), Cerner Corporation, Emerson Electronic Co. (through its acquisitions of Flo Healthcare LLC, Lionville Systems, Inc. and medDispense), PhACTs LLC, Talyst, Inc., Stinger Medical, 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., Vanas, Lawson Software, Inc. and MACH4 Automatisierungstechnik GmbH.

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

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

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Changing customer requirements could decrease the demand for our products and services 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 effect upon our operating results and could harm our business.

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

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

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

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

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- 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 twelve 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.

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 has increased by 10.6% for the nine months ended September 30, 2011 as compared to the prior year same period. For our last completed fiscal year, 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.

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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.

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 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;

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- the number, timing and significance of product enhancements and new product announcements by us or our competitors;
- the timing and significance of any acquisition or business development transactions that we may consider or negotiate and the revenues, costs and earnings that may be associated with these transactions;
- the relative proportions of revenues we derive from products and services;
- fluctuations in the percentage of sales attributable to our international business;
- our customers' budget cycles;
- changes in our operating expenses and our ability to stabilize expenses;
- our ability to generate cash from our accounts receivable on a timely basis;
- the performance of our products;
- changes in our business strategy;

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- 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., Carolina Shared Services, LLC, Child Health Corporation of America, HealthTrust Purchasing Group, L.P., MedAssets Supply Chain Systems, Novation, LLC, Premier Purchasing Partners, L.P., 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.

If construction of our new headquarters building is not completed on schedule, we risk increased costs and possible interruption of our business.

We entered into a long term lease for a new headquarters building that will be constructed between November 2011 and November 2012. We intend to move into the new building at the end of 2012. In the event that our new facility is not completed in time for us to move prior to year end 2012, the lease for our current headquarters facility allows for continuation of the lease on a month to month basis for one year following November 30, 2012, however the monthly rent pursuant to such basis would be at a substantial increase to our current monthly rent. If our new headquarters facility is not completed by November 30, 2012, we would, under the continuation terms of our current lease, incur additional costs of \$6,368 per day for up to a period of one year. If the new headquarters facility is not completed by November 30, 2013, we do not expect our current landlord to further extend our current lease and therefore we could experience interruptions to our business while we secure a new headquarters facility.

Our disclosure controls and procedures for internal control over financial reporting were not effective as of December 31, 2010, March 31, 2011, June 30, 2011 and September 30, 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.

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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

As of December 31, 2010, March 31, 2011, June 30, 2011 and September 30, 2011 our 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 and nine months ended September 30, 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.

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

During the nine months ended September 30, 2011, our common stock traded between \$12.86 and \$18.15 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.

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.

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

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

Complications in connection with our 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

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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 September 30, 2011, we had options outstanding to purchase approximately 4.6 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 \$13.23 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 September 30, 2011, the balance of our unsold leases to U.S. government customers was \$11.2 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 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

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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

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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;
- 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;

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- 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

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also covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties and other sanctions. In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our customers to obtain, use or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

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

We intend to continue to expend substantial funds for research and development activities, product development, sales and marketing activities and the potential acquisition and integration of complementary products and businesses. As a consequence, in the future we may need to seek additional financing to meet our working capital needs and to finance capital expenditures, as well as to

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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.

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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.

Table of Contents**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 September 30, 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 |
|----------------------|--|--|--|--|
| July 1 31, 2011 | | \$ | | \$ 16.9 million |
| August 1 31, 2011 | 13,796 | 14.02 | 13,796 | \$ 16.7 million |
| September 1 30, 2011 | 176,568 | 14.09 | 168,988 | \$ 14.4 million |
| Total | 190,364 | \$ 14.08 | 182,784 | |

(1) Of the total, 182,784 shares of common stock were repurchased under our 2008 stock repurchase program, and 7,580 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) |
| 101.INS(7) | XBRL Instance Document |
| 101.SCH(7) | XBRL Taxonomy Extension Schema Document |
| 101.CAL (7) | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF(7) | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB(7) | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE(7) | XBRL Taxonomy Extension Presentation Linkbase Document |

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- (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.
 - (7) Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

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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: November 4, 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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INDEX TO 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) |
| 101.INS(7) | XBRL Instance Document |
| 101.SCH(7) | XBRL Taxonomy Extension Schema Document |
| 101.CAL (7) | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF(7) | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB(7) | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE(7) | XBRL Taxonomy Extension Presentation Linkbase Document |

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- (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.
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