

OMNICELL, Inc
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission File Number 000-33043

Omnicell, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

94-3166458
(I.R.S. Employer
Identification No.)

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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 No

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 No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of Registrant's common stock (par value \$0.001) outstanding as of August 3, 2010 was 32,687,549.

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PART 1 — FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2010 (unaudited)	December 31, 2009 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 185,156	\$ 169,230
Accounts receivable, net of allowances of \$970 and \$868 at June 30, 2010 and December 31, 2009, respectively	37,986	40,826
Inventories	9,735	10,502
Prepaid expenses	7,950	8,780
Deferred tax assets	15,711	15,247
Other current assets	5,908	6,159
Total current assets	262,446	250,744
Property and equipment, net	13,729	13,209
Non-current net investment in sales-type leases		
	10,135	10,104
Goodwill	24,982	24,982
Other intangible assets	3,270	4,233
Non-current deferred tax assets	9,807	9,666
Other assets	9,125	9,322
Total assets	\$ 333,494	\$ 322,260
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,968	\$ 10,313
Accrued compensation	6,025	8,095
Accrued liabilities	13,115	11,997
Deferred service revenue	14,777	14,457
Deferred gross profit	12,854	13,689
Total current liabilities	56,739	58,551
Long-term deferred service revenue	19,656	20,810
Other long-term liabilities	657	595
Total liabilities	77,052	79,956
Stockholders' equity:		
Total stockholders' equity	256,442	242,304
Total liabilities and stockholders' equity	\$ 333,494	\$ 322,260

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

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

		Three Months Ended June 30,		Six Months Ended June 30,	
	20	2010	2009	2010	2009
Revenues:					
Product revenues		\$ 42,023	\$ 41,983	\$ 84,318	\$ 84,278
Services and other revenues		12,670	10,660	24,535	20,569
Total revenues		54,693	52,643	108,853	104,847
Cost of revenues:					
Cost of product revenues		19,009	19,175	38,274	39,455
Cost of services and other revenues		6,816	6,539	14,125	13,434
Restructuring charges		—	—	—	1,209
Total cost of revenues		25,825	25,714	52,399	54,098
Gross profit		28,868	26,929	56,454	50,749
Operating expenses:					
Research and development		4,950	4,574	9,515	8,551
Selling, general and administrative		20,426	21,038	41,938	42,537
Restructuring charges		—	—	—	1,315
Total operating expenses		25,376	25,612	51,453	52,403
Income (loss) from operations		3,492	1,317	5,001	(1,654)
Interest and other income, net of other expense		53	194	127	376
Income (loss) before provision for (benefit from) income taxes		3,545	1,511	5,128	(1,278)
Provision for (benefit from) income taxes		1,580	607	2,184	(311)
Net income (loss)		\$ 1,965	\$ 904	\$ 2,944	\$ (967)
Net income (loss) per share:					
Net income (loss) per share-basic		\$ 0.06	\$ 0.03	\$ 0.09	\$ (0.03)
Net income (loss) per share-diluted		\$ 0.06	\$ 0.03	\$ 0.09	\$ (0.03)
Weighted average shares outstanding:					
Basic		32,567	31,578	32,388	31,516
Diluted		33,452	31,961	33,303	31,516

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 2,944	\$ (967)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,302	4,874
Loss on disposal/impairment of fixed assets	—	251
Provision for (recovery of) receivable allowance	(117)	146
Share-based compensation expense	4,254	4,858
Income tax benefits from employee stock plans	2,281	—
Excess tax benefits from employee stock plans	(2,650)	(4)
Provision for excess and obsolete inventories	829	2,287
Deferred income taxes	(605)	185
Changes in operating assets and liabilities:		
Accounts receivable, net	2,703	(11,375)
Inventories	(62)	1,017
Prepaid expenses	830	(477)
Other current assets	466	3,887
Net investment in sales-type leases	(140)	1,410
Other assets	(1,295)	(1,606)
Accounts payable	(344)	1,207
Accrued compensation	(2,069)	(314)
Accrued liabilities	1,118	3,978
Deferred service revenue	464	992
Deferred gross profit	(835)	(4,314)
Other long-term liabilities	62	(72)
Net cash provided by operating activities	12,136	5,963
Cash flows from investing activities:		
Acquisition of intangible assets and intellectual property	(139)	(65)
Purchases of property and equipment	(3,380)	(1,667)
Net cash used in investing activities	(3,519)	(1,732)

Cash flows from financing activities:

Proceeds from issuance of common stock under employee stock purchase and stock option plans	4,659	1,752
Excess tax benefits from employee stock plans	2,650	4
Net cash provided by financing activities	7,309	1,756
Net increase in cash and cash equivalents	15,926	5,987
Cash and cash equivalents at beginning of period	169,230	120,439
Cash and cash equivalents at end of period	\$ 185,156	\$ 126,426

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

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OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization & Summary of Significant Accounting Policies

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

Basis of Presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of June 30, 2010, the results of operations for the three and six months ended June 30, 2010 and 2009, and cash flows for the six months ended June 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 six months ended June 30, 2010 and cash flows for the six months ended June 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 June 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 financial instruments utilizing Level 2 and Level 3 inputs.

