

OMNICELL, Inc
Form 10-K
March 08, 2012

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____
Commission File No. 000-33043

OMNICELL, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3166458
(IRS Employer
Identification No.)

**1201 Charleston Road
Mountain View, CA 94043
(650) 251-6100**

(Address of registrant's principal executive offices, including zip code)

(650) 251-6100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------------------|--|
| Common Stock, \$0.001 par value | The NASDAQ Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the 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 aggregate market value of the registrant's common stock, \$0.001 par value, held by non-affiliates of the registrant as of June 30, 2011 was \$497.7 million (based upon the closing sales price of such stock as reported on The NASDAQ Global Select Market on such date) which excludes an aggregate of 1,152,317 shares of the registrant's common stock held by officers, directors and affiliated stockholders. For purposes of determining whether a stockholder was an affiliate of the registrant at June 30, 2011, the registrant has assumed that a stockholder was an affiliate of the registrant at June 30, 2011 if such stockholder (i) beneficially owned 10% or more of the registrant's common stock and/or (ii) was affiliated with an executive officer or director of the registrant at June 30, 2011. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 23, 2012, there were 33,488,366 shares of the registrant's common stock, \$0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

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2011 Form 10-K Annual Report
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PART I

ITEM 1 BUSINESS

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

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

the size or growth of our market or market share;

the opportunity presented by new products or emerging markets;

our expectations regarding our future backlog levels;

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

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

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

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

our ability to acquire companies, businesses, products or technologies on commercially reasonable terms and integrate such acquisitions effectively.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "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 Annual Report on Form 10-K in greater detail in the section entitled "Risk Factors" under Part I, Item 1A 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 Annual Report on Form 10-K. You should read this Annual Report on Form 10-K and the documents that we reference in this 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.

We own various trademarks, copyrights and trade names used in our business, including the following: Omnicell®, the Omnicell logo, OmniRx®, OmniCenter®, OmniSupplier®, OmniBuyer®, SafetyStock®, WorkflowRx , OmniLinkRx , SecureVault , SafetyMed®, Optiflex , vSuite ,

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SinglePointe , *AnywhereRN* , *Anesthesia Workstation* , *Savvy* , *Pandora®*, *Pandora Via* , *Executive Advisor*

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Touch & Go . This report also includes other trademarks, service marks and trade names of other companies. All other trade names used in this report are trademarks of their respective holders.

Overview

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

The medical industry has become increasingly aware that the human element of patient care inevitably creates the risk of medication administration errors. The Institute of Medicine, a non-profit, non-governmental arm of the National Academies, published a landmark report in 2006 that estimated 1.5 million medication errors are made each year in the United States. Acute care facilities must adhere to medication regulatory controls that we believe cannot be adequately supported by manual tracking systems or partially automated systems. Nursing shortages add an additional challenge to acute care facilities to meet regulatory controls and improve patient safety while still providing adequate patient care. Healthcare reform in the United States is driving the need for further process efficiency to control costs. We provide solutions to help hospitals address these problems. Our systems provide a comprehensive medication control and dispensing solution, starting from the point of entry into the hospitals and other health care providers, through the central pharmacy, to the nursing station and, ultimately, to the patient's bedside. Our solutions utilize advanced, software-based medication control and tracking algorithms that interact with hardware security features, resulting in a system that provides both the pharmacist and the nurse real-time safety controls. Our solutions also go a step further by providing medication barcode verification at every step of the medication administration process, from entry to the hospital through to administration to a patient. Our systems enable our customers to reduce or eliminate inefficiencies such as manual tracking and reconciliations, nursing time spent in obtaining medications and in inventory control and extraneous process steps.

Similar to our medication solutions, our medical and surgical supply systems provide acute care hospitals control over consumable supplies critical to providing quality healthcare. Our solutions provide inventory control software that is designed to ensure critical supplies are always stocked in the right locations. At the same time, usage tracking helps hospital administrators to ensure that money is not wasted on excessive stores of supplies and helps optimize reimbursement by improving charge capture. Our systems automate the tracking of activities in perioperative areas such as the operating room and catheter lab, including tracking implantable tissue grafts for additional patient safety and regulatory compliance.

Additionally, we offer analytics and reporting software for pharmacists and materials managers to more easily manage inventory flow, tracking and optimization. These reports are often used to identify hospital employees who may be improperly diverting pharmaceuticals stored in the automated dispensing cabinets. Such diversion or theft, especially of controlled substances, could result in black market sales or other illicit uses.

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Business Strategy

Our key business strategies include:

Delivering solutions that are designed to provide our customers with the best experience in the healthcare industry by:

Proactively anticipating and meeting customer product and service requirements;

Listening carefully to our customers' prospective issues; and

Meeting and exceeding our customers' installation and support needs.

Further penetrating the existing hospital and other healthcare provider market for our products through sustaining technological leadership in our products by:

Consistently innovating our product and service offerings; and

Maintaining our flexibility in customer product design and in the installation process.

Increasing penetration of the international market by:

Bringing new products and technologies to market that are specific to international markets;

Partnering with companies that have sales, distribution, or other capabilities that we do not possess in non-U.S. geographies; and

Increasing customer awareness of safety issues in the administration of medications.

Expanding our product offering through acquisitions and partnerships.

We provide comprehensive patient safety solutions for the medication and medical and surgical supply needs of our customers. To meet these needs, we strive to provide proprietary, innovative solutions that help our customers stay focused on their goal of providing quality healthcare at affordable costs. Our solutions are designed to provide everything the customer requires for installation and maintenance of medication and medical and surgical supply control. Our goal of improving healthcare for everyone has led us to take certain steps in the development of our business and our long term approach to our market, such as:

Innovating products to address patient safety and cost-containment pressures facing healthcare facilities while improving clinician workflow and overall operating efficiency;

Incorporating a broad range of clinical input into our product solution development to accommodate needs ranging from those of institutional pharmacies to stand-alone community hospitals to multi-hospital entities and Integrated Delivery Networks, or IDNs;

Developing new solutions to enhance our customers' existing systems and protect our customers' investments by preserving, leveraging and upgrading their existing information systems, as well as striving to provide integration of our products with the other healthcare information systems our customers use; and

Providing a full service, positive experience for our hospital customers in the solution sales process, the timing and implementation of our product installations and the responsiveness of our support services.

We have developed or acquired numerous technologies that provide long-term solutions for our customers. Our own product development activities have brought a number of innovative and proprietary products to the market. Our most recently announced solutions include the fourth generation Omnicell® G4 platform with a single unified database across the automated medication dispensing system. This single database is designed to decrease the risk of human error and save

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significant pharmacy time by eliminating the need for repetitive entry of drug formularies in multiple locations. The G4 platform is designed to help hospitals closely manage medication and supply inventory to reduce costs, comply with increasingly stringent regulatory pressures and safeguard the patient. The new platform offers a consistent user interface across all of our products.

Included in the Omnicell G4 platform are a number of our products, including:

G4 Cabinet Console with integrated medication label printer provides easier workflows for accurate medication retrieval, waste and accounting. The G4 cabinet console offers many state-of-the-art features and innovations such as the new Medication Label Printer. This unique Omnicell offering allows nurses to print patient-specific labels during medication issue, supporting compliance with the Joint Commission National Patient Safety Goals described below. Also included is our new Touch & Go G4 biometric ID system, designed with state-of-the-art biometrics hardware and software to improve efficiency and security. The G4 console leverages technologies that boost reliability, security and performance, while meeting the most recent requirements for electronic healthcare records. The new G4 platform also positions customers to take advantage of future innovations.

Savvy Mobile Medication System integrates with Omnicell's automated dispensing cabinets and the hospital's information technology system to allow nurses to safely and securely transport medications from the dispensing cabinet to the bedside. The Savvy system addresses stringent patient safety requirements such as the Institute for Safe Medication Practices Core Process 10 for safe transport of medication.

Omnicell's Controlled Substance Management system provides perpetual inventory management and an automated audit trail to help the pharmacy comply with regulatory standards while increasing efficiency. The shared database between pharmacy, the operating room and nursing cabinets tracks and monitors narcotic movement throughout the hospital, providing a closed-loop solution.

In addition to our own development, we have acquired products that extend patient safety controls to a wider range of applications and departments in the hospital. These include products for the central pharmacy, the operating room, the catheterization lab, the nursing areas and the patient point of care. We have most recently acquired an analytics solution to allow pharmacists and materials managers to more easily manage inventory flow, tracking and optimization, and to provide information that can be used to detect diversion or theft. We believe the breadth of our portfolio of automation products makes our solutions more valuable to our customers, allowing hospital clinicians to automate and control more of the medication and medical and surgical supply distribution processes. Looking forward, we expect to offer products with an even greater ability to improve patient safety for our customers, both through internal development and through acquisitions.

Industry Background

The acute care market in the United States, where most of our sales occur, is comprised of approximately 6,400 hospitals and facilities with a total capacity of approximately 945,000 acute care beds. Our customers include single location community hospitals, government hospitals and regional and national entities.

The delivery of healthcare in the United States still relies on a significant number of manual and paper-based processes. Most hospitals have deployed at least some automation solutions, but few have deployed them throughout the institution. The use of manual and paper-based systems in many hospital departments today results in highly complex and inefficient processes for tracking and delivering medications and supplies. In addition, many existing healthcare information systems are unable to support

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the modernization of healthcare delivery processes or address mandated patient safety initiatives. These factors have contributed to medical errors and unnecessary process costs across the healthcare sector.

Healthcare providers and facilities are also affected by significant economic pressures. Demand for healthcare services continues to increase, driving shortages in the United States labor market for healthcare professionals, particularly nurses and pharmacists. Rising costs of labor, prescription drugs and new medical technology all contribute to increased spending. Governmental pressures surrounding healthcare reform have led to increased scrutiny of the cost and efficiency with which healthcare providers deliver their services. These factors, combined with the continuing consolidation in the healthcare industry, have significantly increased the need to improve the efficiency of healthcare professionals and to control costs.

Outside the United States, certain healthcare providers also are becoming increasingly aware of the benefits of automation. Many governmental and private entities look to the progress made over the last several years in the United States and are starting to invest significantly in information technology and automation. International growth in our industry is therefore expected to become significant over the next several years.

Key Industry Events and Reports

Reports by the Institute of Medicine, or IOM, the Food and Drug Administration, or FDA, and the Joint Commission for the Accreditation of Healthcare Organizations, also known as The Joint Commission, have increased public and healthcare industry awareness of the dangers caused by medication errors. Regulatory standards and industry guidelines, such as those published by the Institute for Safe Medication Practices, or ISMP, as well as the desire of healthcare organizations to provide premium quality service and avoid liability, have driven acute care facilities to prioritize investment in capital equipment to improve patient safety. Such reports and regulatory standards include:

In November 1999, the IOM issued a report that highlighted the prevalence of medical errors based on the results of more than 30 independent studies. The report indicated that medical errors are among the top ten causes of death in the United States and that medication errors specifically were responsible for more than an estimated 7,000 deaths in 1993.

On February 25, 2004, the FDA published a rule that requires linear barcodes on most prescription drugs. Drug manufacturers, re-packagers, re-labelers and private label distributors are subject to the rule. The FDA estimated that the barcode rule, once implemented, would result in a 50% reduction in medication errors, 500,000 fewer adverse drug events over the subsequent 20 years, \$93 billion in cost savings and other economic benefits.

In 2004, The Joint Commission set medication management standard 2.20, which requires that medications are properly and safely stored throughout the hospital. The Joint Commission audits all healthcare facilities seeking accreditation for proper medication handling control and reviews all exceptions to control procedures.

In June 2006, the IOM issued a report which augmented a series of reports issued between 1999 and 2005 and indicated that an estimated 1.5 million medication errors occur annually in the United States.

In 2008, and updated in 2009, the ISMP published guidelines for the Interdisciplinary Safe Use of Automated Dispensing Cabinets.

The Joint Commission first established the National Patient Safety Goals, or NPSG, in 2002. In 2010, NPSG 03.04.01, *National Patient Safety Goals on Labeling Medications* specified the need for labeling all medications, medication containers (i.e. syringes, medicine cups, basins, etc.) and other solutions on and off the sterile field in perioperative and other procedural settings.

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These reports, and the general awareness of patient safety in the medical field, have created a heightened desire to implement solutions that mitigate risks and improve the quality of healthcare. Automated medication distribution systems have become the standard of care and hospitals throughout the country are seeking to implement the most robust medication safety solutions available. Top teaching hospitals are among the early adopters of our new technologies and our customers include 11 of the 17 Honor Roll Hospitals, as rated by *US News and World Report*.

Healthcare Reform

In 2009, the U.S. government passed the American Reinvestment and Recovery Act, or ARRA, which provides for, among other things, the funding of incentives for healthcare organizations to implement Electronic Healthcare Records, or EHR). ARRA establishes minimal requirements for electronic healthcare usage and provides incentives for electronic healthcare adoption through 2015 and penalties for non-adoption after 2015. In 2010, the U.S. Congress passed the Patient Protection and Affordable Care Act, which prescribes broad-based measures designed to provide healthcare to a greater percentage of the population as well as limiting the cost of providing healthcare. We believe that both ARRA and the Patient Protection and Affordable Care Act will drive the need for increased efficiency in providing healthcare without reducing healthcare standards. Omnicell's G4 platform includes the only automated dispensing system that is Modular EHR certified and works with all "hospital information system vendors," as defined by the U.S. Department of Health and Human Services Office of National Coordinator for Health Information Technology. We believe our products assist hospital organizations in achieving the goals of the new laws by allowing them to reduce process steps, eliminate manual tracking, reduce waste from expired medications and supplies, track quality levels and reduce errors that result in re-admissions. The new platform's single unified database across the automated medication dispensing system decreases the risk of human error and saves significant pharmacy time by eliminating the need for repetitive entry of drug formularies in multiple locations. The G4 platform is designed to help hospitals closely manage medication and supply inventory to reduce costs, comply with increasingly stringent regulatory pressures and safeguard the patient.

Our Products and Services

We provide solutions that are designed to enable healthcare professionals to reduce medication errors and improve administrative controls, while simultaneously improving workflow and increasing a healthcare facility's operational efficiency. Our products are designed to enable our customers to enhance and improve the effectiveness of the medication-use process, the efficiency of the medical-surgical supply chain, overall patient care and clinical and financial outcomes of healthcare facilities. From the point at which a medication arrives at the receiving dock to the time it is administered, our systems are capable of storing, packaging, barcoding, ordering and issuing the medication, as well as providing information and controls on its use and reorder. Our medication-use product line includes systems for medication dispensing in acute care nursing departments, central pharmacy automation, physician order management and nursing workflow automation at the bedside. Our supply product lines provide healthcare facilities with cost data which enables detailed quantification of charges for payer reimbursement, inventory management, implant monitoring and timely reorder of supplies. These products range from industrial-grade software-driven carousels for managing large amounts of inventory in the central pharmacy to high-security closed-cabinet systems and software to open-shelf and combination solutions in the nursing unit, catheterization lab and operating room. Our combination medication-use and supply products allow the operating departments to store, track and dispense medications and supplies through a single system while optimizing the workflows for each type of medication or supply managed. Our data analytics products provide critical information to clinicians that help them optimize efficiency, safety, and security. We also provide services, including customer education and training, to help customers to optimize their use of our technology.

Our analytics solution allows pharmacists and materials managers to more easily manage inventory flow, tracking and optimization, and aids in the identification of those engaged in narcotics diversion within the acute care hospital.

