OMNICELL, Inc
Form 10-Q
November 08, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission File Number 000-33043

Omnicell, Inc.

(Exact name of registrant as specified in its charter)

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

1201 Charleston Road

Mountain View, CA 94043

(650) 251-6100

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

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

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

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

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

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

The number of shares of Registrant s common stock (par value $0.001) outstanding as of November 3, 2010 was 32,959,175.

OMNICELL, INC.

FORM 10-Q

Table of Contents

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2010 (unaudited)	December 31, 2009 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 178,625	$ 169,230
Accounts receivable, net of allowances of $976 and $868 at September 30, 2010 and December 31, 2009, respectively	45,070	40,826
Inventories	9,345	10,502
Prepaid expenses	11,198	8,780
Deferred tax assets	15,247	15,247
Other current assets	6,882	6,159
Total current assets	266,367	250,744
Property and equipment, net	13,512	13,209
Non-current net investment in sales-type leases	9,345	10,104
Goodwill	28,650	24,982
Other intangible assets	5,164	4,233
Non-current deferred tax assets	8,089	9,666
Other assets	8,610	9,322
Total assets	$ 339,737	$ 322,260
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 13,695	$ 10,313
Accrued compensation	6,747	8,095
Accrued liabilities	8,900	11,997
Deferred service revenue	15,881	14,457
Deferred gross profit	12,521	13,689
Total current liabilities	57,744	58,551
Long-term deferred service revenue	19,169	20,810
Other long-term liabilities	886	595
Total liabilities	77,799	79,956
Stockholders equity:		
Total stockholders equity	261,938	242,304
Total liabilities and stockholders equity	$ 339,737	$ 322,260

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

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

OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Product revenues	$ 43,241	$ 42,854	$ 127,559	$ 127,221
Services and other revenues	13,045	11,103	37,580	31,583
Total revenues	56,286	53,957	165,139	158,804
Cost of revenues:				
Cost of product revenues	19,449	20,087	57,723	59,542
Cost of services and other revenues	6,698	6,621	20,823	20,055
Restructuring charges	39		39	1,209
Total cost of revenues	26,186	26,708	78,585	80,806
Gross profit	30,100	27,249	86,554	77.998
Operating expenses:				
Research and development	6,089	4,981	15,604	13,532
Selling, general and administrative	19,851	21,324	61,789	63,861
Restructuring / asset impairment charges	1,157		1,157	1,315
Total operating expenses	27,097	26,305	78,550	78,708
Income (loss) from operations	3,003	944	8.004	(710)
Interest and other income, net of other expense	159	56	286	433
Income (loss) before provision for (benefit from) income taxes	3,162	1,000	8,290	(277)
Provision for (benefit from) income taxes	1,886	146	4,070	(165)
Net income (loss)	$ 1,276	$ 854	$ 4,220	$ (112)
Net income (loss) per share-basic	$ 0.04	$ 0.03	$ 0.13	$ 0.00
Net income (loss) per share-diluted	$ 0.04	$ 0.03	$ 0.13	$ 0.00
Weighted average shares outstanding:				
Basic	32,822	31,704	32,534	31,578
Diluted	33,540	32,380	33,383	31,578

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

OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ 4,220	$ (112)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,493	7,171
Loss on disposal/impairment of fixed assets	147	251
Gain on legal settlement	(2,439)	
Provision for (recovery of) receivable allowance	(674)	648
Share-based compensation expense	6,452	7,271
Income tax benefits from employee stock plans	2,365	
Excess tax benefits from employee stock plans	(4,473)	
Provision for excess and obsolete inventories	646	2,379
Deferred income taxes	1,577	159
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,139)	(886)
Inventories	511	104
Prepaid expenses	(2,419)	(141)
Other current assets	320	3,448
Net investment in sales-type leases	1,007	650
Other assets	(868)	(1,831)
Accounts payable	3,312	1,054
Accrued compensation	(1,513)	(1,268)
Accrued liabilities	(1,714)	1,225
Deferred service revenue	1,016	4,248
Deferred gross profit	(1,168)	1
Other long-term liabilities	291	(97)
Net cash provided by operating activities	8,950	24,314
Cash flows from investing activities:		
Business acquisition, net of cash acquired	(5,703)	
Acquisition of intangible assets and intellectual property	(168)	(122)
Purchases of property and equipment	(4,755)	(2,065)
Net cash used in investing activities	(10,626)	(2,187)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase and stock option plans	6,598	3,746
Excess tax benefits from employee stock plans	4,473	
Net cash provided by financing activities	11,071	3,746
Net increase in cash and cash equivalents	9,395	25,873
Cash and cash equivalents at beginning of period	169,230	120,439
Cash and cash equivalents at end of period	$ 178,625	$ 146,312

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

OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization & Summary of Significant Accounting Policies

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

Basis of Presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and 2009, and cash flows for the nine months ended September 30, 2010 and 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles, or GAAP, have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Our results of operations for the three and nine months ended September 30, 2010 and cash flows for the nine months ended September 30, 2010 are not necessarily indicative of results that may be expected for the year ending December 31, 2010, or for any future period.

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

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

Fair value of financial instrument. We value our financial assets and liabilities on a recurring basis using the fair value hierarchy established in Accounting Standards Codification (ASC) 820. ASC 820 describes three levels of inputs that may be used to measure fair value, as follows:

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

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

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

At September 30, 2010 and December 31, 2009, our financial assets utilizing Level 1 inputs included cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. We do not currently have any material financial instruments utilizing Level 2 and Level 3 inputs.

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 $0.5 million and $0.6 million for the three months ending September 30, 2010 and 2009 respectively. For the nine months ending September 30, 2010 and 2009, the shipping and handling expenses totaled $1.5 million and $1.5 million, respectively.

Concentration of revenues and accounts receivable. There were no customers accounting for 10% or more of revenues in the three months ended September 30, 2010 and 2009. Additionally, there were no customers accounting for 10% or more of revenues in the nine months ended September 30, 2010 and 2009. No customer accounted for 10% or more of accounts receivable at either September 30, 2010 or December 31, 2009.

Sales of accounts receivable. We offer our customers multi-year, non-cancelable payment terms. Generally we sell non-U.S. government receivables to third-party leasing companies on a non-recourse basis. We reflect the financing costs on the sale of these receivables as a component of our revenue. We record our revenue at the net present value of the multi-year payment stream using the contractual interest rate charged to us by the third-party leasing company. We record the sale of our accounts receivables as true sales in accordance with ASC 860, Transfers and Servicing. During the nine months ended September 30, 2010 and 2009, we transferred non-recourse accounts receivable totaling $40.2 million and $30.1 million, respectively, which approximated fair value, to third party leasing companies. At September 30, 2010 and December 31, 2009, accounts receivable included $0.9 million and $1.6 million, respectively, due from third party leasing companies for transferred non-recourse accounts receivable.