Concentration in revenues, in accounts receivable. There were no customers accounting for 10% or more of revenues in the three months ended June 30, 2010 and 2009. Additionally, there were no customers accounting for 10% or more of revenues in the six months ended June 30, 2010 and 2009. No customer accounted for 10% or more of accounts receivable at either June 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 six months ended June 30, 2010 and 2009, we transferred non-recourse accounts receivable totaling \$26.5 million and \$21.3 million, respectively, which approximated fair value, to third party leasing companies. At June 30, 2010 and December 31, 2009, accounts receivable included \$0.5 million and \$1.6 million, respectively, due from third party leasing companies for transferred non-recourse accounts receivable.

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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 six months ended June 30, 2010 were approximately \$3.6 million and \$8.9 million, respectively. Purchases from this significant supplier for the comparable periods in 2009 were approximately \$5.4 million and \$10.6 million, respectively.

Income Taxes For the three and six months ended June 30, 2010 we recorded income tax expense of \$1.6 and \$2.2 million, respectively, as compared with income tax expense of \$0.6 million and an income tax benefit of \$0.3 million for the corresponding period in 2009. The annualized effective tax rate before discrete items for the six months ended June 30, 2010 was 46.5% as compared to an annualized effective tax benefit rate before discrete items of 45.3% for the six months ended June 30, 2009. The change in the annualized effective tax rate for the six months ended June 30, 2010 as compared to the corresponding period in 2009 was mostly due to absence of 2010 legislation extending the expired federal research and development tax credit. The estimated annualized tax rates differ from the statutory rate of 35% primarily due to the impact of state income taxes and non-deductible equity incentive compensation charges under ASC 740-718. Net discrete income tax benefits for the six months ended June 30, 2010 consisted primarily of \$0.2 million of stock compensation disqualifying dispositions. Net discrete income tax benefits in the six months ended June 30, 2009 included a benefit from the recording of restructuring expenses of approximately \$1.0 million partially offset by the recording of deferred tax expense as a result of the re-measurement of our California deferred tax assets due to the enactment of California tax legislation.

Total comprehensive income (loss). Total comprehensive income (loss) is the same as net income (loss) for the three and six months ended June 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 six months ended June 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.

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Note 2. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares less shares subject to repurchase plus, if dilutive, potential common stock outstanding during the period. Potential common stock 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 six months ended June 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 excluded from the calculations of diluted net income (loss) per share for the six months ended June 30, 2010 and 2009 were 1,866,682 and 4,374,977, respectively.

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

	Three Months Ended June 30.		Six Months Ended June 30.	
	2010	2009	2010	2009
Basic:				
Net income (loss)	\$ 1,965	\$ 904	\$ 2,944	\$ (967)
Weighted average shares outstanding - basic	32,567	31,578	32,388	31,516
Net income (loss) per share - basic	\$ 0.06	\$ 0.03	\$ 0.09	\$ (0.03)
Diluted:				
Net income (loss)	\$ 1,965	\$ 904	\$ 2,944	\$ (967)
Weighted average shares outstanding - basic	32,567	31,578	32,388	31,516
Add: Dilutive effect of employee stock plans	885	383	915	—
Weighted average shares outstanding - diluted	33,452	31,961	33,303	31,516
Net income (loss) per share - diluted	\$ 0.06	\$ 0.03	\$ 0.09	\$ (0.03)

Note 3. Stockholders' Equity

Treasury Stock

During 2008, our board of directors authorized stock repurchase programs for the repurchase of up to \$90.0 million of our common stock. All repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired. The timing, price and volume of the repurchases 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 June 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 six months ended June 30, 2010, we did not repurchase any shares through the stock repurchase programs. As of June 30, 2010, we had \$25.0 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs. Additionally, for the three and six months ended June 30, 2010, we withheld 5,880 shares and 12,487 shares, respectively, from employees to satisfy tax withholding obligations on the vesting of restricted stock units. For the three and six months ended June 30, 2009, 2,784 shares and 6,922 shares, respectively, were withheld from employees to satisfy tax withholding obligation on the vesting of restricted stock units.

Note 4. Stock Option Plans and Share-Based Compensation

Stock Option Plans

At June 30, 2010, 1,210,838 shares of common stock were reserved for future issuance under our 2009 Equity Incentive Plan, or the "2009 Plan." At June 30, 2010, \$8.8 million of total unrecognized compensation cost related to non-vested stock options was expected to be recognized over a weighted average period of 2.6 years.

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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 six months ended June 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	316	\$ 12.67
Exercised	(313)	\$ 9.18
Forfeited	(41)	\$ 14.53
Expired	(75)	\$ 16.55
Outstanding at June 30, 2010	4,635	\$ 12.76
Exercisable at June 30, 2010	3,457	\$ 12.62

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 June 30, 2010 is approximately \$0.9 million and is expected to be recognized over a weighted average period of 0.9 years. Expected future compensation expense relating to RSUs outstanding on June 30, 2010 is \$4.7 million over a weighted-average period of 2.7 years. A summary of activity of both restricted stock and RSUs for the six months ended June 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	116	\$ 12.49
Vested	(54)	\$ 9.40	(66)	\$ 15.26
Forfeited	—	\$ —	(6)	\$ 18.05
Non-vested, June 30, 2010	77	\$ 12.91	308	\$ 13.35

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan, or ESPP, under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of \$25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of June 30, 2010, 2,748,422 shares had been issued under the ESPP. As of June 30, 2010, there were a total of 2,583,133 shares reserved for future issuance under the ESPP. During the six months ended June 30, 2010, 240,406 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."

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