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Our medication-use product line includes our OmniRx, SinglePointe, AnywhereRN, Anesthesia Workstation, WorkflowRx, Controlled Substance Management, OmniLinkRx, Savvy Mobile Medication System, and Pandora Data Analytics products. To provide our customers with end-to-end medication control, our product line incorporates barcode technology throughout. Our solutions incorporate fourth generation technology, which we believe is the most advanced on the market today. Medication control technology has evolved over the past 30 years. First generation technology provided secure electronic storage and dispensing of medications in distributed locations in the hospital but was only economically viable to deploy with the most frequently used drugs and controlled substances. Second generation technology added specific patient data, electronically transmitted from other hospital information systems that, when combined with information stored in Omnicell systems, guides clinicians to the medications needed to care for specific patients at specific times in the day. Second generation technology was still limited with respect to the number and type of medications that could be tracked. Third generation technology, which we provide in our SinglePointe solution, is able to track medication dispensing and dynamically manage up to 100% of medications specific to individual patients. Used in combination with the rest of our suite of medication use solutions, we believe that SinglePointe provides advanced levels of medication management automation unavailable from any other vendor in the market today. Fourth generation technology puts all medication management capability onto a single database for increased interoperability, safety, and ease of control. Each of the products in our medication-use solution suite is summarized in the table below.

| Product | Use in Hospital | Description |
|---------------------------------|--|--|
| OmniRx | Any nursing area in a hospital department that administers medications | Secure dispensing system that automates the management and dispensing of medications at the point of use. |
| SinglePointe | Any nursing area in a hospital department that administers medications | Software product for use in conjunction with the OmniRx product that controls medications on a patient-specific basis, allowing automated control of up to 100% of the medications used in a hospital. |
| AnywhereRN | Any nursing area in a hospital department that administers medications | Software that allows nurses to remotely operate automated dispensing cabinets from virtually any workstation in the hospital. |
| Pandora Analytics | Hospital central pharmacy and general hospital management | Advanced reporting and data analytics tools. |
| Savvy Mobile System | Any nursing area in a hospital department that administers medications | Mobile wireless computer and dispensing system that provides a mobile platform for hospital information systems and a convenient and secure method for nurses to move medication and supplies. |
| OmniLinkRx | Hospital central pharmacy | Prescription routing system that allows nurses and doctors to scan handwritten prescription orders for electronic delivery to pharmacists for approval and filling. |
| WorkflowRx | Hospital central pharmacy | Automated pharmacy storage, retrieval and packaging systems. |
| Controlled Substance Management | Hospital central pharmacy | Controlled substance inventory management system. |
| Anesthesia Workstation | Operating room | Secure dispensing system for the management of anesthesia supplies and medications. |

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Nursing Floor Solutions

The **OmniRx** solution is the core of our medication control solutions. The OmniRx solution is a dispensing cabinet that automates the management and dispensing of medications at the point of use. The OmniRx features biometric fingerprint identification, advanced single-dose dispensing, barcode confirmation, integrated medication label printing and a wide range of drawer modules enabling the establishment of various security levels. Software features of the OmniRx include patient profiling, notification of medications due, a variety of security features, waste management, clinical pharmacology and integration with an Internet browser for clinical reference information. As part of our G4 launch, the user interface for the OmniRx was completely redesigned to make it more intuitive and easy to use for clinicians. OmniRx has met meaningful use criteria by obtaining modular EHR certification, as defined by the Office of the National Coordinator.

The **SinglePointe** solution is a software extension to the OmniRx solution that allows pharmacists to automate the distribution of specially-handled medications, enabling control of up to 100% of all medications through the automated dispensing system. The SinglePointe solution allows for patient-specific medication control which extends the benefits of automated medication distribution. These benefits include increased patient safety, consistency in tracking and inventory control, simplification of procedures and improved monitoring of controlled substances to a broader range of the medication distribution process in the hospital.

The **AnywhereRN** solution is a software solution that allows nurses to operate the automated dispensing cabinets from virtually any remote workstation within the hospital. This software enables enhanced workflow for nurses such that they are no longer limited to being directly in front of the cabinet to perform certain medication administration functions. AnywhereRN is intended to reduce nurse distractions in the medication administration process, allowing cabinet operations to be done in private or quieter areas. Anywhere RN is also intended to eliminate congestion at the cabinet by minimizing nurse queuing to withdraw medications.

The **Pandora Analytics** solution is comprised of reports and analytical software for medication diversion detection, customizable user options, hospital inventory management controls and point-of-care data analytics, as well as other features designed to assist hospitals in their efforts to improve patient safety, regulatory compliance and reduce costs.

The **Savvy Mobile Medication** solution provides a mobile workstation for nurses, equipped with locking drawers for secure transportation of medications and patient supply items. This is a mobile medication control solution that allows both tracking and physical control of medications extended to the patient bedside. Savvy Mobile Medication solution is designed to provide efficient workflow support, allowing nurses to remotely access the automated dispensing cabinet utilizing AnywhereRN, saving nursing time and minimizing the risk of interruptions to enhance patient safety. This same mobile solution can be used to access hospital applications, including electronic medical records and electronic medication administration records.

Central Pharmacy Solutions

The **OmniLinkRx** solution is a physician order software product that automates communication between nurses and the pharmacy. Used in the central pharmacy, the OmniLinkRx solution simplifies the communication of handwritten physician orders from remote nursing stations to the pharmacy.

The **WorkflowRx** solution is an automated storage, retrieval, inventory management and repackaging solution for the central pharmacy. It is designed to help pharmacists ensure that the right medications are stored in and retrieved from proper locations, both in the central pharmacy and in automated dispensing cabinets. The WorkflowRx solution is deployed on a storage and retrieval carousel, on a repackaging system or on both. Barcode administration through the WorkflowRx solution

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is designed to help ensure that medications are stocked correctly from their point of entry into the healthcare facility. Labeling medications with barcodes, using a repackaging system enables bedside medication administration solutions, such as the Savvy solution, to perform barcode checking at the patient bedside.

The **Controlled Substance Management** solution provides perpetual inventory management and an automated audit trail to help the pharmacy comply with regulatory standards while increasing efficiency. The shared database between the pharmacy, the operating room and nursing cabinets tracks and monitors narcotic movement throughout the hospital, providing a true closed-loop solution. The Controlled Substance Management software, coupled with our automated dispensing technology, enables healthcare facilities to track, monitor and control the movement of controlled substances from the point of initial receipt from the wholesaler throughout internal distribution. The Controlled Substance Management solution maintains a perpetual item inventory and complete audit using integrated barcode technology with both fixed and portable scanners. Barcoded forms and labels may also be generated directly from the Controlled Substance Management system.

Operating Room Solutions

The **Anesthesia Workstation** solution is a system for the management of anesthesia supplies and medications. The system is tailored for the workflow of the clinician working in the operating room. The **Anesthesia TT** solution is a fixed-position tabletop unit designed as a medication-only system. The Anesthesia Workstation and the Anesthesia TT were redesigned as part of the G4 product release, incorporating improved ergonomics to enhance the particular workflows inherent to the operating room and to increase the software capability to better handle case management.

Medical and Surgical Supply Products

Our medical and surgical supply products provide acute care hospitals control over consumable supplies critical to providing quality healthcare. These solutions provide inventory control software that is designed to ensure that critical supplies are always stocked in the right locations. At the same time, usage tracking helps hospital administrators to ensure that money is not wasted on excessive stores of supplies and helps optimize reimbursement by improving charge capture.

Implantable tissue and bone grafts can also be monitored and tracked for additional patient safety and regulatory compliance. The bone and tissue features are integrated with our overall medical and surgical supply chain inventory management and charge capture systems. These solutions are designed for use in the materials management department, the nursing unit and specialty areas such as the catheterization lab and the operating room. They integrate with other information management systems and utilize barcode technology extensively.

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Our supply product line includes the Omnicell Supply Cabinet, Supply/Rx Combination Cabinet, Omnicell Tissue Center, OptiFlex SS, OptiFlex CL and OptiFlex MS. Each of these products is summarized in the table below.

| Product | Use in Hospital | Description |
|--------------------------------|---|---|
| Omicell Supply Solution | Any nursing area in a hospital department that uses patient care supplies | Secure dispensing systems that automate the management and dispensing of medical and surgical supplies at the point of use. |
| Supply/Rx Combination Solution | Any nursing area in a hospital department that uses patient care supplies and administers medications | Secure dispensing systems that manage both supplies and medications from the same cabinets, using the same user interface screens, in medical and surgical units and specialty areas. |
| Omicell Tissue Center | Perioperative areas of the hospital | Manages the chain of custody for bone and tissue specimens from the donor to the patient in the operating room. |
| OptiFlex SS | Perioperative areas of the hospital | Specialty modules for the perioperative areas. |
| OptiFlex CL | Procedure areas in the hospital including the cardiac catheterization lab | Specialty modules for the cardiac catheterization lab and other procedure areas. |
| OptiFlex MS | Any nursing area in a hospital department that administers supplies | System for the management of medical and surgical supplies that provides the flexibility of utilizing barcode control in an open shelf environment. |

The **Omicell Supply Solution** is a secure dispensing system that dispenses and tracks medical and surgical supplies at the point of use. Specialty modules are available for a variety of solutions to manage implants and medications used across the hospital as described below.

Supply/Rx Combination Solution is designed to manage medications and supplies in one versatile cabinet or group of cabinets. This solution allows each department to manage supplies and medications independently, while tracking transaction data, inventory, expenses and treatment costs through a single system.

Omicell Tissue Center allows the operating room staff to manage the chain of custody for bone and tissue specimens from the donor to the patient in the operating room. This solution enables compliance with The Joint Commission requirements and Association of Operating Room Nurses guidelines regarding the handling of tissue specimens.

OptiFlex SS manages supplies and preference cards in the perioperative areas whether the supplies are stored on open shelves or in automated dispensing cabinets. The preference-list system creates a unique barcode for each surgical case, based on physician, procedure, and patient and provides information on the case for data analysis, reporting and charge capture. The **Suture Module** is designed to be integrated into the Omnicell Supply Solution to secure, dispense and automatically track suture usage.

OptiFlex CL manages supplies and creates cases in the cardiac catheterization lab, interventional radiology and other procedure areas. This solution allows real-time point of use data collection

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and accurate supply tracking regardless of whether supplies are stored on open shelves or in automated dispensing cabinets. It also improves cost management through automated charge capture and case profiling by physician. The **Catheter Module** is designed to be integrated into the Omnicell supply cabinet and allows hospitals to secure, dispense and electronically track accurate catheter usage. The **Implant Tracking Module** records expiration date, lot and serial number information to enable compliance with Joint Commission and FDA requirements regarding surgical implants in the event of a recall.

OptiFlex MS solution provides control over general medical and surgical supplies stored in open shelves or in automated dispensing cabinets.

Other Products and Services

Services. We provide services that include customer education and training and maintenance and support services, all provided on a time-and-material basis. We also provide fixed period service contracts to our customers for post-installation technical support with phone support, on-site service, parts and access to software upgrades. On-site service is provided by our field service team.

Omnicell Interface Software. Our interface software provides interface and integration between our medication-use products or our supply products and a healthcare facility's in-house information management systems. Interface software is designed to provide integration and communication of patient data, logistical data, inventory information, charge capture and billing information and other healthcare database information.

Sales and Distribution

We sell our medication dispensing and supply automation systems primarily in the United States and Canada. Approximately 98% of our product revenue for 2011 was generated in those markets. For the years ended December 31, 2011, 2010 and 2009, no single customer accounted for greater than 10% of our revenues. The details of our foreign operations are discussed in Note 1 of the Notes to Consolidated Financial Statements under the heading "Geographic Risk." Our sales force is organized by geographic region in the United States and Canada. As of December 31, 2011, our combined direct, corporate and international distribution sales teams consisted of approximately 106 staff members. Nearly all of our direct sales team members have hospital capital equipment or clinical systems experience. All of our sales representatives sell the full breadth of the Omnicell product line. Our corporate sales team focuses on large IDNs, Group Purchasing Organizations, or GPOs, and the U.S. government.

The sales cycle for our automation systems is long and can take in excess of 24 months. This is due in part to the cost of our systems and the number of people within each healthcare facility involved in the purchasing decision. To initiate the selling process, the sales representative generally targets the director of pharmacy, the director of materials management or other decision makers and is responsible for educating each group within the healthcare facility about the benefits of our solutions relative to competing methods of managing medications or medical and surgical supplies.

We have contracts with several GPOs that enable us to sell our automation systems to GPO-member healthcare facilities. The primary advantage to customers who buy our products pursuant to a GPO agreement is that they benefit from pre-negotiated contract terms and pricing. The benefit to the GPO is the fee earned as a percentage of sales, which is paid by us. These GPO contracts are typically for multiple years with options to renew or extend for up to two years and some of which can be terminated by either party at any time. Our current GPO contracts include AmeriNet, Inc., Broadlane, Inc., Carolina Shared Services, LLC, Child Health Corporation of America, HealthTrust Purchasing Group, L.P., MedAssets Supply Chain Systems, Novation, LLC, Premier Purchasing Partners, L.P., and Resources Optimization & Innovation. We have also contracted with the U.S.

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General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase or lease our products.

We offer multi-year, non-cancelable lease payment terms to assist hospitals in purchasing our systems by reducing their cash flow requirements. We sell the majority of our multi-year lease receivables to third-party leasing finance companies, but we also maintain a certain portion of our leases in-house.

Our field operations representatives support our sales force by providing operational and clinical expertise prior to the close of a sale and during installation of our automation systems. This group assists the customer with the technical implementation of our automation systems, including configuring our systems to address the specific needs of each individual customer. After the systems are installed, on-site support is provided by our field service team and technical support group.

We offer telephone technical support through our technical support center in Illinois. The support center is staffed 24 hours a day, 365 days a year. We have found that approximately 60% of our customers' service issues can be addressed either over the phone or by our support center personnel utilizing their on-hand remote diagnostics tools. In addition, we utilize remote dial-in software that monitors customer conditions on a daily basis. We offer a suite of remote monitoring features, our vSuite service programs, which proactively monitor system status and alert service personnel to potential problems before they lead to system failure.

In addition, our international sales team handles sales, installation and service through distribution partners in Asia, Australia, Europe, the Middle East and South America. We have been involved in a growing number of new installations in international markets and expect to continue growing our business in light of the expected increase in global demand for hospital automation solutions. In November, we announced the introduction of a Mandarin based-product in the People's Republic of China and a comprehensive agreement with a Chinese-based company to distribute the product.

We have not sold and have no future plans to sell our products either directly or indirectly to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, or those subject to economic sanctions and export controls.

Manufacturing and Inventory

Our manufacturing process allows us to configure hardware and software in unique combinations to meet a wide variety of individual customer requirements. Our manufacturing process consists primarily of the final assembly of components and of subassemblies which are assembled by third-party single source manufacturers. We and our partners test subassemblies and perform inspections to assure the quality and reliability of our products. While many components of our systems are standardized and available from multiple sources, certain components or subsystems are fabricated by a sole supplier according to our specifications and schedule requirements.

Our arrangements with our contract manufacturers generally set forth quality, cost and delivery requirements, as well as manufacturing process terms, such as continuity of supply, inventory management, capacity flexibility, quality and cost management, oversight of manufacturing and conditions for the use of our intellectual property.

Our manufacturing organization procures components and schedules production based on the backlog of customer orders. Installation typically occurs between two weeks and twelve months after the initial order is received, depending upon the customer's particular needs. We deploy a key operational strategy of operating with backlog levels that approximate the average installation cycle of our customers, which allows us to more efficiently manage our installation teams, improve production efficiencies, reduce inventory scrap and lower shipping costs.