Dependence on suppliers. We have supply agreements for construction and supply of several sub-assemblies and inventory management of sub-assemblies used in our hardware products. In 2009 and 2010 there was one significant supplier. There are no minimum purchase requirements. The contracts may be terminated by either the supplier or by us without cause and at any time upon delivery of from two to six months notice. Purchases from the one significant supplier for the three and nine months ended September 30, 2010 were approximately $5.2 million and $14.1 million, respectively. Purchases from this significant supplier for the comparable periods in 2009 were approximately $5.1 million and $15.7 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, we recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management s expectations could have a material impact on our financial condition and operating results.

Total comprehensive income (loss). Total comprehensive income (loss) is the same as net income (loss) for the three and nine months ended September 30, 2010 and 2009.

Segment Information. We manage our business on the basis of one reportable segment. Our products and technologies share similar distribution channels and customers and are sold primarily to hospitals and healthcare facilities to improve patient safety and care and enhance operational efficiency. Our sole operating segment is medication and supply dispensing systems. Substantially all of our long-lived assets are located in the United States. For the three and nine months ended September 30, 2010 and 2009, substantially all of our total revenues and gross profits were generated by the medication and supply dispensing systems operating segment from customers in the United States.

Recently Issued Accounting Pronouncements.

In October 2009, the FASB issued Accounting Standards Updates (ASU) 2009-13 and 2009-14, or ASU 2009-13 and ASU 2009-14, which amended ASC 605, Revenue Recognition, and ASC 985-605, Software - Revenue Recognition, respectively. ASU 2009-13 requires companies to allocate arrangement consideration in multiple-element arrangements based on an element s estimated selling price if vendor-specific or other third-party evidence of selling price is not available. ASU 2009-14 revises the guidance regarding the types of arrangements that fall under the scope of the software recognition guidance, providing a scope exception for many transactions that were previously within the scope of Subtopic ASC 985-605, including tangible products containing software components and non-software components that function together to deliver the product s essential functionality and places them under Subtopic ASC 605-25, thus requiring the new multiple-element revenue allocation under ASU 2009-13. Both

ASU 2009-13 and ASU 2009-14 are effective for fiscal years beginning on or after June 15, 2010. Earlier application is permitted. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements. We intend to adopt these ASUs at the beginning of fiscal year 2011.

In July 2010, the FASB issued Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses as ASU 2010-20, amending ASC 310, Receivables . The intent of ASU 2010-20 is to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. For public entities, the new disclosures for the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010, with new disclosures about period activity effective for interim and annual reporting periods beginning on or after December 15, 2010. We are currently evaluating the impact of the adoption of ASU 2010-20 on our consolidated financial statements.

Note 2. Acquisition

On September 29, 2010, Omnicell, Inc. completed the acquisition of all of the outstanding capital stock of Pandora Data Systems (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 to all major medication management systems in the market

In connection with the acquisition, we recorded $3.7 million of goodwill, equal to the excess of the purchase prices of the fair values of the net tangible and intangible assets acquired. The following table summarizes the Fair Value acquisition accounting for Pandora on the September 29, 2010 purchase date (amounts in thousands of dollars):

		Fair Values Acquired
Cash	$	297
Accounts receivable/other		416
Indemnification asset		1,000
Intangibles		2,420
Goodwill		3,668
Total assets		7,801
Accrued compensation/other		291
Deferred service revenue		510
Litigation contingency		1,000
Total liabilities		1,801
Net assets acquired	$	6,000
Cash consideration	$	6,000

The $0.4 million fair value of accounts receivable consists of gross contractual commitments from customers less the amount not expected to be collected. The $0.5 million of deferred service revenue represents the fair value, using estimated discounted cash flow, 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 have 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.

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.

		Thousands of Dollars	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 avg. 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 for the nine months ended September 30, 2010 and 2009 have been omitted since the acquisition of Pandora is not material.

Note 3. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares less shares subject to repurchase plus, if dilutive, potential common stock outstanding during the period. Potential common stock include the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method for those arrangements which are in the money. Potential common stock which is out of the money is excluded as the impact would be anti-dilutive. Additionally, in a period of net loss such as the nine months ended September 30, 2009, all potential common stock is excluded and, as a result, the basic and diluted net loss per share is identical. The total number of shares of potential common stock excluded from the calculations of diluted net income (loss) per share for the nine months ended September 30, 2010 and 2009 was 2,019,161 and 4,332,258, respectively.

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

	Three Months Ended September 30.		Nine Months Ended September 30.	
	2010	2009	2010	2009
Basic:				
Net income (loss)	$ 1,276	$ 854	$ 4,220	$ (112)
Weighted average shares outstanding - basic	32,822	31,704	32,534	31,578
Net income (loss) per share basic	$ 0.04	$ 0.03	$ 0.13	$ 0.00
Diluted:				
Net income (loss)	$ 1,276	$ 854	$ 4,220	$ (112)
Weighted average shares outstanding - basic	32,822	31,704	32,534	31,578
Add: Dilutive effect of employee stock plans	718	676	849	
Weighted average shares outstanding - diluted	33,540	32,380	33,383	31,578
Net income (loss) per share - diluted	$ 0.04	$ 0.03	$ 0.13	$ 0.00

Note 4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2010	December 31, 2009
Raw materials	$ 4,263	$ 3,589
Work in process	299	171
Finished goods	4,783	6,742
Total	$ 9,345	$ 10,502

Note 5. 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, 2010	December 31, 2009
Net minimum lease payments to be received	$ 16,689	$ 17,164
Less unearned interest income portion	2,002	2,001
Net investment in sales-type leases	14,687	15,163
Less current portion(1)	5,342	5,059
Non-current net investment in sales-type leases(2)	$ 9,345	$ 10,104

The minimum lease payments under sales-type leases as of September 30, 2010 are as follows (in thousands):

2010 (remaining three months)	$ 1,839
2011	7,308
2012	3,273
2013	2,519
2014	1,362
Thereafter	388
Total	$ 16,689

(1) A component of other current assets. This amount is net of allowance for doubtful accounts of $0.2 million at September 30, 2010 and $0 at December 31, 2009.
(2) Net of allowance for doubtful accounts of $0.3 million at September 30, 2010 and $0.6 million at December 31, 2009.

Note 6. 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 and changes in circumstances suggest that the carrying amount may not be recoverable.

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

	September 30, 2010			December 31, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Finite-lived intangibles:							

Customer relationships	$ 4,474	$ 1,274	$ 3,200	$ 3,184	$ 999	$ 2,185	5-16 years
Acquired technology	10,344	9,058	1,286	9,364	7,888	1,476	3-7 years
Patents	623	142	481	455	110	345	20 years
Non-compete agreements	780	673	107	720	493	227	3 years
Trade name	90		90				3 years
Total finite-lived intangibles	16,311	11,147	5,164	13,723	9,490	4,233	
Goodwill	28,650		28,650	24,982		24,982	Indefinite
Net intangibles & goodwill	$ 44,961	$ 11,147	$ 33,814	$ 38,705	$ 9,490	$ 29,215	

Amortization expense totaled $0.6 million and $0.6 million for the three months ended September 30, 2010 and 2009, respectively. Amortization expense totaled $1.7 million and $1.8 million for the nine months ended September 30, 2010 and 2009, respectively.