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Competition

The medication management and supply chain solutions market is intensely competitive. We compete directly with a number of companies and are affected by evolving and new technologies, changes in industry standards and dynamic customer requirements.

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, Talyst, Inc., Emerson Electronic Co. (through its acquisitions of Flo Healthcare LLC, Lionville Systems, Inc. and medDispense, L.P.), PhACTs LLC, Swisslog Holding AG, Stinger Medical, Stanley Black and Decker, Inc. (through their acquisition of InfoLogix, Inc.), Ergotron, Inc., Capso Solutions LLC (through their acquisition of Artromick International, Inc.), Rubbermaid Medical Solutions (a business unit of Newell Rubbermaid Inc.), WaveMark Inc., ParExcellence Systems, Inc., Vanas n.v., Lawson Software, Inc. and MACH4 Automatisierungstechnik GmbH.

We believe our products and services compare favorably with the offerings of our competitors, particularly with respect to proprietary technological advancements, system performance, system reliability, installation, applications training, service response time and service repair quality.

Intellectual Property and Proprietary Technology

We rely on a combination of patents, trademarks, copyright and trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights.

We pursue patent protection in the United States and foreign jurisdictions for technology that we believe to be proprietary and that offers a potential competitive advantage for our products. Our issued patents relate to our "See & Touch" methodology used in our medication dispensing and supply automation systems, the use of locking and sensing lids with pharmacy drawers and the methods of restocking these drawers, and the use of guiding lights in the open matrix, locking lid and sensing lid pharmacy drawers. These patents also apply to our unit-dose mechanism and methods, the single-dose dispensing mechanism, the methods for restocking the single-dose drawers using exchange liners, certain methods for loading and unloading mobile carts, the method of use of scanners with a mobile cart, and certain methods for using radio frequency tags with storage items. Our patents expire at various times between 2013 and 2027.

All of our product system software is copyrighted and subject to the protection of applicable copyright laws. We intend to seek additional international and U.S. patents on our technology and to seek registration of our trademarks. We have obtained registration of Omnicell, the Omnicell logo, OmniRx, OmniCenter, OmniSupplier, OmniBuyer, SafetyStock, WorkflowRx, OmniLinkRx, SecureVault, SafetyMed, Optiflex, vSuite, SinglePointe, AnywhereRN, Anesthesia Workstation, Savvy, Pandora, Pandora Via and Executive Advisor trademarks through the U.S. Patent and Trademark Office. Trade secrets and other confidential information are also important to our business. We protect our trade secrets through a combination of contractual restrictions and confidentiality and licensing agreements.

Research and Development

We utilize industry-standard operating systems and databases, but generally develop our own application and interface software in our research and development facilities. New product development projects are prioritized based on customer input. During 2011 we announced numerous new product releases, including the G4 automated dispensing cabinets, the G4 Anesthesia Work Station, the Controlled Substance Management System, releases of 15.0 and 16.0 software for our

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automated dispensing cabinets (including the first Mandarin language software), additional medication drawer types, Optiflex 11.0 supply management software, Pandora Via 2.1 and Pandora Financials.

Employees

As of December 31, 2011, we had a total of 773 employees, including 85 in manufacturing, 103 in research and development, 146 in sales, of which 106 comprise our combined direct, corporate and inside sales teams, 19 in sales administration and 21 in field operations who perform pre-sales activity, 155 in customer service, 141 in field operations, 43 in marketing and 100 in general and administration positions. During 2011 we continued a program begun at the end of 2010 to expand our sales team in order to provide increased territory coverage and allow for sales capacity to bring our new product solutions to market. We have rebalanced our staff as needed, at times eliminating some functional positions and at other times adding new functional-specific positions to meet the evolving needs of our marketplace while controlling costs. None of our employees is represented by a collective bargaining agreement, nor have we experienced any work stoppage. We believe that our employee relations are good.

Business Under Government Contracts

A number of our U.S. government-owned or government-run hospital customers sign five-year leases, with payment terms that are subject to one-year government budget funding cycles. Failure of any of our U.S. government customers to receive their annual funding could impair our ability to sell to these customers, or to collect payments on our existing unsold leases. For additional information regarding these leases, see Item 1A, "Risk Factors."

Financing Practices Relating to Working Capital

We assist healthcare facilities in financing their cash outlay requirements for the purchase of our systems by offering multi-year, non-cancelable sales contracts. For additional information regarding these financing activities, see Note 1 of "Notes to Consolidated Financial Statements" included in this Annual Report on Form 10-K.

Product Backlog

Product backlog is the dollar amount of medication and supply dispensing systems for which we have purchase orders from our customers and for which we believe we will install, bill and gain customer acceptance within one year. Due to industry practice that allows customers to change order configurations with limited advance notice prior to shipment and occasional customer changes in installation schedules, we do not believe that backlog as of any particular date is necessarily indicative of future sales. However, we do believe that backlog is an indication of a customer's willingness to install our solutions. As of December 31, 2011 and 2010, our backlog was \$133.9 million and \$126.8 million, respectively.

Company Information

We were incorporated in California in 1992 under the name of Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc.

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We file reports and other information with the Securities and Exchange Commission, or SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy or information statements. Those reports and statements as well as all amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act (1) are available at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549, (2) are available at the SEC's internet site (www.sec.gov), which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC and (3) are available free of charge through our website as soon as reasonably practicable after electronic filing with, or furnishing to, the SEC. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our website address is www.omnicell.com. Information on our website is not incorporated by reference nor otherwise included in this report.

Executive Officers of the Registrant

The following table sets forth certain information as of March 1, 2012 about our executive officers:

| Name | Age | Position |
|------------------------|------------|--|
| Randall A. Lipps | 54 | President, Chief Executive Officer, and Chairman of the Board of Directors |
| J. Christopher Drew | 46 | Senior Vice President, Field Operations |
| Robin G. Seim | 52 | Chief Financial Officer and Vice President Finance, Administration and Manufacturing |
| Dan S. Johnston | 48 | Vice President and General Counsel |
| Nhat H. Ngo | 39 | Vice President, Strategy and Business Development |
| Marga Ortigas-Wedekind | 50 | Vice President, Global Marketing and Product Development |

Randall A. Lipps was named Chief Executive Officer and President of Omnicell in October 2002. Mr. Lipps has served as Chairman of the Board and a Director of Omnicell since founding Omnicell in September 1992. Mr. Lipps received both a B.S. in economics and a B.B.A. from Southern Methodist University.

J. Christopher Drew joined Omnicell in April 1994 and was named Senior Vice President, Operations in January 2005. In January 2009, Mr. Drew was named Senior Vice President, Field Operations. From April 1994 to January 2005, Mr. Drew served in various management positions with Omnicell, including Vice President of Branded Solutions and Director of Corporate Development. Mr. Drew received a B.A. in economics from Amherst College and an M.B.A. from the Stanford Graduate School of Business.

Robin G. Seim joined Omnicell in February 2006 as Vice President and was named Chief Financial Officer in March 2006. In January 2009, Mr. Seim was named Chief Financial Officer and Vice President Finance, Administration and Manufacturing. Prior to joining Omnicell, Mr. Seim served as Chief Financial Officer of several technology companies, including Villa Montage Systems, Inc. from 1999 to 2001, Candra, Inc. from 2001 to 2004 and Mirra, Inc., in 2005. Prior to 1999, Mr. Seim held a number of management positions with Nortel Networks, Bay Networks, and IBM. Mr. Seim received a B.S. in accounting from California State University, Sacramento.

Dan S. Johnston joined Omnicell in November 2003 as Vice President and General Counsel. From April 1999 to November 2003, Mr. Johnston was Vice President and General Counsel at Be, Inc., a software company. From September 1994 to March 1999, Mr. Johnston was an attorney with the law firm Cooley LLP. Mr. Johnston received a B.S. in computer information systems from Humboldt State University and a J.D. from the Santa Clara University School of Law.

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Nhat H. Ngo joined Omnicell in November 2008 as Vice President of Strategy and Business Development. From January 2007 to October 2008, Mr. Ngo served as Vice President of Business Development and Licensing for a business unit of Covidien, a global healthcare products company. From June 1999 to April 2006, Mr. Ngo worked at BriteSmile, Inc., a direct-to-consumer aesthetic technology company and served in a variety of senior leadership positions in marketing, sales, operations, strategic planning and corporate development. From September 1997 to June 1999, Mr. Ngo practiced corporate law at Shaw Pittman. Mr. Ngo received a B.S. in commerce, with a concentration in finance, from the University of Virginia McIntire School of Commerce and a J.D. from the University of Virginia School of Law.

Marga Ortigas-Wedekind joined Omnicell in January of 2009 as Vice President, Marketing. In May 2009, she was named Vice President, Global Marketing and Product Development. From February 2002 to October 2008, Ms. Ortigas-Wedekind was the Senior Vice President Marketing, Development, and Clinical Affairs of Xoft, Inc., a medical device company. Ms. Ortigas-Wedekind's earlier career includes several senior marketing roles, including Guidant Corporation's Vascular Intervention Division from January 1990 to February 2000, covering international and worldwide sales and marketing, and culminating in the role of Director, Market Development. Ms. Ortigas-Wedekind received a B.A. in political economics from Wellesley College and an M.B.A. from the Stanford Graduate School of Business.

ITEM 1A. RISK FACTORS

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

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

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

Additionally, as the U.S. Federal government implements recently enacted healthcare reform legislation, and as Congress, regulatory agencies and other state governing organizations continue to review and assess additional healthcare legislation and regulations, there may be an impact on our business. Healthcare facilities may decide to postpone or reduce spending until the implications of such healthcare enactments are more clearly understood, which may affect the demand for our products and harm our business.

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The medication management and supply chain solutions market is highly competitive and we may be unable to compete successfully against new entrants and established companies with greater resources and/or existing business relationships with our current and potential customers.

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, Talyst, Inc., Emerson Electronic Co. (through its acquisitions of Flo Healthcare LLC, Lionville Systems, Inc. and medDispense, L.P.), PhACTs LLC, Swisslog Holding AG, Stinger Medical, Stanley Black and Decker, Inc. (through their acquisition of InfoLogix, Inc.), Ergotron, Inc., Capso Solutions LLC (through their acquisition of Artromick International, Inc.), Rubbermaid Medical Solutions (a business unit of Newell Rubbermaid Inc.), WaveMark Inc., ParExcellence Systems, Inc., Vanas n.v., Lawson Software, Inc. and MACH4 Automatisierungstechnik GmbH.

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

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

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;

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;

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 than we do;

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;

certain competitors may have existing business relationships with our current and potential customers, which may cause these customers to purchase medication and supply dispensing systems or automation solutions from these competitors;

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

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

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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 and our new product solutions may not achieve market acceptance.

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

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

If we experience delays in installations of our medication and supply dispensing systems, resulting in delays in our ability to recognize 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

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resources by prospective customers. These larger and more complex transactions often require the input and approval of many decision-makers, including pharmacy directors, materials managers, nurse managers, financial managers, information systems managers, administrators, lawyers and boards of directors. For these and other reasons, the sales cycle associated with the sale of our medication and supply dispensing systems is often lengthy and subject to a number of delays over which we have little or no control. A delay in, or loss of, sales of our medication and supply dispensing systems could have an adverse effect upon our operating results and could harm our business.

In addition, and in part as a result of the complexities inherent in larger transactions, the average time between the purchase and installation of our systems is usually between two weeks and one year. Delays in installation can occur for reasons that are often outside of our control. We have also experienced fluctuations in our customer and transaction size mix, which increases the difficulty in our ability to forecast our product backlog. Because we recognize revenue only upon installation of our systems at a customer's site, any delay in installation by our customers will also cause 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

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will be successful in attracting and retaining qualified personnel. Competitors have in the past attempted, and may in the future attempt, to recruit our employees.

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

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

Macroeconomic and general market conditions in recent years have contributed to revenue volatility. Revenues for the year ended December 31, 2009 declined by \$38.4 million or 15.2% from \$251.9 million in 2008. For the year ended December 31, 2010, revenue increased by \$8.9 million or 4.2% to \$222.4 million compared to \$213.5 million for 2009. For the year ended December 31, 2011, revenue increased by \$23.1 million or 10.4% to \$245.5 million.

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

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

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

The healthcare industry has faced, and will likely continue to face, significant financial constraints. Recently enacted legislation such as the American Recovery and Reinvestment Act in 2009, the Patient Protection and Affordable Care Act in 2010, the Budget Control Act of 2011, and other health reform legislation may cause customers to postpone purchases of our products while the impact of the legislation on their operations is determined. Our automation solutions often involve a significant

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financial commitment by our customers and, as a result, our ability to grow our business is largely dependent on our customers' capital and operating budgets. To the extent healthcare spending declines or increases more slowly than we anticipate, demand for our products and services could decline.

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

Our 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.

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, including sales efforts centered in Canada and Europe and the Middle East and Asia-Pacific regions. Other international operations include a third-party service provider in India for customer support activity, our Hong Kong office to support international supply chain sourcing in Asia and our sales office and training center in Dubai, United Arab Emirates. During the fourth quarter of 2011, we launched Mandarin-language versions of our G4 medication automation products for clinical use in China and entered into a partnership to distribute, install, and service our automated medication dispensing systems in China. Our international operations subject us to a variety of risks, including:

the difficulty of managing an organization operating in various countries;

growing political sentiment against international outsourcing of support services;

reduced protection for intellectual property rights, particularly in jurisdictions that have less developed intellectual property regimes;

changes in foreign regulatory requirements;

the requirement to comply with a variety of international laws and regulations, including labor, import, export, tax, anti-bribery and employment laws and changes in tariff rates;

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

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

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

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

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

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

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

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

changes in pricing policies by us or our competitors;

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

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

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

fluctuations in the percentage of sales attributable to our international business;

our customers' budget cycles;

changes in our operating expenses and our ability to stabilize expenses;

our ability to generate cash from our accounts receivable on a timely basis;

the performance of our products;

changes in our business strategy;

macroeconomic and political conditions, including fluctuations in interest rates, tax increases and availability of credit markets; and

volatility in our stock price and its effect on equity-based compensation expense.

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

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

A number of group purchasing organizations, including AmeriNet, Inc., Carolina Shared Services, LLC, Child Health Corporation of America, HealthTrust Purchasing Group, L.P., MedAssets, Inc. Supply Chain Systems, Novation, LLC, Premier Purchasing Partners, L.P. and Resources Optimization & Innovation, LLC have negotiated standard contracts for our products on behalf of their member healthcare organizations. Members of these group purchasing organizations may purchase under the terms of these contracts, which obligates us to pay the group purchasing organization a fee. We have also contracted with the United States General Services Administration, allowing the Department of Veteran Affairs, the Department of Defense and other Federal Government customers to purchase our products. These contracts enable us to more readily sell our products and services to customers represented by these organizations. Some of our contracts with these organizations are terminable at the convenience of either party. The loss of any of these relationships could impact the breadth of our customer base and could impair our ability to meet our

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revenue targets or increase our revenues. We cannot assure you that these organizations will renew our contracts on similar terms, if at all, and they may choose to terminate our contracts before they expire.

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

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

Additionally, we will be relocating our manufacturing operations to a new facility, yet to be identified. If the move date for the new manufacturing facility is not coincident with the headquarters move, we could experience increased costs and/or interruptions to our business.

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

If we fail to maintain effective internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm attesting to and reporting on these assessments. As of December 31, 2010 our management determined that our internal control over financial reporting was not effective under the Section 404 criteria, as a result of a material weakness in our income tax accounting. Specifically, our processes, procedures and controls related to the preparation and review of the annual income tax provision were not effective to ensure that amounts recorded for the income tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. generally accepted accounting principles.