Estimated annual expected amortization expense of the finite-lived intangible assets at September 30, 2010 is as follows (in thousands):

2010 (remaining three months)	$ 544
2011	767
2012	767
2013	755
2014	654
Thereafter	1,677
Total	$ 5,164

The following goodwill roll-forward table consists of a single segment / single reporting unit (in thousands):

	Gross Carrying Amount	Accumulated Impairment Losses	Net Carrying Amount
Beginning balance, January 1, 2010	$ 24,982	$	$ 24,982
Goodwill acquired during year	3,668		3,668
Impairment losses			
Ending balance, September 30, 2010	$ 28,650	$	$ 28,650

Note 7. Deferred Gross Profit

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

	September 30, 2010	December 31, 2009
Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed	$ 19,555	$ 20,876
Cost of revenues, excluding installation costs	(7,034)	(7,187)
Deferred gross profit	$ 12,521	$ 13,689

Note 8. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2010	December 31, 2009
Accrued Group Purchasing Organization (GPO) fees	$ 2,635	$ 2,932
Advance payments from customers	1,714	662
Pre-acquisition contingency	1,165	5,269

Rebates and lease buyouts	987	1,140
Other	2,399	1,994
Total	$ 8,900	$ 11,997

Note 9. Commitments

The following table summarizes our contractual obligations at September 30, 2010 (in thousands):

	Total	Less than one year	One to three Years	Three to five years	More than five years
Operating leases (1)	$ 7,394	$ 3,904	$ 2,875	$ 615	$
Commitments to contract manufacturers and suppliers (2)	3,896	3,896			
Total	$ 11,290	$ 7,800	$ 2,875	$ 615	$

(1) Commitments under operating leases relate primarily to leasehold property and office equipment. In April 2010, we entered into a lease agreement to replace certain expiring leases with approximately 25,000 square feet of office space in Nashville, Tennessee. The new lease is for a term of 60 months, and commenced July 2010, with two five-year renewal options. The base rental commitment for the initial five-year term totals $1.7 million.

(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.

Note 10. Legal Proceedings

Flo Healthcare Solutions, LLC. On December 11, 2007, we acquired Rioux Vision, Inc., which had an existing lawsuit in progress at the time of that acquisition. Omnicell has since been defending that lawsuit, as Rioux Vision, a wholly-owned subsidiary of Omnicell. On October 26, 2006, Rioux Vision was served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Rioux Vision, Inc., Case Number 1:06-cv-02600, in the United States District Court for the Northern District of Georgia, alleging claims of patent infringement regarding certain features of the mobile carts sold by Rioux Vision. On December 11, 2008, we were served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Omnicell, Inc., Case Number 1:06-cv-02600, in the same Court alleging similar claims of patent infringement regarding Omnicell s sale of the mobile carts acquired in the Rioux acquisition. In accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, we recorded a pre-acquisition contingency based on our assessment of its fair value in our preliminary purchase price allocation. The fair value for this pre-acquisition contingency represents the amount we and Rioux agreed to adjust the purchase price as a result of our acceptance of any and all costs and risks relating to this contingency. The pre-acquisition contingency was recorded as an accrued liability as of the acquisition date, and up to September 30, 2010.

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

On September 30, 2010, Omnicell settled all pending litigation in the Northern District of Georgia with Flo Healthcare LLC, which is now part of the entity InterMetro Industries Corporation. Additionally, Omnicell paid InterMetro $2.7 million, and entered into a patent cross-license agreement with InterMetro, wherein Omnicell received an ongoing license to the patent at issue in the suits, and InterMetro received licenses to two Omnicell patents. The parties jointly filed a motion of dismissal for each of the cases with the Georgia court on October 25, 2010. In connection with this settlement, $2.4 million of previously accrued liabilities were released and this gain was recorded as a reduction to selling, general and administrative expense in the three months ending September, 30, 2010.

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

responded to the complaint, denies the claims, and intends to defend the matter vigorously. In June 2010, the Court issued its Civil Case Management Plan and Scheduling Order indicating that discovery in the case will be conducted through March 11, 2011.

On October 20, 2010, the Company filed a declaratory judgment complaint against Medacist Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacist Solutions Group, LLC, Case Number 10-cv-4746. Pandora Data Systems, Inc. has a non-exclusive license to Medacist s U.S. Patent Number 6,842,736. The Company seeks an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., is entitled to certain rights and benefits under the license. On October 21, 2010, Medacist was served with the complaint. Medacist has not yet filed a response to the complaint.

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

Note 11. Stockholders Equity

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 are based on market conditions, relevant securities laws and other factors. The stock repurchase program does not obligate us to repurchase any specific number of shares, and we may terminate or suspend the repurchase program at any time. From the inception of the program in February 2008 through September 30, 2010, we repurchased a total of 4,066,296 shares at an average cost of $16.00 per share through open market purchases.

During the nine months ended September 30, 2010, we did not repurchase any shares through the stock repurchase programs. As of September 30, 2010, we had $25.0 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs. Additionally, for the three months and nine months ended September 30, 2010, we withheld 7,777 shares and 20,264 shares, respectively, from employees to satisfy tax withholding obligations on the vesting of restricted stock units**.** For the three and nine months ended September 30, 2009, 6,298 shares and 13,220 shares, respectively, were withheld from employees to satisfy tax withholding obligation on the vesting of restricted stock units.

Note 12. Stock Option Plans and Share-Based Compensation

Stock Option Plans

At September 30, 2010, 1,176,513 shares of common stock were reserved for future issuance under our 2009 Equity Incentive Plan, or the 2009 Plan. At September 30, 2010, $7.8 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 option activities under the 1999 Equity Incentive Plan, as amended, the 2003 Equity Incentive Plan, as amended, and the 2004 Equity Incentive Plan (collectively, the Prior Plans) and the 2009 Plan for the nine months ended September 30, 2010 is presented below:

Options:	Number of Shares (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2009	4,748	$ 12.61
Granted	383	$ 12.55
Exercised	(378)	$ 8.61
Forfeited	(66)	$ 15.19
Expired	(100)	$ 15.98
Outstanding at September 30, 2010	4,587	$ 12.82
Exercisable at September 30, 2010	3,495	$ 12.84

Restricted Stock and Restricted Stock Units

The non-employee members of our Board of Directors are granted restricted stock on the day of our annual meeting of stockholders and such shares of restricted stock vest on the date of the subsequent year s annual meeting of stockholders, provided such non-employee director remains a director on such date. Restricted stock units, or RSUs, are granted to certain of our employees and generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. The fair value of both restricted stock and RSUs granted pursuant to our equity incentive plans is the product of the number of shares granted and the grant date fair value of our common stock. Our unrecognized compensation cost related to nonvested restricted stock at September 30, 2010 is approximately $0.6 million and is expected to be recognized over a weighted average period of 0.6 years. Expected future compensation expense relating to RSUs outstanding on September 30, 2010 is $4.2 million and is expected to be recognized over a weighted-average period of 2.6 years. A summary of activity of both restricted stock and RSUs for the nine months ended September 30, 2010 is presented below:

	Restricted Stock		Restricted Stock Units	
	Number of Shares (in thousands)	Weighted - Average Grant Date Fair Value Per Share	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share
Non-vested, December 31, 2009	52	$ 9.25	264	$ 14.32

Granted	79	$	12.91	128	$ 12.46
Vested	(54)	$	9.40	(88)	$ 15.16
Forfeited		$		(8)	$ 16.95
Non-vested, September 30, 2010	77	$	12.91	296	$ 13.19

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan, or ESPP, under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of $25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of September 30, 2010, 2,959,030 shares had been issued under the ESPP. As of September 30, 2010, there were a total of 2,372,525 shares reserved for future issuance under the ESPP. During the nine months ended September 30, 2010, 451,014 shares of common stock were purchased under the ESPP.

Share-based Compensation

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

The impact on our results for share-based compensation for the three and nine months ended September 30, 2010 and 2009 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of product and service revenues	$ 293	$ 360	$ 993	$ 1,025
Research and development expenses	159	284	537	843
Selling, general and administrative expenses	1,746	1,769	4,922	5,403
Total share-based compensation expenses	$ 2,198	$ 2,413	$ 6,452	$ 7,271

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

Note 13. Restructuring and impairment

During the third quarter of 2010, we implemented a restructuring plan to close our offices in Bangalore, India and in 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 roll-forward of restructuring liabilities for the quarter ending September 30, 2010 appears below:

	Severance / relocation	Facility closure / move	Subtotal (cash items)	Impairment (noncash)
Beginning balance, July 1, 2010	$	$	$	$ n/a
Accruals	790	183	973	223
Payments	(532)	(46)	(578)	
Ending balance, September 30, 2010	$ 258	$ 137	$ 395	$ n/a

The third quarter 2010 restructuring charges consisted of $0.3 million in severance for departing employees and $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. Substantially all the remaining restructuring accrued liabilities of $0.4 million at September 30, 2010 will be paid by December 31, 2010, with the exception of small cease-use liabilities for the Texas office extending through the third quarter of 2011.

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

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

Forward-Looking Statements

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

- the extent and timing of future revenues;
- the size and/or growth of our market or market-share;
- the opportunity presented by new products or emerging markets;
- the operating margins or earnings per share goals we may set;
- our ability to align our cost structure with our current business expectations;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others; and
- our estimates regarding the sufficiency of our cash resources.

In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, ma potential, predicts, should, will, would and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions, and are subject to risks and uncertainties. We discuss many of these risks in this 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 refer to Omnicell, Inc., a Delaware corporation, and its subsidiaries.

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

Overview

We were incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. We are a leading provider of medication control and patient safety solutions for acute care health facilities. Over 1,700 hospitals have installed our automated hardware/software solutions for controlling, dispensing, acquiring, verifying and tracking medications and medical and surgical supplies. We have designed our products to enable healthcare professionals to improve patient safety through reduced medication errors, and improved administrative controls and medical safety, while simultaneously improving workflow and increasing operational efficiency. Our products are designed to allow nurses, pharmacists and other clinicians to spend more time on patient care while at the same time providing confirmation that the right patients are receiving the right medication, at the right time, in the right dose, via the right route.

We sell our medication dispensing and supply automation systems, and generate substantially all our revenue, in the United States. However, we have seen an increase in our revenue from our international operations and we expect such revenue from our international operations to increase in future periods as we continue to grow our international business. Our sales force is organized by geographic region in the United States and Canada. We also sell through distributors in Australia, Asia, Europe, and South America.

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 systems are installed. Installation generally takes place two weeks to nine months after our systems are ordered. The installation process at our customers sites includes internal procedures associated with large capital expenditures and additional time associated with adopting new technologies. Given the length of time necessary for our customers to plan for and complete their acceptance of the installation of our systems, our focus is on shipping products based on the installation dates requested by our customers and working at the customer s pace. The amount of revenue recognized in future periods may depend on, among other things, the terms and timing of lease contract renewals, additional product sales and the size of such transactions. We believe that future revenue will be affected by the competitiveness of our products and services.

Operating Environment During the Three Months and Nine Months ended September 30, 2010

Our revenues continue to show modest growth year-over-year, primarily in service revenue, while product revenue has remained flat, mostly due to customer installation schedules. Our profitability improved with both product margins and service margins showing gains year over year. We believe our solutions are attractive relative to our competition. In particular:

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

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

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

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

During the third quarter we achieved similar performance levels compared to the second quarter of 2010. Product revenues increased by 2.9% or $1.2 million, while service revenues increased by 3.0% or $0.4 million. Overall gross margins improved in the third quarter as compared to the second quarter by 0.7% to 53.5% with service gross margins increasing to 48.4% on revenues of $13.0 million as compared to 46.2% gross margins on $12.7 million in revenues in the prior quarter. Product gross margins increased modestly to 55.0% on revenue of $43.2 million as compared to 54.8% margins on revenue of $42.0 million in the prior quarter. The increase in overall gross margins was driven by favorable product mix and operational efficiency in our production and customer service operations.

We believe that our gross margins will continue to fluctuate based on the mix of products installed, fluctuation in the percentage of revenues derived from our international business and the related costs and changes in service and installation headcount compared to our revenue level. International business carries lower gross margins because our international distributors bear the cost of installation, support and most of the sales effort, and therefore demand lower pricing. Cash decreased during the nine months ended September 30, 2010 by $9.4 million due to the acquisition of Pandora, higher than prior year capital expenditures and the litigation settlement with Flo Healthcare Solutions LLC, offset by improved net income and cash generated from stock option exercises and related tax benefits. Net cash provided by operating activities totaled $9.0 million during the nine months ended September 30, 2010.

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

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

During the nine months ended September 30, 2010, there were no significant changes in our critical accounting policies and estimates.