Based on our testing of enhanced control procedures, our management has determined that, as of December 31, 2011, we remediated the material weakness in internal control over financial reporting that existed at December 31, 2010. However, any future failure by us to maintain an effective internal control environment could negatively impact the market price of our common stock.

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

During the year ended December 31, 2011, our common stock traded between \$12.86 and \$18.15 per share. The market price for shares of our common stock has been and may continue to be highly volatile. In addition, our announcements or external events may have a significant impact on the market price of our common stock. These announcements or external events may include:

changes in our operating results;

developments in our relationships with corporate customers;

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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 certain circumstances, the failure of any of our suppliers or us to perform adequately could result in quality control issues affecting end user's acceptance of our products. These impacts could damage customer relationships and could harm our business.

Complications in connection with our ongoing business information system upgrades to adopt new accounting standards and eventually adopt changes driven by converged accounting standards for revenues, leases and other topics may impact our results of operations, financial condition and cash flows.

We continue to upgrade our enterprise-level business information system with new capabilities. Based upon the complexity of some of the upgrades, there is risk that we will not see the expected benefit from the implementation of these upgrades in accordance with their anticipated timeline and will incur costs in addition to those we have already planned for. In addition, perhaps as early as fiscal year 2013, we will need to begin efforts to comply with final converged accounting standards established by the FASB for revenues, leases and other components of our financial reporting. These new standards could require us to modify our accounting policies, including our revenue recognition policy, which we modified in fiscal 2011. We further anticipate that integration of these and possibly other new standards may require a substantial amount of management's time and attention and require integration with our enterprise resource planning system. The implementation of the system and the adoption of future new standards, in isolation as well as together, could result in operating inefficiencies and financial reporting delays, and could impact our ability to record certain business transactions timely. All of these risks could adversely impact our results of operations, financial condition and cash flows.

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

U.S. government customers that lease our equipment typically sign contracts with five-year payment terms that are subject to one-year government budget funding cycles. Further, the government has in certain circumstances mandated unilateral changes in its Federal Supply Services contract that could render our lease terms with the government less attractive. In our judgment and based on our history with these accounts, we believe these receivables are collectable. However, in the future, the failure of any of our U.S. government customers to receive their annual funding, or the government mandating changes to the Federal Supply Services contract could impair our ability to sell lease equipment to these customers or to sell our U.S. government receivables to third-party leasing companies. In addition, the ability to collect payments on unsold receivables could be impaired and may result in a write-down of our unsold receivables from U.S. government customers. As of December 31, 2011, the balance of our unsold leases to U.S. government customers was \$10.6 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.

Additionally, our competitors may enter into agreements with providers of hospital information management systems that are designed to increase the interoperability of their respective products. To the extent our competitors are able to increase the interoperability of their products with those of the major hospital information systems providers, customers who utilize such information systems may choose not to use our products and services.

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

We expect that developers of medication and supply dispensing systems will be increasingly subject to infringement claims as the number of products and competitors in our industry grows and the functionality of products in different industry segments overlaps. In the future, third parties may claim that we have infringed upon their intellectual property rights with respect to current or future products. We do not carry special insurance that covers intellectual property infringement claims; however, such claims may be covered under our traditional insurance policies. These policies contain terms, conditions

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and exclusions that make recovery for intellectual property infringement claims difficult to guarantee. Any infringement claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays or require us to enter into royalty or licensing agreements. These royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all, which could harm our competitive position, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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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 December 31, 2011, we had options outstanding to purchase approximately 4.7 million shares of our common stock at exercise prices ranging from \$2.70 to \$29.16 per share, at a weighted-average exercise price of \$13.36 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.

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.

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

We are incorporated in Delaware. Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to the stockholders. Our anti-takeover provisions include provisions in our certificate of incorporation providing that stockholders' meetings may only be called by the board of directors and provisions in our bylaws providing that the stockholders may not take action by written consent and requiring that stockholders that desire to nominate any person for election to the board of directors or to make any proposal with respect to business to be conducted at a meeting of our stockholders be submitted in appropriate form to our Secretary within a specified period of time in advance of any such meeting. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until the holder has held the stock for three years unless, among other possibilities, the board of directors approves the transaction. Our board of directors may use these provisions to prevent changes in the management and control of our company. Also, under applicable Delaware law, our board of directors may adopt additional anti-takeover measures in the future.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is located in leased facilities in Mountain View, California, and we believe that these facilities are sufficient for our current operational needs and that suitable additional space will be available on commercially reasonable terms to accommodate expansion of our operations, if necessary. In addition, we maintain leased office space in California, Illinois, Tennessee, Dubai and China and we believe these facilities are adequate for our current operational requirements. The following is a list of our facilities and their primary functions.

| Site | Major Activity |
|-----------------------------|---|
| Mountain View, California | Administration, marketing, research and development and manufacturing |
| Waukegan, Illinois | Technical support and training facility |
| Nashville, Tennessee | Research and development and marketing |
| Dubai, United Arab Emirates | Sales, marketing and training center |
| Hong Kong, China | Manufacturing support |

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In October 2011, we entered into a new lease for approximately 100,000 square feet of office space in Mountain View, California, to commence on or about November 1, 2012 following completion of construction, which will serve as our new headquarters for administration, marketing and research and development. We will also be relocating our manufacturing operations to a new facility, yet to be identified, which we expect will remain in the local area. For additional information regarding our obligations pursuant to operating leases, see Note 12, "Commitments" to the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under "Legal Proceedings" in Note 13 "Contingencies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Our Common Stock**

Our common stock is traded on The NASDAQ Global Select Market under the symbol "OMCL." The following table sets forth the high and low sales prices per share of our common stock for the periods indicated.

| Fiscal Year Ended December 31, 2011 | High | Low |
|--|-------------|------------|
| Fourth Quarter | \$ 17.45 | \$ 12.92 |
| Third Quarter | \$ 18.15 | \$ 13.00 |
| Second Quarter | \$ 15.97 | \$ 13.25 |
| First Quarter | \$ 15.95 | \$ 12.86 |

| Fiscal Year Ended December 31, 2010 | High | Low |
|--|-------------|------------|
| Fourth Quarter | \$ 14.97 | \$ 12.64 |
| Third Quarter | \$ 13.24 | \$ 10.93 |
| Second Quarter | \$ 14.93 | \$ 11.32 |
| First Quarter | \$ 15.38 | \$ 11.15 |

As of February 23, 2012, we had approximately 33,488,366 shares of common stock outstanding held by approximately 152 stockholders of record.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

| Period | Total number of shares (or units) purchased(1) | Average price paid per share (or unit) | Total number of Shares (or units) purchased as part of publicly announced plans or programs | Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs |
|-----------------------|---|---|--|--|
| October 1 - 31, 2011 | 147,552 | \$ 13.64 | 147,552 | \$ 12.4 million |
| November 1 - 30, 2011 | | | | \$ 12.4 million |
| December 1 - 31, 2011 | 24,891 | 16.52 | | \$ 12.4 million |
| Total | 172,443 | \$ 14.05 | 147,552 | |

- (1) Of the total, 147,552 shares of common stock were repurchased under our 2008 stock repurchase program and 24,891 shares of common stock withheld in satisfaction of tax withholding obligations upon vesting of restricted stock units.

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Performance Graph

The following graph compares total stockholder returns for Omnicell's common stock for the past five years to two indices: The NASDAQ Composite Index and the NASDAQ Health Services index. The total return for Omnicell's common stock and for each index assumes the reinvestment of all dividends, although cash dividends have never been declared on Omnicell's common stock, and is based on the returns of the component companies weighted according to their capitalizations as of the end of each annual period.

The NASDAQ Composite Index tracks the aggregate price performance of equity securities traded on The NASDAQ Stock Market. The NASDAQ Health Services Index tracks the aggregate price performance of health services equity securities. Omnicell's common stock is traded on The NASDAQ Global Select Market and is a component of both indices. The stock price performance shown on the graph is not necessarily indicative of future price performance.

Historically, we used the S&P Composite 1500 Health Care Sector in the Total Return graph as our specific industry benchmark. For the transition year of 2010, we reported both that index as well as the NASDAQ Health Services index, which has replaced it effective 2011. The NASDAQ Health Services Index is a more appropriate industry-specific benchmark for us, as certain aspects of our executive compensation plans are based on this index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Omnicell, Inc., the NASDAQ Composite Index, and the NASDAQ Health Services Index

*
\$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

| | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 |
|------------------------|--------|--------|-------|-------|--------|--------|
| Omnicell, Inc. | 100.00 | 144.55 | 65.54 | 62.75 | 77.56 | 88.67 |
| NASDAQ Composite | 100.00 | 110.26 | 65.65 | 95.19 | 112.10 | 110.81 |
| NASDAQ Health Services | 100.00 | 108.32 | 79.23 | 89.61 | 92.33 | 77.63 |

(1)

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This section is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing of Omnicell, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****SELECTED CONSOLIDATED FINANCIAL DATA**

| | Years Ended December 31, | | | | |
|---|--|------------|------------|------------|------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands, except per share amounts) | | | | |
| Total revenues | \$ 245,535 | \$ 222,407 | \$ 213,457 | \$ 251,865 | \$ 213,081 |
| Gross Profit | \$ 135,784 | \$ 117,917 | \$ 105,221 | \$ 128,634 | \$ 113,309 |
| Income from operations(1) | \$ 16,222 | \$ 9,526 | \$ 669 | \$ 17,340 | \$ 18,224 |
| Net income | \$ 10,389 | \$ 4,892 | \$ 444 | \$ 12,724 | \$ 43,295 |
| Net income per share: | | | | | |
| Basic | \$ 0.31 | \$ 0.15 | \$ 0.01 | \$ 0.40 | \$ 1.35 |
| Diluted | \$ 0.30 | \$ 0.15 | \$ 0.01 | \$ 0.38 | \$ 1.28 |
| Shares used in per shares calculations: | | | | | |
| Basic | 33,123 | 32,651 | 31,691 | 32,076 | 32,080 |
| Diluted | 34,103 | 33,513 | 32,063 | 33,108 | 33,820 |
| Cash dividends declared per share | \$ | \$ | \$ | \$ | \$ |

| | At December 31, | | | | |
|---|-----------------|------------|------------|------------|------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands) | | | | |
| Total assets | \$ 362,090 | \$ 343,224 | \$ 322,260 | \$ 308,542 | \$ 328,423 |
| Long-term obligations, net of current portion | \$ 20,305 | \$ 19,846 | \$ 21,405 | \$ 17,630 | \$ 15,963 |
| Total stockholders' equity | \$ 282,914 | \$ 265,214 | \$ 242,304 | \$ 233,557 | \$ 254,639 |

The amounts shown above include the operating results from the acquisition of Rioux Vision, Inc. from December 11, 2007 and Pandora Data Systems, Inc. from September 29, 2010.

- (1) Income from operations includes the following items:

| | Years Ended December 31, | | | | |
|----------------------------------|--------------------------|----------|----------|-----------|-----------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands) | | | | |
| Share-based compensation expense | \$ 9,499 | \$ 9,015 | \$ 9,725 | \$ 11,165 | \$ 11,162 |

You should read the selected consolidated financial data above in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited financial statements, notes thereto and other financial information included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data above for the years ended December 31, 2011, 2010, and 2009 and the consolidated balance sheet data at December 31, 2011 and 2010 are derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data above for the years ended December 31, 2008 and 2007, and the consolidated balance sheet data at December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.

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| | Quarters Ended | | | |
|------------------------|---------------------------------------|---------------|-----------------------|----------------------|
| | March 31, 2011 | June 30, 2011 | September 30, 2011 | December 31, 2011 |
| | (in thousands, except per share data) | | | |
| | (unaudited) | | | |
| 2011 | | | | |
| Total revenues | \$ 57,160 | \$ 61,005 | \$ 64,439 | \$ 62,931 |
| Gross profit | \$ 31,650 | \$ 33,807 | \$ 34,448 | \$ 35,879 |
| Income from operations | \$ 1,029 | \$ 4,230 | \$ 4,794 | \$ 6,169 |
| Net income | \$ 670 | \$ 2,587 | \$ 2,994 | \$ 4,138 |
| Net income per share: | | | | |
| Basic(1) | \$ 0.02 | \$ 0.08 | \$ 0.09 | \$ 0.13 |
| Diluted(1) | \$ 0.02 | \$ 0.08 | \$ 0.09 | \$ 0.12 |
| | | | | |
| | March 31, 2010 | June 30, 2010 | September 30, 2010 | December 31, 2010 |
| | (in thousands, except per share data) | | | |
| | (unaudited) | | | |
| 2010 | | | | |
| Total revenues | \$ 54,160 | \$ 54,693 | \$ 56,286 | \$ 57,268 |
| Gross profit | \$ 27,586 | \$ 28,868 | \$ 30,100 | \$ 31,363 |
| Income from operations | \$ 1,509 | \$ 3,492 | \$ 3,003 | \$ 1,522 |
| Net income | \$ 979 | \$ 1,965 | \$ 1,276 | \$ 672 |
| Net income per share: | | | | |
| Basic(1) | \$ 0.03 | \$ 0.06 | \$ 0.04 | \$ 0.02 |
| Diluted(1) | \$ 0.03 | \$ 0.06 | \$ 0.04 | \$ 0.02 |

- (1) Quarterly net income per share figures may not total to annual net income per share, due to rounding and fluctuations in the number of options included or omitted from diluted calculations based on the stock price or option exercise prices and/or net losses recorded in quarterly periods.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under Item 1A "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Unless otherwise stated, references in this report to particular years or quarters refer to our fiscal year and the associated quarters of those fiscal years.

Overview

We were incorporated in California in 1992 under the name Omnicell Technologies, Inc. and reincorporated in Delaware in 2001 as Omnicell, Inc. Our healthcare automation solutions are designed to enable healthcare facilities to acquire, manage, dispense and administer medications and medical and surgical supplies, and are intended to enhance patient safety, reduce medication errors, improve workflow and increase operational efficiency. We sell our medication dispensing and supply automation systems primarily in the United States. Approximately 2% of our product revenue is from outside the United States and Canada, although we believe adoption of our products internationally will increase in future years. Our sales force is organized by geographic region in the United States and Canada. We also sell through distributors in Asia, Australia, Europe, the Middle East and South America. We have not sold and have no future plans to sell our products either directly or indirectly to customers located in countries that are identified as state sponsors of terrorism by the U.S. Department of State, or those subject to economic sanctions and export controls. In 2011, we manufactured the majority of our systems in our California facility and refurbishment and spare parts activities were conducted in our Illinois facility.

In general, we recognize revenue when our systems are installed. Installation for our products 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 integrating large capital expenditures and time associated with adopting new technologies. Given the length of time necessary for our customers to plan for and complete 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, timing of customer installations, 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.