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

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Updates (ASU) 2009-13 and 2009-14, or ASU 2009-13 and ASU 2009-14, which amended ASC 605, Revenue Recognition, and ASC 985-605, Software-Revenue Recognition, respectively. ASU 2009-13 requires companies to allocate arrangement consideration in multiple-element arrangements based on an element s estimated selling price if vendor-specific or other third-party evidence of selling price is not available. ASU 2009-14 revises the guidance regarding the types of arrangements that fall under the scope of the software recognition guidance, providing a scope exception for many transactions that were previously within the scope of Subtopic ASC 985-605, including tangible products containing software components and non-software components that function together to deliver the product s essential functionality and places them under Subtopic ASC 605-25, thus requiring the new multiple-element revenue allocation under ASU 2009-13. Both ASU 2009-13 and ASU 2009-14 are effective for fiscal years beginning on or after June 15, 2010. Earlier application is permitted. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements. We expect that our adoption of these ASUs will require substantial amounts of management s time and attention and may result in increased operating expenses. We intend to adopt these ASUs at the beginning of fiscal year 2011.

In July 2010, the FASB issued Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses as ASU 2010-20, amending ASC 310, Receivables. The intent of ASU 2010-20 is to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. For public entities, the new disclosures for the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010, with new disclosures about period activity effective for interim and annual reporting periods beginning on or after December 15, 2010. We are currently evaluating the impact of the adoption of ASU 2010-20 on our consolidated financial statements.

Results of Operations

	Three Months Ended September 30, (in thousands, except percentages)				Nine Months Ended September 30, (in thousands, except percentages)			
	2010		2009		2010		2009	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	% of Revenue
Revenues:								
Product revenue	$ 43,241	76.8%	$ 42,854	79.4%	$ 127,559	77.2%	$ 127,221	80.1%
Service and other revenues	13,045	23.2%	11,103	20.6%	37,580	22.8%	31,583	19.9%
Total revenues	56,286	100.0%	53,957	100.0%	165,139	100.0%	158,804	100.0%
Cost of revenues:								
Cost of product revenues	19,449	34.5%	20,087	37.2%	57,723	35.0%	59,542	37.5%
Cost of service and other revenues	6,698	11.9%	6,621	12.3%	20,823	12.6%	20,055	12.6%
Restructuring charges	39	0.1%		%	39		1,209	0.8%
Total cost of revenues	26,186	46.5%	26,708	49.5%	78,585	47.6%	80,806	50.9%
Gross profit	30,100	53.5%	27,249	50.5%	86,554	52.4%	77,998	49.1%
Operating expenses:								
Research and development	6,089	10.8%	4,981	9.3%	15,604	9.4%	13,532	8.5%
Selling, general and administrative	19,851	35.3%	21,324	39.5%	61,789	37.4%	63,861	40.2%
Restructuring charges	1,157	2.0%		%	1,157	0.7%	1,315	0.8%
Total operating expenses	27,097	48.1%	26,305	48.8%	78,550	47.5%	78,708	49.5%
Income (loss) from operations	3,003	5.4%	944	1.7%	8,004	4.9%	(710)	(0.4)%
Interest and other income, net of other expense	159	0.3%	56	0.2%	286	0.2%	433	0.2%
Income (loss) before provision for (benefit from) income taxes	3,162	5.7%	1,000	1.9%	8,290	5.1%	(277)	(0.2)%
Provision for (benefit from) income taxes	1,886	3.4%	146	0.3%	4,070	2.5%	(165)	(0.1)%
Net income (loss)	$ 1,276	2.3%	$ 854	1.6%	$ 4,220	2.6%	$ (112)	(0.1)%

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

The table below shows our product revenues, cost of product revenues and gross profit for the three and nine months ended September 30, 2010 and 2009 and the percentage change between those years:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
	(in thousands)			(in thousands)		
Product revenues	$ 43,241	$ 42,854	0.9%	$ 127,559	$ 127,221	0.3%
Cost of product revenues	19,449	20,087	(3.2)%	57,723	59,542	(3.1)%
Restructuring charges			n/a		1,008	(100.0)%
Gross profit	$ 23,792	$ 22,767	4.5%	$ 69,836	$ 66,671	4.7%

Product revenues increased by $0.4 million, or 0.9% in the three months ended September 30, 2010 and remained virtually unchanged for the nine month period ended September 30, 2010 as compared to the corresponding periods in 2009.

Cost of product revenues decreased by $0.6 million, or 3.2%, in the three months ended September 30, 2010 as compared to the corresponding period in 2009. The decrease was due to reduced overall manufacturing spending primarily attributable to a favorable shift in product mix to revenues with lower associated costs and to improved operational efficiencies, offset primarily by severance expenses related to headcount realignment. Cost of product revenues decreased $1.8 million, or 3.1% in the nine months ended September 30, 2010 as compared to the corresponding period in 2009. The decrease was primarily due to a $1.0 million inventory reserve recorded in the first quarter of 2009 which did not recur in 2010, a $0.4 million favorable timing effect on expenses due to a reduction in accrued vacation in the second quarter of 2010, and the overall favorable shift in product mix to revenues with lower associated costs..

The nine months ended September 30, 2009 also included restructuring charges of $1.0 million that were recorded to cost of product revenue in the first quarter 2009 relating to our work force reduction. These costs related primarily to severance pay, continuation of benefits and outplacement services. As part of the restructuring, we reduced headcount by 50 employees predominately in the manufacturing and field operations departments.

Gross profit on product revenues increased by $1.0 million, or 4.5% in the three months ended September 30, 2010 as compared to the corresponding period in 2009. Likewise, gross margin on product revenues increased by 1.9% to 55.0% as compared to the corresponding period in 2009. The increase in gross profit and corresponding increase in gross margin on product revenues was due to a decrease in product cost as a result of the shift in product mix to revenues with lower associated costs and to improved operational efficiencies during the period. Gross profit on product revenues increased by $3.2 million, or 4.7% in the nine months ended September 30, 2010 as compared to the corresponding period in 2009 and gross margin increased by 2.3% to 54.7% as compared to the corresponding period in 2009. The increase in gross profit and gross margin on product revenues for the nine months ended September 30, 2010 was primarily a result of the aforementioned $1.0 million inventory reserve and the $1.0 million restructuring charge from the first quarter of 2009 which negatively impacted gross profits in the nine months ended September 30, 2009, compared to 2010, the favorable timing effect on expenses due to a reduction in accrued vacation in the second quarter of 2010, and the overall favorable shift in product mix to higher margin revenues during the period.

We expect revenues to remain at the same approximate levels for the remainder of 2010 and we do not foresee any major fluctuations in our gross margin beyond normal fluctuations caused by changes in product mix.

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

The table below shows our service and other revenues, cost of service and other revenues, restructuring charges and gross profit for the three and nine months ended September 30, 2010 and 2009 and the percentage change between those quarters:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
	(in thousands)			(in thousands)		
Service and other revenues	$ 13,045	$ 11,103	17.5%	$ 37,580	$ 31,583	19.0%
Cost of service and other revenues	6,698	6,621	1.2%	20,823	20,055	3.8%
Restructuring charges	39		n/a	39	201	(80.6)%
Gross profit	$ 6,308	$ 4,482	40.7%	$ 16,718	$ 11,327	47.6%

Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. Service and other revenues increased by $1.9 million, or 17.5% in the three months ended September 30, 2010 as compared to the corresponding period in 2009. Service and other revenues increased by $6.0 million, or 19.0% in the nine months ended September 30, 2010 as compared to the corresponding period in 2009. The increase in service and other revenues for the three months ended September 30, 2010 as compared to the year-ago period was due primarily to normal growth on an expanded installed base. The increase in service and other revenues for the nine months ended September 30, 2010 as compared to the year-ago period was due, in part, to later than expected receipts of customer purchase orders for service contracts covering service periods commencing in 2009, but for which service revenue was not recognized, using the catch-up method, until receipt of the purchase order in 2010, and normal growth on an expanded installed base.

Cost of service and other revenues remained virtually unchanged in the three months ended September 30, 2010 as compared to the same period in 2009. This is due to an increase in overall service spending of $0.4 million primarily related to salaries and related benefits costs which were offset by a decrease in spare parts cost of $0.3 million which was a result of better spares inventory management controls. Cost of service and other revenues increased by $0.8 million, or 3.8% in the nine months ended September 30, 2010 as compared to the corresponding period in 2009. The increase in the nine months ended September 30, 2010 was due to an increase in spending of $0.7 million primarily related to salaries and related benefits costs and replacement part cost in support of the expanded service base.

The nine months ended September 30, 2009 also included restructuring charges of $0.2 million recorded to cost of service revenue for our work force reduction in the first quarter. As part of the restructuring we reduced headcount by 10 employees in field, customer and technical service departments. Costs recorded related primarily to severance pay, continuation of benefits and outplacement services.

Gross profit on service and other revenues increased by $1.8 million, or 40.7% in the three months ended September 30, 2010 as compared to the same period in 2009. Likewise, gross margin on service revenues increased by 8.0% to 48.4% as compared to the corresponding period in 2009. Gross profit on service and other revenues increased by $5.4 million, or 47.6% in the nine months ended September 30, 2010 as compared to the same period in 2009 and gross margin increased by 8.6% to 44.5% as compared to the corresponding period in 2009. The increase in gross profit on service and other revenues for the three and nine months ended September 30, 2010 was due to a focused effort to get the successful commitment of our customers to extend service renewal contracts.

We expect our gross profit on service and other revenues to remain relatively consistent for the remainder of 2010.

Operating Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
	(in thousands)			(in thousands)		
Research and development	$ 6,089	$ 4,981	22.2%	$ 15,604	$ 13,532	15.3%
Selling, general and administrative	19,851	21,324	(6.9)%	61,789	63,861	(3.2)%
Restructuring charges	1,157		n/a	1,157	1,315	(12.0)%
Total operating expenses	$ 27,097	$ 26,305	3.0%	$ 78,550	$ 78,708	(0.2)%

Research and Development. Research and development expenses increased by $1.1 million, or 22.3% in the three months ended September 30, 2010 as compared to the same period in 2009. Research and development expenses represented 10.8% and 9.2% of total revenues in the three months ended September 30, 2010 and 2009, respectively. The increase was primarily due to $0.8 million increase in consulting expenses and $0.2 million increase in prototype expenses, both of which are related to new product development.

Research and development expenses increased $2.1 million, or 15.3% in the nine months ended September 30, 2010 as compared to the corresponding period in 2009. Research and development represented 9.4% and 8.5% of total revenues in the nine months ended September 30, 2010 and 2009, respectively. The increase was due to $1.8 million increase in consulting expenses and $0.2 million increase in prototype expenses, both of which are related to new product development.

We expect to continue to invest in research and development at current level as a percentage of revenues in the future to improve and enhance our existing technologies and to create new technologies in health care automation.

Selling, General and Administrative. Selling, general and administrative expenses decreased by $1.5 million, or 6.9% in the three months ended September 30, 2010 compared to the same period in 2009. Selling, general and administrative expenses represented 35.3% and 39.5% of total revenues in the three months ended September 30, 2010 and 2009, respectively. The decrease was due to a $2.0 million decrease in legal fee expense primarily related to a benefit of $2.4 million from the settlement of the ongoing Flo litigation claim which resulted in a cash payment of $2.7 million for which there was a remaining legal contingency accrual of $5.3 million at the beginning of the third quarter of 2010, $0.6 million decrease in bad debt expense due to the recovery of previously reserved accounts receivable, and a $0.7 million decrease in commissions due to an increase in the third quarter of 2009 accrual for commissions rate changes which increased the prior year commissions expense. These decreases were offset by a $0.4 million increase Group Purchasing Organization expenses associated with higher sales volumes to Group Purchasing Organization affiliated customers, and a $1.5 million increase in consulting activities related to acquisition assessment activities and other general consulting cost increases.

Selling, general and administrative expenses decreased $2.0 million, or 3.2% in the nine months ended September 30, 2010 as compared to the corresponding period in 2009. Selling, general and administrative expenses represented 37.4% and 40.2% of total revenues in the nine months ended September 30, 2010 and 2009, respectively. The decrease was a result of a $3.0 million decrease in legal fee expense primarily related to a $2.4 million benefit from the settlement of a previously provided for litigation claim, a $1.3 million decrease in bad debt expense, of which $0.6 million was related a fully reserved in-house lease sold to a third party leasing company, a $1.0 million decrease in commissions related to an increase in the third quarter of 2009 accrual to reflect commission rate changes, a $0.6 million decrease due to a favorable timing effect on expenses due to a reduction in accrued vacation, and a $0.5 million decrease in miscellaneous fees paid in 2009 that did not recur in 2010 related to the Rioux Vision arbitration settlement. These decreases were offset by a $1.2 million increase in Group Purchasing Organization expenses associated with higher sales volumes to Group Purchasing Organization affiliated customers, a $1.7 million increase in consulting charges related to acquisition assessment activities and other general consulting cost increases, and a $1.0 million increase in promotional expenses related to corporate branding activities.

While we may incur increased consulting charges in the future as we continue to assess investment and acquisition opportunities, we expect ongoing selling, general and administrative expenses to stabilize in absolute dollars for the remainder of 2010.

Restructuring charges. Operating expenses for the nine months of 2010 include restructuring charges of $1.2 million from the third quarter of 2010 related to the closure of 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 do not expect additional charges from this restructuring and most of the remaining restructuring liabilities will be paid by December 31, 2010.