Our revenue increased by 10.4% from \$222.4 million in 2010 to \$245.5 million in 2011. Of the \$23.1 million increase in revenues from 2010 to 2011, \$14.8 million was attributable to an increase in product revenues for 2011 as compared with 2010, reflecting increased completed installations of our new automation products, increases in lease renewals from existing customers and a full year of revenues derived from our acquisition of Pandora Data Systems, Inc. at the end of the third quarter of 2010. Service revenues increased by \$8.4 million in 2011 as compared with 2010, primarily due to growth in the installed customer base. We believe that economic conditions are improving and that spending in the healthcare industry and demand for our products will increase in the future. We believe that demand for our products in future periods will be based on:

Our expectation that the overall market demand for healthcare services will increase as the population grows, life expectancies continue to increase, the quality of healthcare services increases and the availability of healthcare services increases;

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Our expectation that the environment of increased patient safety awareness, increased regulatory control and increased need for workflow efficiency through the adoption of technology in the healthcare industry will make our solutions a priority in the capital budgets of healthcare facilities;

Our continued ability to differentiate ourselves through a strategy intended to provide the best customer experience in the healthcare industry; and

Our delivery of industry-leading products with differentiated product features that are designed to appeal to nurses, pharmacists, supply chain managers, chief information officers and hospital management.

We expect to operate through 2012 with our backlog within our objective of the next six to nine months of product revenue but we believe there will be variation from time to time. Our product backlog, consisting of orders accepted but not yet installed, increased from \$126.8 million as of December 31, 2010 to \$133.9 million at December 31, 2011.

Our key business strategies include:

Delivering solutions that are designed to provide our customers with the best experience in the healthcare industry by:

Proactively anticipating and meeting customer product and service requirements;

Listening carefully to our customers' prospective issues; and

Meeting and exceeding our customers' installation and support needs.

Further penetrating the existing market for our products through sustaining technological leadership in our products by:

Consistently innovating our product and service offerings; and

Maintaining our flexibility in customer product design and in the installation process.

Increasing penetration of the international market by:

Bringing new products and technologies to market that are specific to international markets;

Partnering with companies that have sales, distribution, or other capabilities that we do not possess in non-U.S. geographies; and

Increasing customer awareness of safety issues in the administration of medications.

Expanding our product offering through acquisitions and partnerships.

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In order to implement these strategies during 2011, we did the following:

Increased our sales organization to expand coverage of our growing installed base and to expand our reach to new customers;

Introduced eleven new products to market through our G4 launch;

Achieved modular certification for "meaningful use" of an EHR, which allows chief information officers to meet new regulations and take advantage of government incentives; and

Expanded into the Chinese market after an extensive trial of our Mandarin language system in Peking Union Medical Center Hospital in Beijing.

Our healthcare customers expect a high degree of partnership from their technology suppliers. Omnicell provides extensive installation planning and consulting as part of every product sale. Our customers medication control systems are mission critical to their success and our customers require

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these systems to be functional at all times. To help assure the maximum availability of our systems, our customers purchase maintenance and support contracts in one, two or five year increments. Our long-term liabilities, which were \$20.3 million as of December 31, 2011 and \$19.8 million as of December 31, 2010, are principally composed of long-term deferred service revenue, which was \$19.0 million as of December 31, 2011, and \$19.2 million as of December 31, 2010. Our deferred service revenue will be amortized to service revenue as the service contracts are executed.

In 2011, we generated positive overall cash flow of \$16.1 million. This was primarily due to our \$10.4 million of net income, adjusted for non-cash expenses associated with depreciation and amortization of \$8.0 million, share-based compensation of \$9.5 million and \$6.8 million of proceeds from the issuance of common stock under our employee stock purchase and stock option plans. Additional factors were strong cash collections, reducing accounts receivable at year end by \$5.9 million as compared to 2010 and increases of \$3.6 million of deferred service revenue and \$2.5 million of deferred gross profit. These increases to cash were offset by a \$9.4 million increase in inventory, primarily related to the G4 launch, \$13.1 million for the acquisition and development of productive long-lived assets and \$12.6 million in stock repurchases.

In 2010, we generated positive overall cash flow of \$6.4 million, primarily due to improved net income, adjusted for non-cash expenses associated with depreciation, amortization and share-based compensation, and proceeds from the issuance of common stock under our employee stock purchase and stock option plans. The increases to cash were offset by \$23.0 million in investing cash outflows for purchases of short-term investments, the acquisition of Pandora, and the acquisition and development of productive long-lived assets.

For the year ended December 31, 2011, net cash provided by operations continued to be positive at \$31.2 million, and our cash and cash equivalents balance plus short-term investments as of December 31, 2011 was \$199.9 million as compared to \$183.7 million at December 31, 2010. We expect cash provided by operations to remain positive in 2012.

Our full-time headcount of 773 on December 31, 2011 increased by 20 net positions from our full-time headcount on December 31, 2010. The net increase included rebalancing of the functional mix, with the majority of the net increase in sales and marketing. We record compensation expense from our share-based awards, options and our employee stock purchase plan in accordance with Account Standards Codification, or ASC, 718, *Stock Compensation*. Total share-based compensation expense for the year ended December 31, 2011 was \$9.5 million, compared to \$9.0 million in 2010.

Our gross profit increased 15.2% for the year ended December 31, 2011 as compared to the year ended December 31, 2010, with gross margins increasing by 2.3 percentage points to 55.3%. The increases in gross profits and related margins were driven primarily by a shift in product mix to higher margin products including a significant volume of lease renewal activity, overall manufacturing efficiencies and higher service revenues without a proportional increase in costs. We expect revenues to increase modestly in 2012 and we do not anticipate any major fluctuations in our gross margin beyond normal fluctuations caused by changes in product mix. Revenues and gross margins may be adversely affected, however, as a result of unforeseen market price reductions and additional costs to expand our business.

Net income increased to \$10.4 million in 2011 compared to \$4.9 million in 2010 due to an increase in gross profit of \$17.9 million, which included an \$11.6 million increase in gross profit from product revenues and \$6.3 million from service revenues. This increase was partially offset by an \$11.2 million increase in operating expenses primarily due to an increase in selling, general and administrative of \$11.3 million and an increase in research and development activities of \$1.0 million. Partially offsetting these increases in 2011 was the absence of pretax restructuring charges compared to \$1.2 million in 2010 for facilities consolidation.

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We operate in one business segment, the design, manufacturing, selling and servicing of medication and supply dispensing systems. Our chief operating decision maker, who is our chief executive officer, along with our management team evaluates our profit performance based on company-wide, consolidated results. The September 2010 acquisition of Pandora resulted in neither the creation of a new reporting unit nor a new operating segment.

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 United States generally accepted accounting principles, or GAAP. 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 the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements:

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

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

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

Installation Installation of equipment as integrated systems at customers' sites.

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

Professional services Other customer services, such as training and consulting.

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

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

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

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

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

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

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

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

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

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

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

Provision for allowances. We continually monitor and evaluate the collectability of our trade receivables and our net investment in sales-type leases based on a combination of factors. We record specific allowances for doubtful accounts when we become aware of a specific customer's inability to meet its financial obligation to us such as in the case of bankruptcy filings or deterioration of financial position. Estimates are used in determining our allowances for all other customers based on factors such as current trends, the length of time the receivables are past due and historical collection experience.

Valuation and impairment of goodwill, other intangible assets and other long lived assets. We account for goodwill and other intangible assets in accordance with ASC 350, *Intangibles - Goodwill and Other*. For the initial recognition and measurement of goodwill and intangibles resulting from business acquisitions, we use the guidance in ASC 805, *Business Combinations*.

Goodwill and intangible assets with indefinite lives are not amortized. Rather, they are tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired. We perform our goodwill impairment tests during the fourth quarter of each year and between annual tests in certain circumstances.

To perform the goodwill impairment test, we determine the fair value of the reporting unit and compare the fair value to the reporting unit's carrying value. We believe we are one reporting unit, and therefore, we compare our fair value to the total net asset value on our balance sheet. If our total net asset value were to exceed our fair value, we would perform the second step of the impairment test. In the second step, we would compare the implied fair value of our goodwill to our carrying amount, taking a write-down to the extent the carrying amount exceeds the implied fair value. If our fair value exceeds the carrying value of our net assets under step one, then no impairment is indicated and the test is complete.

We passed the first step of our annual impairment test for 2011. In addition, there were no indicators of impairment as of December 31, 2011.

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We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. We review long-lived assets and certain purchased intangibles for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset's carrying amount. Recoverability of an asset is measured by comparing its carrying amount to the expected future undiscounted cash flows expected to result from the use and eventual disposition of that asset, excluding future interest costs that would be recognized as an expense when incurred. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Significant management judgment is required in:

identifying a triggering event that arises from a change in circumstances;

forecasting future operating results; and

estimating the proceeds from the disposition of long-lived or intangible assets.

In future periods, material impairment charges could be necessary should different conditions prevail or different judgments be made.

Significant management judgment is also required for initial recognition and measurement of goodwill and other intangibles assets resulting from business combinations pursuant ASC 805. Management must assess the extent to which identified other intangibles assets are properly includable (and with the appropriate fair value) or properly excludable, by applying the recognition criteria. This judgment affects not only the other intangible assets but the remainder calculation of goodwill. The assessment of useful life for each acquired intangible impacts future financial position and operating performance through amortization expense.

Inventory. Inventories are stated at the lower of cost, utilizing standard costs, applying the first-in, first-out method, or market. We routinely assess our on-hand inventory for timely identification and measurement of obsolete, slow-moving or otherwise impaired inventory. We write down inventory for estimated obsolescence, excess or unmarketable quantities equal to the difference between the cost of the inventory and its estimated market value based on assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than we projected, additional inventory write-downs may be required.

Valuation of share-based awards. We account for share-based compensation in accordance with ASC 718, *Stock Compensation*. We estimate the fair value of our employee stock awards at the date of grant using certain subjective assumptions, such as expected volatility which is based on a combination of historical and market-based implied volatility, and the expected term of the awards, which is based on our historical experience of employee stock option exercises, including forfeitures. The valuation assumptions we use in estimating the fair value of employee share-based awards may change in future periods. We recognize the fair value of awards over their vesting period or requisite service period. In addition, we calculate our pool of excess tax benefits available within additional paid-in capital in accordance with the provisions of ASC 718.

Accounting for 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 these tax rates change, we will incur a benefit or detriment on our income tax expense in the period of change. If we were to determine that all or part of the net deferred tax assets are not

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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, *Income Taxes*, 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.

Remediation of Prior Year Material Weakness in Internal Control Over Financial Reporting

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 and our quarterly reports on Form 10-Q for the quarters ended September 30, 2011, June 30, 2011 and March 31, 2011, our management concluded that our internal control over financial reporting, relating to our financial statement close process, was not effective as of December 31, 2010. Our management concluded that, as of December 31, 2010, our internal control over financial reporting was not effective in providing reasonable assurance that a material misstatement of our financial statements would be prevented or detected on a timely basis. Our evaluation concluded that we had a material weakness related to accounting for income taxes. Specifically, our processes, procedures and controls related to the preparation and review of the annual income tax provision were not effective to ensure that amounts recorded for the income tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. generally accepted accounting principles. Additionally, we did not maintain effective controls over the review and analysis of supporting work papers for such income tax balances.

During fiscal 2011, we implemented the following remediation actions designed to address this material weakness:

Hired a Senior Tax Manager with knowledge and experience in relevant technical areas;

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

Ensured our internal review processes are carefully executed and the documentation management or version control is monitored to properly account for changes to the files used for calculation and review of the income tax provision and related balance sheet income tax accounts; and

Implemented a more extensive reconciliation process to support our computation of our income tax provision and related balance sheet income tax accounts, provided more supervision and performed a more thorough review of the work performed by the tax personnel.

We believe these actions have strengthened our internal control over financial reporting and addressed the material weakness identified above. Based on our testing of these enhanced procedures, management determined that, as of December 31, 2011, we have remediated the material weakness in internal control over financial reporting as disclosed in the Annual Report on Form 10-K for December 31, 2010.

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Recently Issued and Adopted Accounting Standards

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

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. This ASU prohibits equity statement presentation of other comprehensive income, requiring instead either a single continuous operating statement or two separate, but consecutive, statements of net income and other comprehensive income. The new guidance does not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings-per-share computation based on net income does not change. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, in order to redeliberate the portion of the earlier ASU relating to presentation of reclassifications from other comprehensive income. Both updates are required for us the first quarter of 2012, applied retrospectively. We have opted for the permitted early adoption, applied retrospectively, of both updates in this Annual Report on Form 10-K for the year ended December 31, 2011. As ASU 2011-05 and ASU 2011-12 are only presentation standards, their adoption did not have any impact on our financial position, operating results or cash flows.

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

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Results of Operations

| | Years Ended December 31, | | | | | |
|---|--------------------------|---------------|-----------------|---------------|----------------|---------------|
| | 2011 | % of Revenue | 2010 | % of Revenue | 2009 | % of Revenue |
| (in thousands, except percentages) | | | | | | |
| Revenues: | | | | | | |
| Product revenues | \$ 185,864 | 75.7% | \$ 171,100 | 76.9% | \$ 170,068 | 79.7% |
| Service and other revenues | 59,671 | 24.3% | 51,307 | 23.1% | 43,389 | 20.3% |
| Total revenues | 245,535 | 100.0% | 222,407 | 100.0% | 213,457 | 100.0% |
| Cost of revenues: | | | | | | |
| Cost of product revenues | 79,567 | 32.4% | 76,372 | 34.3% | 80,016 | 37.5% |
| Cost of service and other revenues | 30,184 | 12.3% | 28,079 | 12.7% | 27,011 | 12.7% |
| Restructuring charges | | % | 39 | 0.0% | 1,209 | 0.6% |
| Total cost of revenues | 109,751 | 44.7% | 104,490 | 47.0% | 108,236 | 50.7% |
| Gross profit | 135,784 | 55.3% | 117,917 | 53.0% | 105,221 | 49.3% |
| Operating expenses: | | | | | | |
| Research and development | 22,042 | 9.0% | 21,007 | 9.4% | 17,569 | 8.2% |
| Selling, general and administrative | 97,520 | 39.7% | 86,227 | 38.8% | 85,668 | 40.2% |
| Restructuring charges | | % | 1,157 | 0.5% | 1,315 | 0.6% |
| Total operating expenses | 119,562 | 48.7% | 108,391 | 48.7% | 104,552 | 49.0% |
| Income from operations | 16,222 | 6.6% | 9,526 | 4.3% | 669 | 0.3% |
| Interest and other income (expense), net | (133) | (0.1)% | 431 | 0.2% | 523 | 0.3% |
| Income before provision for income taxes | 16,089 | 6.5% | 9,957 | 4.5% | 1,192 | 0.6% |
| Provision for income taxes | 5,700 | 2.3% | 5,065 | 2.3% | 748 | 0.4% |
| Net income | \$ 10,389 | 4.2% | \$ 4,892 | 2.2% | \$ 444 | 0.2% |

Product Revenues, Cost of Product Revenues and Gross Profit

The table below shows our product revenues, cost of product revenues and gross profit for the years ended December 31, 2011, 2010 and 2009 and the percentage change between those years:

| | Years Ended December 31, | | | Percentage Change | |
|--------------------------|--------------------------|------------------|------------------|-------------------|--------------|
| | 2011 | 2010 | 2009 | 2010 to 2011 | 2009 to 2010 |
| (in thousands) | | | | | |
| Product revenues | \$ 185,864 | \$ 171,100 | \$ 170,068 | 8.6% | 0.6% |
| Cost of product revenues | 79,567 | 76,372 | 80,016 | 4.2% | (4.6)% |
| Restructuring charges | | | 1,008 | n/a | (100.0)% |
| Gross profit | \$ 106,297 | \$ 94,728 | \$ 89,044 | 12.2% | 6.4% |

2011 compared to 2010

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Product revenues increased \$14.8 million, or 8.6%, in 2011 as compared to 2010. Our ability to grow revenue is dependent on our ability to continue to obtain orders from customers, the volume of installations we are able to complete, our ability to meet customer needs and provide a quality

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installation experience and our flexibility in manpower allocations among customers to complete installations on a timely basis. The timing of our product revenues is primarily dependent on when our customers' schedules allow for installations. The overall increase in product revenues was driven by a combination of increased installations of our new automation products, increases in lease renewals from existing customers and a full year of revenues derived from our acquisition of Pandora at the end of the third quarter of 2010. We anticipate our revenues will continue to increase in 2012 at approximately 7% to 8%, as we fulfill our existing orders and as we experience a continued high volume of lease renewals that were initiated in 2007.

Cost of product revenues increased by \$3.2 million, or 4.2%, in 2011 as compared to 2010. The increase was primarily a function of revenue growth, partially offset by the favorable impact of overall product mix and generally lower material costs from our cost reduction efforts during the year. Additionally, during the year we incurred higher product costs related to the manufacturing cost of the new G4 cabinet console platform, released on May 2, 2011. The early production units of the G4 cabinet console were at a higher product cost than our previous generation product. This was due to initial production line ramp up and longer production cycles to validate the manufacturability and quality of the new console. The majority of the higher production line cost was absorbed in the three months ended September 30, 2011 and December 31, 2011. The future cost of product revenues are expected to be more reflective of the previous generation product, net of any product mix effects.

Gross profit on product revenue increased by \$11.6 million, or 12.2%, in 2011 as compared to 2010 and gross profit as a percentage of product revenues increased to 57.2% in 2011 as compared to 55.4% in 2010. The increase was the result of the previously discussed increase in revenue by 8.6% over the prior year with lower than proportionate increases in related costs by 4.2% over the prior year primarily as a result of lower material costs due to product mix and from our cost reduction efforts. For 2012, we do not anticipate any significant fluctuations in our gross margin beyond normal fluctuations caused by changes in product mix.

2010 compared to 2009

Product revenues remained nearly flat in 2010 as compared to 2009.

Cost of product revenues decreased by \$3.6 million, or 4.6%, in 2010 as compared to 2009. The decrease was primarily due to a \$1.0 million charge to record an inventory reserve 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, the overall favorable shift in product mix to products with lower associated costs along with the favorable results of outsourcing initiatives, ongoing cost reduction programs and general operational efficiencies.

Gross profit on product revenue increased by \$5.7 million, or 6.4%, in 2010 as compared to 2009, primarily as a result of lower product costs. Gross margin as a percent of revenues was 55.4%, compared to 52.4% in 2009. Product gross margin increased 3.0% due to the aforementioned \$1.0 million inventory reserve recorded in the first quarter of 2009 which did not recur in 2010, a \$1.0 million restructuring charge in the first quarter of 2009, 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 along with the favorable results of outsourcing initiatives, ongoing cost reduction programs, and general operational efficiencies.

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

Service and other revenues include revenues from service and maintenance contracts and rentals of automation systems. The table below shows our service and other revenues, cost of service and other

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revenues and gross profit for the years ended December 31, 2011, 2010 and 2009 and the percentage change between those years:

| | Years Ended December 31, | | | Percentage Change | |
|------------------------------------|-----------------------------|-----------|-----------|-------------------|--------------|
| | 2011 | 2010 | 2009 | 2010 to 2011 | 2009 to 2010 |
| | (in thousands) | | | | |
| Service and other revenues | \$ 59,671 | \$ 51,307 | \$ 43,389 | 16.3% | 18.2% |
| Cost of service and other revenues | 30,184 | 28,079 | 27,011 | 7.5% | 4.0% |
| Restructuring charges | | 39 | 201 | (100.0)% | (80.6)% |
| Gross profit | \$ 29,487 | \$ 23,189 | \$ 16,177 | 27.2% | 43.3% |

2011 compared to 2010

Service and other revenues increased by \$8.4 million, or 16.3%, in 2011 as compared to 2010. The increase in service and other revenues was primarily the result of an expansion in our installed base of automation systems and a resulting increase in the number of support service contracts.

Cost of service and other revenues increased by \$2.1 million, or 7.5%, in 2011 as compared to 2010. The increase was primarily due to an increase in spending related to salaries and benefits associated with higher headcount and spare parts expense in support of the expanded service base.

Gross profit on service and other revenues increased by \$6.3 million, or 27.2%, in 2011 as compared to 2010. This increase was due to increased revenues from an expanded installed base without proportional growth in service cost.

We expect our service and other revenues and the associated gross profit to continue to increase in 2012 at a similar rate with the continued expansion of our installed base of automation systems and service and maintenance contracts.

2010 compared to 2009

Service and other revenues increased by \$7.9 million, or 18.2%, in 2010 as compared to 2009. The increase was primarily due to normal growth on an expanded installed base, as well as later than expected receipts of customer purchase orders for service contracts covering service periods starting in 2009, for which service revenues were recognized retrospectively from their commencement dates.

Cost of service and other revenues increased by \$1.1 million, or 4.0%, in 2010 as compared to 2009. The increase was primarily due to an increase in spending of \$1.0 million primarily related to salaries and related benefits costs and replacement part costs in support of the expanded service base.

Gross profit on service and other revenues increased by \$7.0 million, or 43.3%, in 2010 as compared to 2009. The increase in gross margin on service and other revenues was due to the aforementioned revenue growth from service contracts initiated in 2009 with purchase orders received in 2010 and from normal growth on an expanded installed base without a proportional growth in service costs as these were incurred in prior periods.

Table of Contents**Operating Expenses**

The table below shows our operating expenses for the years ended December 31, 2011, 2010 and 2009 and the percentage change between those years:

| | Years Ended December 31, | | | Percentage Change | |
|-------------------------------------|-----------------------------|------------|------------|-------------------|--------------|
| | 2011 | 2010 | 2009 | 2010 to 2011 | 2009 to 2010 |
| | (in thousands) | | | | |
| Research and development | \$ 22,042 | \$ 21,007 | \$ 17,569 | 4.9% | 19.6% |
| Selling, general and administrative | 97,520 | 86,227 | 85,668 | 13.1% | 0.7% |
| Restructuring charges | | 1,157 | 1,315 | (100.0)% | (12.0)% |
| Total operating expenses | \$ 119,562 | \$ 108,391 | \$ 104,552 | 10.3% | 3.7% |

2011 compared to 2010

Research and development. Research and development expenses increased by \$1.0 million, or 4.9%, in 2011 as compared to 2010. Research and development expenses represented 9.0% and 9.4% of total revenues in 2011 and 2010, respectively. The increase was due primarily to a \$3.1 million increase in compensation costs and \$1.0 million in other increases, partially offset by decreases of \$0.6 million in tools and \$0.4 million in outside services. Additional offset was provided by the capitalization of software development costs, increasing to \$4.2 million in 2011 as compared to \$2.2 million in 2010 due to the higher level of post-feasibility beta testing that preceded several new product introductions in the second quarter of 2011.

We expect research and development expenses to increase slightly in 2012 as we continue to invest in new products and services. The amount of research and development expense can fluctuate based on the amount of prototype expenses for hardware and or the amount of capitalized software development costs in any given quarter.

Selling, general and administrative. Selling, general and administrative expenses increased by \$11.3 million, or 13.1%, in 2011 as compared to 2010. Selling, general and administrative expenses represented 39.7% and 38.8% of total revenues in 2011 and 2010, respectively.

This increase was primarily due to a \$5.0 million increase in compensation costs related to increased sales and marketing staffing, a \$1.0 million increase for the settlement of litigation with Medacis Solutions Group LLC, as described in Note 13 "Legal Proceedings" of the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, and a \$2.9 million increase in freight, travel, promotional expenses and other costs. Reduced outside service and other spending of \$0.6 million partially offset these increases. Additionally, 2010 expenses were reduced by the \$2.4 million benefit from the settlement of a litigation claim with Flo Healthcare LLC in the third quarter of 2010 for less than the amount previously accrued, as described in our Annual Report on Form 10-K for the year ended December 31, 2010, and \$0.9 million resulting from the favorable timing effect on expenses due to a reduction in accrued vacation.

We anticipate selling, general and administrative expenses as a percent of revenues to stabilize and reduce throughout 2012 as we have aligned our sales efforts and cost structure to the current economic and market environments and anticipate a reduction in legal expenses.

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Research and development. Research and development expenses increased by \$3.4 million, or 19.6%, in 2010 as compared to 2009. Research and development expenses represented 9.4% and 8.2% of total revenues in 2010 and 2009, respectively.

The increase in research and development expenses in 2010 was due to an increase of \$1.9 million in consulting expenses, an increase of \$0.7 million of labor and related costs, both of which are related to new hardware and software product development, and a decrease of \$0.8 million of software capitalization in 2010 compared to 2009 primarily due the release in 2010 of two major software releases used in our products.

Selling, general and administrative. Selling, general and administrative expenses increased by \$0.6 million, or 0.7%, in 2010 as compared to 2009. Selling, general and administrative expenses represented 38.8% and 40.2% of total revenues in 2010 and 2009, respectively.

Three areas of spending increased the selling, general and administrative expenses. These were \$1.9 million of fees related to potential acquisition assessment activities, \$1.3 million related to marketing programs to increase brand awareness, and \$2.4 million associated with rising costs of operations. This increase in operations costs includes \$1.0 million in employee health and dental benefits, \$0.5 million in GPO fees associated with higher sales volume to GPO-affiliated customers and \$0.4 million in travel. These increases were offset by a decrease of \$2.9 million in legal fees, which included a \$2.4 million benefit from the settlement of a litigation claim with Flo Healthcare LLC in the third quarter of 2010 for less than the amount previously accrued and a decrease of bad debt expense of \$1.7 million primarily due to the recovery of a fully reserved accounts receivable balance and lower non-specific bad debt reserve requirements based on improved historical experience.

Restructuring charges. Restructuring charges of \$1.2 million incurred in 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 charges, consulting and travel. Restructuring charges of \$1.3 million incurred in 2009 related primarily to severance pay, continuation of benefits and outplacement services associated with reduction in force activities.

Interest Income and Other Expense

The table below shows our interest income and other expense for the years ended December 31, 2011, 2010 and 2009 and the percentage change between those years:

| | Years Ended December 31, | | | Percentage Change | |
|------------------------|-----------------------------|--------|--------|-------------------|--------------|
| | 2011 | 2010 | 2009 | 2010 to 2011 | 2009 to 2010 |
| | (in thousands) | | | | |
| Interest income | \$ 266 | \$ 424 | \$ 619 | (37.3)% | (31.5)% |
| Interest expense | (62) | (4) | (15) | n/a | (73.3)% |
| Other income (expense) | (337) | 11 | (81) | n/a | n/a |

2011 compared to 2010

Although cash, cash equivalents and short-term investments increased by \$16.1 million during 2011, continued reduction in interest rates resulted in a 37.3% decline in interest income earned. The weighted average interest rate of 0.07% in the fourth quarter 2011 compares with 0.18% in the fourth quarter 2010.

Interest expense was larger in 2011 than 2010, primarily due to installment interest payments on a disputed county property tax issue. Other income, negligible in 2010, reversed to \$0.3 million other expense, primarily for effects of exchange rate changes between Indian rupees and U.S. dollars.

We expect interest income to remain at approximately 2011 levels during 2012.

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The decrease in interest income for 2010 as compared to 2009 was primarily due to lower interest rates. Although average cash, cash equivalents and short-term investment balances averaged approximately \$45.0 million higher in 2010, average interest rates decreased by 25 basis points compared to 2009 rates, resulting in \$0.2 million lower interest income.

Income Taxes

| | Years Ended December 31, | | |
|----------------------------|---------------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| | (in thousands) | | |
| Provision for income taxes | \$ 5,700 | \$ 5,065 | \$ 748 |

We recorded a provision for income taxes of approximately \$5.7 million and an effective tax rate of 35.43% for the year ended December 31, 2011 compared to \$5.1 million and 50.8% effective tax rate for the year ended December 31, 2010. The 2011 annual tax rate differed from the statutory tax rate of 35%, primarily due to the negative impact of state income taxes, non-deductible equity charges under ASC 740-718 and non-deductible meals and entertainment expense, which were partially offset by the benefit of research and development expenditures and the domestic production activity deduction pursuant to Section 199 of the Internal Revenue Code. The decrease in the effective tax rate as compared to 2010 was primarily a result of the one-time tax adjustment in 2010 for the tax effect of undistributed earnings. The decrease is also attributable to the domestic production activities deduction, which was not available in 2010, and to a one-time true up to reserves for R&D tax credits that was recorded in 2010.

We recorded a provision for income taxes of approximately \$5.1 million and an effective tax rate of 50.8% for the year ended December 31, 2010 compared to \$0.7 million and 62.8% effective tax rate for the year ended December 31, 2009. The decrease in the effective tax rate was primarily due to the impact of state income taxes and due to a larger income base upon which to calculate certain permanent items.

Refer to Note 14 "Income Taxes" to the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for discussion of factors affecting realizability of deferred tax assets.

Liquidity and Capital Resources*Cash Flows*

The table below shows our cash flows for the years ended December 31, 2011, 2010 and 2009:

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| | (in thousands) | | |
| Net cash provided by operating activities | \$ 31,243 | \$ 20,598 | \$ 46,271 |
| Net cash used in investing activities | (13,066) | (23,057) | (6,795) |
| Net cash (used in) provided by financing activities | (1,840) | 8,863 | 9,417 |
| Effect of exchange rate changes on cash and cash equivalents | (210) | 1 | (102) |
| Net increase in cash and cash equivalents | \$ 16,127 | \$ 6,405 | \$ 48,791 |

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2011 compared to 2010

Net cash provided by operating activities. Net cash provided by operating activities increased by \$10.6 million in 2011 to \$31.2 million from \$20.6 million in 2010. The major drivers increasing operating cash flow were \$5.5 million higher net income and \$7.2 million increased cash from accounts receivable. Other sources of cash were balance sheet changes in prepaid expenses recorded as current assets, deferred gross profit, accrued liabilities and deferred service revenues, increasing \$4.6 million, \$4.5 million, \$1.8 million and \$1.2 million, respectively, in operating cash flows in 2011 compared to 2010. Partially offsetting these increases in sources of operating cash flows were the \$9.5 million net increase in inventory to support our G4 product launch and the net reduction of \$5.1 million in accounts payable.

Net cash used in investing activities. Net cash used in investing activities decreased by \$10.0 million in 2011 to \$13.1 million from \$23.1 million in 2010. This decrease was driven by the 2010 acquisition of Pandora Data Systems for \$5.7 million, net of cash acquired, and by the purchases of \$8.1 million of California revenue anticipation notes in both 2010 and 2011, of which the notes purchased in 2010 matured in 2011. These decreases were partially offset by the \$3.8 million increase in capital expenditures for software development and property and equipment.

Net cash (used in) provided by financing activities. Net cash (used in) provided by financing activities decreased by \$10.0 million in 2011 to \$1.8 million net cash used compared to net cash provided by financing activities of \$8.9 million in 2010. This was driven by the \$12.6 million use of cash for stock repurchases and \$0.2 million from shares issued under stock option and employee stock purchase plans, partially offset by increase of \$2.1 million in excess tax benefits from employee stock plans.

2010 compared to 2009

Net cash provided by operating activities. Net cash provided by operating activities decreased by \$25.7 million in 2010 to \$20.6 million from \$46.3 million in 2009. The major driver of this decrease was accounts receivable collections returning to normal trends compared to 2009, resulting in a net change between the years of \$18.5 million. Other uses of cash were balance sheet changes in prepaids, accrued liabilities and deferred service revenue, reducing \$3.7 million, \$3.8 million and \$5.6 million, respectively, of operating cash flows in 2010 compared to 2009. Offsetting these decreases in sources of operating cash flows were higher net income of \$4.4 million and a combination of tax related operating cash flows that increased cash provided by operating activities between 2010 and 2009 by \$7.5 million. The most significant tax related item was a benefit from employee stock plans which changed from a use of operating cash in 2009 to a source of operating cash in 2010 for a net increase of cash provided of \$7.5 million.