Share-based Compensation

The impact of share-based compensation on our operating results for the three and nine months ended September 30, 2010 and 2009 is discussed in Note 12, 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 for the nine months ended September 30, 2010 was approximately 45%, consistent when compared to the corresponding period in 2009. Our estimated annualized tax rates for both periods differ 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 rates for the nine-month periods ended September 30, 2010 and 2009 were approximately 49% and 60%, respectively. Net discrete income tax benefits for the nine months ended September 30, 2010 consisted primarily of stock compensation disqualifying dispositions and a benefit related to restructuring expenses. These benefits were offset by the negative impact of repatriation of accumulated foreign earnings on which U.S. income taxes have not been previously provided. For the nine months ended September 30, 2009 net discrete income tax benefits included a restructuring charge and stock compensation disqualifying dispositions. Overall, the lower effective tax rate during the first nine months of 2010 as compared to the same period in 2009 was primarily due to the increase to net income before taxes.

Liquidity and Capital Resources

We had cash and cash equivalents of $178.6 million at September 30, 2010, as compared to $169.2 million at December 31, 2009. All of our cash is in low risk short term money market funds or demand deposits. We have no material 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

Cash flows for the nine months ended September 30, 2010 and 2009 consisted of the following (in thousands):

	Nine Months Ended September 30,	
	2010	**2009**
Net cash provided by operating activities	$ 8,950	$ 24,314
Net cash used in investing activities	(10,626)	(2,187)
Net cash provided by financing activities	11,071	3,746
Net increase in cash and cash equivalents	$ 9,395	$ 25,873

Operating activities provided $9.0 million of cash during the nine months ended September 30, 2010, as compared to $24.3 million of cash provided for the corresponding period in 2009. The drivers for the difference in cash generated from operations between 2010 and 2009 were larger cash outflows in the more recent period for increases in receivables, prepaids and other current assets, together with cash outflows for decreases in accrued liabilities which included a $2.7 million legal settlement payment against previously-provided accruals, deferred service revenue and deferred gross profit. Partially offsetting these trends was positive net income in 2010 of $4.2 million as compared to a net loss of $0.1 million in 2009.

We used $10.6 million of cash in investing activities during the nine months ended September 30, 2010, an increase of $8.4 million over the $2.2 million for the corresponding period in 2009. This increase was primarily due to the purchase of Pandora for $5.7 million, net of cash acquired, and higher capital spending in 2010, particularly for efforts to increase information technology capabilities and improvements to our Nashville, Tennessee office.

Cash provided by financing activities was $11.1 million during the nine months ended September 30, 2010, as compared to $3.7 million during the corresponding period in 2009. This was driven by $2.9 million higher cash inflows from option exercises and related tax payments and $4.5 million from excess tax benefits from stock compensation recognized in equity.

Contractual Obligations

In the second quarter of 2010, we committed to a five year lease for a new facility in Nashville, Tennessee. During the third quarter of 2010, consolidation activities resulted in reduction of contractual obligations for the expired India lease, the cease-use and sublet Woodlands, Texas lease and the negotiated termination of the Lebanon, Tennessee lease. There have been no other material changes to our contractual obligations during the nine months ended September 30, 2010. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2009 for a description of our facility leases and contractual obligations and the Notes to the consolidated financial statements included therein.

Off-Balance Sheet Arrangements

As of September 30, 2010, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) of the Securities Exchange Act of 1934, as amended, and the instructions thereto.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2010, there were no material changes to our disclosures to market risk from the disclosures set forth under the caption, Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2010. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2010, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

FLO Healthcare Solutions, LLC. On December 11, 2007, we acquired Rioux Vision, Inc., which had an existing lawsuit in progress at the time of that acquisition. Omnicell has since been defending that lawsuit, as Rioux Vision, a wholly-owned subsidiary of Omnicell. On October 26, 2006, Rioux Vision was served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Rioux Vision, Inc., Case Number 1:06-cv-02600, in the United States District Court for the Northern District of Georgia, alleging claims of patent infringement regarding certain features of the mobile carts sold by Rioux Vision. On December 11, 2008, we were served with a complaint in a lawsuit entitled Flo Healthcare Solutions, LLC v. Omnicell, Inc., Case Number 1:06-cv-02600, in the same Court alleging similar claims of patent infringement regarding Omnicell s sale of the mobile carts acquired in the Rioux acquisition. In accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, we recorded a pre-acquisition contingency based on our assessment of its fair value in our preliminary purchase price allocation. The fair value for this pre-acquisition contingency represents the amount we and Rioux agreed to adjust the purchase price as a result of our acceptance of any and all costs and risks relating to this contingency. The pre-acquisition contingency was recorded as an accrued liability as of the acquisition date, up to September 30, 2010.

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

On September 30, 2010, Omnicell settled all pending litigation in the Northern District of Georgia with Flo Healthcare LLC, which is now part of the entity InterMetro Industries Corporation. Additionally, Omnicell paid InterMetro $2.7 million, and entered into a patent cross-license agreement with InterMetro, wherein Omnicell received an ongoing license to the patent at issue in the suits, and InterMetro received licenses to two Omnicell patents. The parties jointly filed a motion of dismissal for each of the cases with the Georgia court on October 25, 2010. In connection with this settlement, $2.4 million of previously accrued liabilities were released and this gain was recorded as a reduction to selling, general and administrative expense in the three months ending September, 30, 2010.

Medacist Solutions Group, LLC. On July 8, 2009, Medacist Solutions Group LLC filed a complaint against Omnicell in U.S. District Court in the Southern District of New York, entitled Medacist Solutions Group LLC v. Omnicell, Inc., case number 09 CV 6128, alleging infringement of Medacist s U.S. Patent Number 6,842,736. The complaint also, among other claims, alleges that Omnicell breached the terms of a nondisclosure agreement it had entered into with Medacist, and that Omnicell misappropriated Medacist s trade secrets and confidential information in violation of the NDA. Medacist is seeking unspecified monetary damages and an injunction against the Company s infringement of the specified patent and/or misuse of any of Medacist s trade secrets pursuant to the NDA or in violation of California code. Omnicell has responded to the complaint, denies the claims, and intends to defend the matter vigorously. In June 2010, the Court issued its Civil Case Management Plan and Scheduling Order indicating that discovery in the case will be conducted through March 11, 2011.

On October 20, 2010, the Company filed a declaratory judgment complaint against Medacist Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacist Solutions Group, LLC, Case Number 10-cv-4746. Pandora Data Systems, Inc. has a non-exclusive license to Medacist s U.S. Patent Number 6,842,736. The Company seeks an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., is entitled to certain rights and benefits under the license. On October 21, 2010, Medacist was served with the complaint. Medacist has not yet filed a response to the complaint.

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

Item 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Our business faces significant risks and the risks described below may not be the only risks we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations or financial condition could suffer and the market price of our common stock could decline. We have marked with an asterisk (*) those risk factors below that reflect substantive changes from the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 24, 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we have historically used stock options 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, 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.