Net cash used in investing activities. Net cash used in investing activities increased by \$16.3 million in 2010 to \$23.1 million from \$6.8 million in 2009. This increase was primarily due to purchases of \$8.1 million of California revenue anticipation notes and the acquisition of Pandora Data Systems for \$5.7 million, net of cash acquired. Purchases of capital assets increased \$2.5 million primarily due to continued efforts in 2010 to increase information technology capabilities, including a customer relationship management systems installation project.

Net cash provided by financing activities. Net cash provided by financing activities decreased by \$0.5 million in 2010 to \$8.9 million from \$9.4 million in 2009. This was due to an increase in proceeds from shares issued under stock option and employee stock purchase plans of \$3.0 million, offset by a decrease of \$3.5 million in excess tax benefits from employee stock plans.

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Our future uses of cash are expected to be primarily for working capital, capital expenditures and other contractual obligations. We also expect a continued use of cash for potential acquisition assessment activities. Additionally, as described in Note 15 "Stockholders' Equity" to the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K, on December 31, 2011, we had \$12.4 million of remaining authorized funds to repurchase additional shares under stock repurchase programs, which may, in the future, result in additional use of cash. We had cash and cash equivalents of \$191.8 million at December 31, 2011 as compared to \$175.6 million at December 31, 2010. Additionally, we owned \$8.1 million of short-term investments at both December 31, 2011 and 2010. Based on our current business plan and revenue backlog, we believe that our existing cash, cash equivalents and our anticipated cash flows from operations as well as cash generated from the exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to meet our cash needs for working capital, capital expenditures, acquisitions, and other contractual obligations for at least the next twelve months. For periods beyond the next twelve months, we also anticipate that our net operating cash flows plus existing balances of cash, cash equivalents, and short-term investments will suffice to fund the continued growth of our business.

Off-Balance Sheet Arrangements

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

Contractual Obligations

As of December 31, 2011 we had \$47.4 million in contractual commitments to third parties for non-cancelable operating leases, commitments to contract manufacturers and suppliers and other purchase commitments. See Note 12, "Commitments," to the Consolidated Financial Statements included in this Annual Report on Form 10-K for further information with respect to these commitments.

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

| | Total | Less than one year | One to three years | Three to five years | More than five years |
|--|------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------|
| Operating leases(1)(2) | \$ 42,834 | \$ 4,220 | \$ 7,481 | \$ 7,415 | \$ 23,718 |
| Commitments to contract manufacturers and suppliers(3) | 4,613 | 4,613 | | | |
| Total(4) | \$ 47,447 | \$ 8,833 | \$ 7,481 | \$ 7,415 | \$ 23,718 |

(1) Commitments under operating leases relate primarily to leasehold property and office equipment. Rent expense was \$3.3 million, \$3.6 million and \$3.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

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- (3) 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.
- (4) At December 31, 2011, we have recorded \$1.2 million for uncertain tax positions under long term liabilities, in accordance with U.S. GAAP, summarized under "Critical Accounting Policies and Estimates" of this Annual Report on Form 10-K. As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, the \$1.2 million of uncertain tax position liabilities has not been included in the contractual obligations table above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are only exposed to market risk from changes in interest rates to the extent our interest income might decrease.

As of December 31, 2011, we had \$191.8 million of cash and cash equivalents and an additional \$8.1 million of short-term investments. We invest our cash in cash investments with original or remaining maturities of three months or less and whose principal is not subject to market rate fluctuations. Accordingly, interest rate declines would adversely affect our interest income but would not affect the carrying value of our cash investments. The fourth quarter 2011 weighted interest rate was 0.07%. If interest rates were to decline to zero, we would generate about \$0.1 million less interest income for the fiscal year. Management considers this interest rate exposure immaterial.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is set forth beginning at page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, 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 Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this Annual Report. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of December 31, 2011, our disclosure controls and procedures were effective at the reasonable assurance level.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the internal control system are met.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 using the criteria for effective internal control over financial reporting as described in "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2011, our internal control over financial reporting was effective.

Our independent registered public accounting firm, Ernst & Young LLP, has issued its attestation report on our internal control over financial reporting. Their report follows this Item 9A in this Annual Report on Form 10-K.

Remediation of Prior Year Material Weakness in Internal Control Over Financial Reporting

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 and our quarterly reports on Form 10-Q for the quarters ended September 30, 2011, June 30, 2011 and March 31, 2011, our management concluded that our internal control over financial reporting, relating to our financial statement close process, was not effective as of December 31, 2010. Our management concluded that, as of December 31, 2010, our internal control over financial reporting was not effective in providing reasonable assurance that a material misstatement of our financial statements would be prevented or detected on a timely basis. Our evaluation concluded that we had a material weakness related to accounting for income taxes. Specifically, our processes, procedures and controls related to the preparation and review of the annual income tax provision were not effective to ensure that amounts recorded for the income tax provision and the related current and deferred income tax asset and liability accounts were accurate and determined in accordance with U.S. generally accepted accounting principles. Additionally, we did not maintain effective controls over the review and analysis of supporting work papers for such income tax balances.

During fiscal 2011, we implemented the following remediation actions designed to address this material weakness:

Hired a Senior Tax Manager with knowledge and experience in relevant technical areas;

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

Ensured the internal review processes are carefully executed and the documentation management or version control is monitored to properly account for changes to the files used for calculation and review of the income tax provision and related balance sheet income tax accounts; and

Implemented a more extensive reconciliation process to support our computation of our income tax provision and related balance sheet income tax accounts, provided more supervision and performed a more thorough review of the work performed by the tax personnel.

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We believe these actions have strengthened our internal control over financial reporting and addressed the material weakness identified above. Based on our testing of these enhanced procedures, management determined that, as of December 31, 2011, we have remediated the material weakness in internal control over financial reporting as disclosed in the Annual Report on Form 10-K for December 31, 2010.

Changes in Internal Control Over Financial Reporting

Other than as described above, there have been 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 December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

The report required by this item is set forth below:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Omnicell, Inc.

We have audited Omnicell, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Omnicell, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, Omnicell Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Omnicell, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of Omnicell Inc., and our report dated March 8, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
March 8, 2012

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because the registrant will file with the U.S. Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A in connection with the solicitation of proxies for the Company's Annual Meeting of Stockholders expected to be held in May 2012 (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein is incorporated herein by reference

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item with respect to directors and executive officers may be found under the heading "Executive Officers of the Registrant" in Part I, Item 1 of this Annual Report on Form 10-K, and in the section entitled "Election of Directors" appearing in the Proxy Statement. Such information is incorporated herein by reference.

The information required by this Item with respect to our audit committee and audit committee financial expert may be found in the section entitled "Information Regarding the Board of Directors and Corporation Governance Audit Committee" appearing in the Proxy Statement. Such information is incorporated herein by reference.

The information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 may be found in the sections entitled "Section 16(a) Beneficial Ownership Reporting Compliance" appearing in the Proxy Statement. Such information is incorporated herein by reference.

Our written Code of Conduct applies to all of our directors and employees, including executive officers, including without limitation our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Conduct is available on our website at www.omnicell.com under the hyperlink titled "Corporate Governance." Changes to or waivers of the Code of Conduct will be disclosed on the same website. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code of Conduct by disclosing such information on the same website.

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ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item with respect to director and executive officer compensation is incorporated by reference to the section of our Proxy Statement under the section entitled "Executive Compensation Compensation Discussion and Analysis."

The information required by this Item with respect to Compensation Committee interlocks and insider participation is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Information Regarding the Board of Directors and Corporate Governance Compensation Committee Interlocks and Insider Participation."

The information required by this Item with respect to our Compensation Committee's review and discussion of the Compensation Discussion and Analysis included in the Proxy Statement is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Executive Compensation Compensation Discussion and Analysis Compensation Committee Report."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The information required by this Item with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Security Ownership of Certain Beneficial Owners and Management."

The information required by this Item with respect to securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Equity Compensation Plan Information."

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item with respect to related party transactions is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Certain Relationships and Related Transactions."

The information required by this Item with respect to director independence is incorporated herein by reference to the information from the Proxy Statement under the section entitled "Information Regarding the Board of Directors and Corporate Governance Independence of the Board of Directors."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the section from the Proxy Statement under the section entitled "Ratification of Selection of Independent Registered Public Accounting Firm Principal Accountant Fees and Services."

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are included as part of this Annual Report on Form 10-K:

(1) All financial statements.

Index to Financial Statements:

| | Page |
|---|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>F-1</u> |
| <u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u> | <u>F-2</u> |
| <u>Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009</u> | <u>F-3</u> |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2010 and 2009</u> | <u>F-4</u> |
| <u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009</u> | <u>F-5</u> |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009</u> | <u>F-6</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>F-7</u> |

The foregoing additional financial statement schedule should be considered in conjunction with our consolidated financial statements. All other schedules have been omitted because the required information is either not applicable or not sufficiently material to require submission of the schedule.

| | |
|--|-------------|
| <u>Financial Statement Schedule II</u> | <u>F-39</u> |
|--|-------------|

(2) Exhibits required by Item 601 of Regulation S-K.

The information required by this item is set forth on the exhibit index which follows the signature page of this report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Omnicell, Inc.

We have audited the accompanying consolidated balance sheets of Omnicell, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the index at 15(a)(1). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omnicell, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Omnicell, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
March 8, 2012

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OMNICELL, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value and share amounts)

| | December 31, | |
|--|--------------|------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 191,762 | \$ 175,635 |
| Short-term investments | 8,107 | 8,074 |
| Accounts receivable, net of allowances of \$443 and \$497 at December 31, 2011 and 2010, respectively | 36,902 | 42,732 |
| Inventories | 18,107 | 9,785 |
| Prepaid expenses | 10,495 | 11,959 |
| Deferred tax assets | 10,352 | 9,174 |
| Other current assets | 6,107 | 7,266 |
| Total current assets | 281,832 | 264,625 |
| Property and equipment, net | 17,306 | 14,351 |
| Non-current net investment in sales-type leases | 8,785 | 9,224 |
| Goodwill | 28,543 | 28,543 |
| Other intangible assets | 4,231 | 4,672 |
| Non-current deferred tax assets | 11,677 | 13,444 |
| Other assets | 9,716 | 8,365 |
| Total assets | \$ 362,090 | \$ 343,224 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 11,000 | \$ 13,242 |
| Accrued compensation | 7,328 | 7,731 |
| Accrued liabilities | 7,142 | 8,684 |
| Deferred service revenue | 19,191 | 16,788 |
| Deferred gross profit | 14,210 | 11,719 |
| Total current liabilities | 58,871 | 58,164 |
| Long-term deferred service revenue | 18,966 | 19,171 |
| Other long-term liabilities | 1,339 | 675 |
| Total liabilities | 79,176 | 78,010 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 38,235,745 and 33,181,937 shares issued and outstanding, respectively, at December 31, 2011 and 37,148,706 and 33,027,583 shares issued and outstanding, respectively, at December 31 2010 | 38 | 37 |
| Treasury stock, at cost, outstanding: 5,053,808 and 4,121,123 shares at December 31, 2011 and 2010, respectively | (77,637) | (65,064) |
| Additional paid-in capital | 362,154 | 342,272 |
| Accumulated deficit | (1,642) | (12,031) |
| Accumulated other comprehensive income | 1 | |
| Total stockholders' equity | 282,914 | 265,214 |

Total liabilities and stockholders' equity

\$ 362,090 \$ 343,224

See Notes to Consolidated Financial Statements

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OMNICELL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|----------------|
| | 2011 | 2010 | 2009 |
| Revenues: | | | |
| Product revenues | \$ 185,864 | \$ 171,100 | \$ 170,068 |
| Service and other revenues | 59,671 | 51,307 | 43,389 |
| Total revenues | 245,535 | 222,407 | 213,457 |
| Cost of revenues: | | | |
| Cost of product revenues | 79,567 | 76,372 | 80,016 |
| Cost of service and other revenues | 30,184 | 28,079 | 27,011 |
| Restructuring charges | | 39 | 1,209 |
| Total cost of revenues | 109,751 | 104,490 | 108,236 |
| Gross profit | 135,784 | 117,917 | 105,221 |
| Operating expenses: | | | |
| Research and development | 22,042 | 21,007 | 17,569 |
| Selling, general and administrative | 97,520 | 86,227 | 85,668 |
| Restructuring charges | | 1,157 | 1,315 |
| Total operating expenses | 119,562 | 108,391 | 104,552 |
| Income from operations | 16,222 | 9,526 | 669 |
| Interest income | 266 | 424 | 619 |
| Interest expense | (62) | (4) | (15) |
| Other income (expense) | (337) | 11 | (81) |
| Income before provision for income taxes | 16,089 | 9,957 | 1,192 |
| Provision for income taxes | 5,700 | 5,065 | 748 |
| Net income | \$ 10,389 | \$ 4,892 | \$ 444 |
| Net income per share basic | \$ 0.31 | \$ 0.15 | \$ 0.01 |
| Net income per share diluted | \$ 0.30 | \$ 0.15 | \$ 0.01 |
| Weighted average shares outstanding: | | | |
| Basic | 33,123 | 32,651 | 31,691 |
| Diluted | 34,103 | 33,513 | 32,063 |

See Notes to Consolidated Financial Statements

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OMNICELL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Years Ended December 31,

2011 2010 2009

| | | | |
|--|-----------|----------|--------|
| Net income | \$ 10,389 | \$ 4,892 | \$ 444 |
| Other comprehensive income, net of tax: | | | |
| Unrealized gain on securities: | | | |
| Unrealized holding gains arising during the period | 1 | | |
| Other comprehensive income | 1 | | |
| Comprehensive income | \$ 10,390 | \$ 4,892 | \$ 444 |

See Notes to Consolidated Financial Statements

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OMNICELL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

| | Common | | Treasury | | Additional Paid In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|--|------------|-----------------|-------------|-----------------|----------------------------------|------------------------|---|----------------------------------|
| | Shares | Stock Amount | Shares | Stock Amount | | | | |
| Balance at December 31, 2008 | 35,422,678 | 35 | (4,078,451) | (65,064) | 315,953 | (17,367) | | 233,557 |
| Net income | | | | | | 444 | | 444 |
| Share-based compensation | | | | | 9,725 | | | 9,725 |
| Common stock issued under stock option and stock award plans | 257,939 | | (16,855) | | 1,113 | | | 1,113 |
| Issuance of stock under employee stock purchase plan | 392,159 | 1 | | | 2,928 | | | 2,929 |
| Income tax charges realized from employee stock plans | | | | | (5,464) | | | (5,464) |
| Balance at December 31, 2009 | 36,072,776 | 36 | (4,095,306) | (65,064) | 324,255 | (16,923) | | 242,304 |
| Net income | | | | | | 4,892 | | 4,892 |
| Share-based compensation | | | | | 9,015 | | | 9,015 |
| Common stock issued under stock option and stock award plans | 624,916 | 1 | (25,817) | | 3,637 | | | 3,638 |
| Issuance of stock under employee stock purchase plan | 451,014 | | | | 3,364 | | | 3,364 |
| Income tax benefits realized from employee stock plans | | | | | 2,001 | | | 2,001 |
| Balance at December 31, 2010 | 37,148,706 | 37 | (4,121,123) | (65,064) | 342,272 | (12,031) | | 265,214 |
| Net income | | | | | | 10,389 | | 10,389 |
| Other comprehensive income | | | | | | | 1 | 1 |
| Share repurchases | | | (889,511) | (12,573) | | | | (12,573) |
| Share-based compensation | | | | | 9,499 | | | 9,499 |
| Common stock issued under stock option and stock award plans | 641,074 | 1 | (43,174) | | 2,736 | | | 2,737 |
| Issuance of stock under employee stock purchase plan | 445,965 | | | | 4,050 | | | 4,050 |
| Income tax benefits realized from employee stock plans | | | | | 3,597 | | | 3,597 |
| Balance at December 31, 2011 | 38,235,745 | \$ 38 | (5,053,808) | \$(77,637) | \$ 362,154 | \$ (1,642) | \$ 1 | \$ 282,914 |