At our annual meeting of stockholders held recently in May 2010, we sought stockholder approval to add an additional 2,900,000 shares to the number of shares of common stock authorized for issuance under our 2009 Equity Incentive Plan, but we did not obtain the required stockholder approval for the proposed increase at that meeting. We intend to seek stockholder approval for an increase to the number of shares reserved for issuance under our equity incentive plans at a special meeting of stockholders later this year, but we cannot provide assurance that we will receive such approval. We believe that the remaining authorized shares may not be sufficient to grant all of the equity compensation awards that we would expect to grant in the ordinary course of business before our next annual meeting of stockholders. Our failure to receive the required approval at our annual meeting in 2010 and any future 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, failure to receive such approvals could prevent us from securing employment commitments from such newly acquired employees. Failure to attract and retain key personnel could harm our competitive position, results of operations and financial condition.

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

Our revenue increased by $6.3 million or 4.0% to $165.1 million for the nine months ended September 30, 2010 compared to $158.8 million for the comparable nine-month period in 2009. However, for the preceding September year to-date comparison, the first nine months ended September 30, 2009 revenues declined 16.3% or by $31.0 million dollars from $189.8 million in the comparable period of 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 profitably will also be dependent on our ability to continue to manage costs and control expenses. If our revenue increases rapidly, we may not be able to manage this growth effectively. Future growth is dependent on our ability to continue to receive orders from customers, the volume of installations we are able to complete, our ability to continue to meet our customers needs and provide a quality installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis.

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

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

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

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

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

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

- the size, product mix and timing of orders for our medication and supply dispensing systems, and their installation and integration;
- the overall demand for healthcare medication management and supply chain solutions;
- changes in pricing policies by us or our competitors;
- the number, timing and significance of product enhancements and new product announcements by us or our competitors;
- the relative proportions of revenues we derive from products and services;
- fluctuations in the percentage of sales attributable to our international business;
- our customers budget cycles;

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

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

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

Our current Group Purchasing Organization contracts include AmeriNet, Inc., Broadlane Inc., First Choice Management, HealthTrust Purchasing Group, L.P., MAGNET Group, MedAssets Supply Chain Systems, Novation, LLC, Premier, Inc., Resources Optimization & Innovation, Carolinas Shared Services, LLC and U.S. General Services Administration. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to increase our revenues. We cannot assure you that these organizations will renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire.

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

The healthcare industry has faced, and will likely continue to face, significant financial constraints. For example, the shift to managed care in the 1990s put pressure on healthcare organizations to reduce costs, and the Balanced Budget Act of 1997 significantly reduced Medicare reimbursement to healthcare organizations. Recently enacted legislation such as the American Recovery and Reinvestment Act and health reform legislation may cause customers to postpone purchases of our products while the impact of the legislation on their operations is determined. Our automation solutions often involve a significant financial commitment by our customers and, as a result, our ability to grow our

business is largely dependent on our customers capital and operating budgets. To the extent healthcare spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

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

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

During the nine months ended September 30, 2010, our common stock traded between $10.93 and $15.38 per share. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

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

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

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

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

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

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

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

We frequently grant stock options to our employees. At September 30, 2010, 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, averaging $12.82 per share. If some or all of these shares are sold into the public market over a short time period, the price of our common stock may decline, as the market may not be able to absorb those shares at the prevailing market prices. Such sales may also make it more difficult for us to sell equity securities in the future on terms that we deem acceptable.

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

If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could negatively impact the market price of our common stock.

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

U.S. government customers that lease our equipment typically sign contracts with five-year payment terms that are subject to one-year government budget funding cycles. Further, the government has in certain circumstances mandated unilateral changes in its Federal Supply Services contract that could render our lease terms with the government less attractive. In our judgment and based on our history with these accounts, we believe these receivables are collectable. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. As of September 30, 2010, the balance of our unsold leases to U.S. government customers was $15.5 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.

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

We expect that developers of medication and supply dispensing systems will be increasingly subject to infringement claims as the number of products and competitors in our industry grows and the functionality of products in different industry segments overlaps. In the future, third parties may claim that we have infringed upon their intellectual property rights with respect to current or future products. In July, 2009, Medacist Solutions Group LLC filed a lawsuit against us alleging among other things, that certain of our ProServ 1 offerings infringe a patent owned by Medacist. We do not carry special insurance that covers intellectual property infringement claims; however, such claims may be covered under our traditional insurance policies. These policies contain terms, conditions and exclusions that make recovery for intellectual property infringement claims difficult to guarantee. Any infringement claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management s attention and resources, cause product shipment delays or require us to enter into royalty or licensing agreements. These royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all, which could harm our competitive position, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The standards adopted to date include, among others, the Standards for Privacy of Individually Identifiable Health Information, which restrict the use and disclosure of personally identifiable health information by covered entities, and the Security Standards, which require covered entities to implement administrative, physical and technical safeguards to protect the integrity and security of certain electronic health information. Under HIPAA, we are considered a business associate in relation to many of our customers that are covered entities, and as such,

most of these customers have required that we enter into written agreements governing the way we handle and safeguard certain patient health information we may encounter in providing our products and services and may impose liability on us for failure to meet our contractual obligations. Further, pursuant to recent changes in HIPAA under the American Recovery and Reinvestment Act of 2009, or ARRA, we are now also covered under HIPAA similar to other covered entities and in some cases, subject to the same civil and criminal penalties as a covered entity. A number of states have also enacted privacy and security statutes and regulations that, in some cases, are more stringent than HIPAA and may also apply directly to us. If our past or present operations are found to violate any of these laws, we may be subject to fines, penalties and other sanctions. In addition, we cannot predict the potential impact of future HIPAA standards and other federal and state privacy and security laws that may be enacted at any time on our customers or on Omnicell. These laws could restrict the ability of our customers to obtain, use or disseminate patient information, which could reduce the demand for our products or force us to redesign our products in order to meet regulatory requirements.

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

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

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

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

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

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

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

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to the stockholders. Our anti-takeover provisions include provisions in our certificate of incorporation providing that stockholders meetings may only be called by the board of directors and provisions in our bylaws providing that the stockholders may not take action by written consent and requiring that stockholders that desire to nominate any person for election to the board of directors or to make any proposal with respect to business to be conducted at a meeting of our stockholders be submitted in appropriate form to our Secretary within a specified period of time in advance of any such meeting. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until

the holder has held the stock for three years unless, among other possibilities, the board of directors approves the transaction. Our board of directors may use these provisions to prevent changes in the management and control of our company. Also, under applicable Delaware law, our board of directors may adopt additional anti-takeover measures in the future.

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

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

None.

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.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350).

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

(2) Previously filed as an exhibit to the Registrant s Quarterly Report on Form 10-Q (File No. 000-33043) filed with the Securities and Exchange Commission on August 9, 2010, and incorporated herein by reference.

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

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

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

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 8, 2010

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

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.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350.)

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

(2) Previously filed as an exhibit to the Registrant s Quarterly Report on Form 10-Q (File No. 000-33043) filed with the Securities and Exchange Commission on August 9, 2010, and incorporated herein by reference.

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

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

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