See Notes to Consolidated Financial Statements

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OMNICELL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Years Ended December 31, | | |
|--|--------------------------|----------|---------|
| | 2011 | 2010 | 2009 |
| Cash flows from operating activities | | | |
| Net income | \$ 10,389 | \$ 4,892 | \$ 444 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 7,983 | 8,619 | 9,428 |
| Loss on disposal of fixed assets | | 191 | 267 |
| Gain on legal settlement | | (2,439) | |
| (Recovery of) provision for receivable allowance | (155) | (575) | 428 |
| Gain on sale of note receivable | (473) | (684) | |
| Share-based compensation expense | 9,499 | 9,015 | 9,725 |
| Income tax benefits (charges) from employee stock plans | 3,597 | 2,001 | (5,464) |
| Excess tax benefits from employee stock plans | (3,946) | (1,861) | (5,375) |
| Provision for excess and obsolete inventories | 1,112 | 640 | 3,119 |
| Foreign currency remeasurement loss (gain) | 210 | (1) | 102 |
| Deferred tax assets and liabilities | 589 | 2,403 | 5,847 |
| Changes in operating assets and liabilities, net of effect of acquired company | | | |
| Accounts receivable | 5,863 | (1,317) | 17,190 |
| Inventories | (9,434) | 77 | (693) |
| Prepaid expenses | 1,464 | (3,179) | 531 |
| Other current assets | (594) | 209 | 3,772 |
| Net investment in sales-type leases | 1,036 | 1,412 | (446) |
| Other assets | 339 | 519 | 243 |
| Accounts payable | (2,242) | 2,859 | 936 |
| Accrued compensation | (403) | (529) | (794) |
| Accrued liabilities | (342) | (2,131) | 1,640 |
| Deferred service revenue | 3,596 | 2,367 | 7,945 |
| Deferred gross profit | 2,491 | (1,970) | (2,320) |
| Other long-term liabilities | 664 | 80 | (254) |
| Net cash provided by operating activities | 31,243 | 20,598 | 46,271 |
| Cash flows from investing activities | | | |
| Purchases of short-term investments | (8,097) | (8,059) | |
| Maturities of short-term investments | 8,143 | | |
| Acquisition of intangible assets and intellectual property | (235) | (198) | (111) |
| Software development for external use | (4,192) | (2,207) | (3,039) |
| Purchases of property and equipment | (8,685) | (6,890) | (3,645) |
| Business acquisition, net of cash acquired | | (5,703) | |
| Net cash used in investing activities | (13,066) | (23,057) | (6,795) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of common stock under employee stock purchase plan and option exercises | 6,787 | 7,002 | 4,042 |
| Stock repurchases | (12,573) | | |
| Excess tax benefits from employee stock plans | 3,946 | 1,861 | 5,375 |
| Net cash (used in) provided by financing activities | (1,840) | 8,863 | 9,417 |
| Effect of exchange rate changes on cash and cash equivalents | (210) | 1 | (102) |
| Net increase in cash and cash equivalents | 16,127 | 6,405 | 48,791 |

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| | | | |
|--|------------|------------|------------|
| Cash and cash equivalents at beginning of year | 175,635 | 169,230 | 120,439 |
| Cash and cash equivalents at end of year | \$ 191,762 | \$ 175,635 | \$ 169,230 |
| Supplemental disclosures of cash flow informational | | | |
| Cash paid for interest | \$ 62 | \$ 4 | \$ 11 |
| Cash paid for taxes | \$ 253 | \$ 1,513 | \$ 320 |
| Supplemental disclosures of non-cash operating activity | | | |
| Accrual of indemnification asset/acquired legal contingency (Note 2) | \$ | \$ 200 | \$ |
| Satisfaction of acquired legal contingency with indemnification asset (Note 2) | \$ (1,200) | \$ | \$ |

See Notes to Consolidated Financial Statements

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

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

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

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

Reclassifications and corrections. Certain reclassifications have been made to the prior year consolidated statement of cash flows to conform to the current period presentation, including separate captions for foreign currency measurement loss (gain) and the effect of exchange rate changes on cash and cash equivalents. Additionally, the current and non-current presentation of deferred tax assets at December 31, 2010 has been corrected to conform to the presentation used at December 31, 2011. None of these adjustments are material to the consolidated financial statements.

Use of estimates. The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, share-based compensation, inventory valuation, valuation of goodwill and purchased intangibles, valuation of long-lived assets and accounting for income taxes.

Cash and cash equivalents. We classify investments as cash equivalents if their original or remaining contractual maturity is three months or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value. Our cash and cash equivalents are maintained in demand deposit accounts with financial institutions of high credit quality and are invested in institutional money market funds, short-term bank time deposits and similar short duration instruments with fixed maturities from overnight to three months. We continuously monitor the creditworthiness of the financial institutions and institutional money market funds in which we invest our surplus funds. We have not experienced any credit losses from our cash investments.

We classify investments as short-term investments if their original or remaining maturities at purchase are greater than three months and their remaining maturities are one year or less.

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

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

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

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

Classification of marketable securities. Marketable securities for which we have the intent and ability to hold to maturity are classified as held-to-maturity, with carrying value at amortized cost, including accrued interest. At December, 31, 2010 we held \$8.1 million of non-U.S. Government securities as a held-to-maturity short-term investment. We do not hold securities for purposes of trading. However, securities held as investment for the indefinite future, pending future spending requirements are classified as available-for-sale, with carrying value at fair value and any unrealized gain or loss recorded to other comprehensive income until realized. As of December 31, 2011 and 2010 we held \$177.3 million and \$150.0 million, respectively of money market mutual funds as available-for-sale cash equivalents. Additionally, at December 31, 2011 we held \$8.1 million of non-U.S. Government securities as an available-for-sale short-term investment.

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

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

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

Installation Installation of equipment as integrated systems at customers' sites.

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

Professional services Other customer services such as training and consulting.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

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

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

Delivery has occurred. Equipment and software product delivery is deemed to occur upon successful installation and receipt of a signed and dated customer confirmation of installation letter, providing evidence that we have delivered what the customer ordered. In instances of a customer self-installed installation, product delivery is deemed to have occurred upon receipt of a signed and dated customer confirmation letter. If a sale does not require installation, we recognize revenue on delivery of products to the customer, including transfer of title and risk of loss assuming all other revenue criteria are met. We recognize revenue from sales of products to distributors upon delivery assuming all other revenue criteria are met since we do not allow for rights of return or refund. Assuming all other revenue criteria are met, we recognize revenue for support services ratably over the related support services contract period. We recognize revenue on training and professional services as they are performed.

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

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

In arrangements with multiple deliverables, assuming all other revenue criteria are met, we recognize revenue for individual delivered items if they have value to the customer on a standalone basis. Effective for new or modified arrangements entered into beginning on January 1, 2011, the date we adopted the new revenue recognition guidance for arrangements with multiple deliverables on a prospective basis, we allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. This method requires us to determine the selling price at which each deliverable could be sold if it were sold regularly on a standalone basis. When available, we use vendor-specific objective evidence ("VSOE") of fair value as the selling price. VSOE represents the price charged for a deliverable when it is sold separately or for a deliverable not yet being sold separately, the price established by management with the relevant authority. We consider VSOE to exist when approximately 80% or more of our standalone sales of an item are priced within a reasonably narrow pricing range (plus or minus 15% of the median rates). We have established VSOE of fair value for our post-installation technical support services and professional services. When VSOE of fair value is not available, third-party evidence ("TPE") of fair value for similar products and services is acceptable; however, our offerings and market strategy differ from those of our competitors, such that we cannot obtain sufficient comparable information about third parties' prices. If neither

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

VSOE nor TPE are available, we use our best estimates of selling prices ("BESP"). We determine BESP considering factors such as market conditions, sales channels, internal costs and product margin objectives and pricing practices. We regularly review and update our VSOE, TPE and BESP information and obtain formal approval by appropriate levels of management.

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

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

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

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

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Accounts receivable, net and net investment in sales type leases. We actively manage our accounts receivable to minimize credit risk. We typically sell to customers for which there is a history of successful collection. New customers are subject to a credit review process, which evaluates the customers' financial position and ability to pay. We continually monitor and evaluate the collectability of our trade receivables based on a combination of factors. We record specific allowances for doubtful accounts when we become aware of a specific customer's impaired ability to meet its financial obligation to us, such as in the case of bankruptcy filings or deterioration of financial position. Uncollectible amounts are charged off against trade receivables and the allowance for doubtful accounts when we make a final determination there is no reasonable expectation of recovery. Estimates are used in determining our allowances for all other customers based on factors such as current trends, the length of time the receivables are past due and historical collection experience. While we believe that our allowance for doubtful accounts receivable is adequate and that the judgment applied is appropriate, such amounts estimated could differ materially from what will actually be uncollectible in the future.

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

Sales of accounts receivable. We offer our customers multi-year, non-cancelable payment terms. Generally we sell non-U.S. government receivables to third-party leasing companies on a non-recourse basis. We reflect the financing costs on the sale of these receivables as a component of our revenue. We record the sale of our accounts receivables as "true sales" in accordance with ASC 860, *Transfers and Servicing*. During the years ended 2011, 2010 and 2009, we transferred non-recourse accounts receivable totaling \$46.9 million, \$51.4 million and \$53.7 million, respectively, which approximated fair value, to leasing companies on a non-recourse basis. At December 31, 2011 and 2010, accounts receivable included approximately \$0.2 million and \$0.3 million, respectively, due from third party leasing companies for transferred non-recourse accounts receivable.

Concentration of credit risk. At December 31, 2011 and 2010, no single customer accounted for more than 10% of our combined accounts receivable balance.

Commissions. Sales commissions generally are earned upon order receipt, but are recognized in income at the time of revenue recognition. Before they are recognized as expense they are recorded as prepaid commissions, which are a component of prepaid expenses.

Geographic risk. Approximately 2.0% of our product revenue for the year ended December 31, 2011 and 2.6% of our product revenue for the year ended December 31, 2010 was from foreign countries. Less than 0.2% of our net assets were located in foreign countries at both December 31, 2011 and December 31, 2010.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

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. Our contracts with our suppliers may generally be terminated by either the supplier or by us without cause and at any time upon delivery of notice that typically ranges from two months to six months. While many components of our systems are standardized and available from multiple sources, certain components or subsystems are fabricated by a sole supplier according to our specifications and timing requirements. A critical supplier may have modest annual deliveries to us, and yet be significant in terms of potential for disrupting production schedules for particular products. In terms of overall concentration, in 2011, 2010 and 2009 there was one high-volume supplier. Purchases from this supplier for the years ended December 31, 2011, 2010 and 2009 were approximately \$21.1 million, \$19.1 million and \$19.7 million, respectively.

Inventory. Inventories are stated at the lower of cost (utilizing standard costs, applying the first-in, first-out method) or market. Cost elements included in inventory are direct labor and materials plus applied overhead. We routinely assess on-hand inventory for timely identification and measurement of obsolete, slow-moving or otherwise impaired inventory. We write down our inventory for estimated obsolescence, excess or unmarketable quantities equal to the difference between the cost of the inventory and its estimated market value based on assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than we projected, additional inventory write-downs may be required.

Property and equipment. Property and equipment less accumulated depreciation are stated at historical cost. Most of our expenditures for property and equipment are for computer equipment and software used in the administration of our business, and for leasehold improvement to our leased facilities. We also develop molds and dies for long-term manufacturing arrangements and capitalize those costs as equipment. Depreciation and amortization of property and equipment are provided over their estimated useful lives, using the straight-line method, as follows:

| | |
|---|--|
| Computer equipment and related software | 3 - 5 years |
| Leasehold and building improvements | Shorter of the lease term or the estimated useful life |
| Furniture and fixtures | 5 years |
| Equipment | 3 - 5 years |

We capitalize costs related to computer software developed or obtained for internal use in accordance with ASC 350-40, *Internal-Use Software*. Software obtained for internal use has generally been enterprise-level business and finance software that we customize to meet our specific operational needs. Costs incurred in the application development phase are capitalized and amortized over their useful lives, which is generally five years. Costs recognized in the preliminary project phase and the post-implementation phase are expensed as incurred. At December 31, 2011 and December 31, 2010, we had \$7.4 million and \$7.0 million of costs related to application development of enterprise-level software included in property and equipment, respectively.

Software development costs. We capitalize software development costs in accordance with ASC 985-20, *Costs of Software to Be Sold, Leased, or Marketed*, under which certain software development costs incurred subsequent to the establishment of technological feasibility may be

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

capitalized and amortized over the estimated lives of the related products. We establish feasibility when we complete a working model and amortize development costs over the estimated lives of the related products ranging from three to five years. During 2011 and 2010, we capitalized software development costs of \$4.2 million and \$2.2 million, respectively, which are included in other assets. For the years ended December 31, 2011, 2010 and 2009, we charged to cost of revenues \$1.6 million, \$0.9 million and \$0.5 million, respectively, for amortization of capitalized software development costs. All development costs prior to the completion of a working model are recognized as research and development expense.

Valuation and impairment of goodwill, other intangible assets and other long lived assets. We account for goodwill and other intangible assets in accordance with ASC 350, *Intangibles - Goodwill and Other*. For the initial recognition and measurement of Goodwill and Intangibles resulting from acquisitions, we use the guidance in ASC 805, *Business Combinations*.

Goodwill and intangible assets with indefinite lives are not amortized; rather, they are tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired. We perform our goodwill impairment test during the fourth quarter of each year and between the annual tests in certain circumstances.

To perform the goodwill impairment test, we determine the fair value of the reporting unit and compare the fair value to the reporting unit's carrying value. We believe we are one reporting unit, and therefore, we compare our fair value to the total net asset value on our balance sheet. If our total net asset value were to exceed our fair value, we would perform the second step of the impairment test. In the second step, we would compare the implied fair value of our goodwill to our carrying amount, taking a write-down to the extent the carrying amount exceeds the implied fair value. If our fair value exceeds the carrying value of our net assets under step one, then no impairment is indicated and the test is complete.

We passed the first step of our annual impairment test for 2011. In addition, there were no indicators of impairment as of December 31, 2011.

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. We review long-lived assets and certain purchased intangibles for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset's carrying amount. Recoverability of an asset is measured by comparing its carrying amount to the expected future undiscounted cash flows expected to result from the use and eventual disposition of that asset, excluding future interest costs that would be recognized as an expense when incurred. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Significant management judgment is required in:

identifying a triggering event that arises from a change in circumstances;

forecasting future operating results; and

estimating the proceeds from the disposition of long-lived or intangible assets.

Significant management judgment is also required for initial recognition and measurement of goodwill and other intangibles assets resulting from business combinations in accordance with ASC 805. Management must assess the extent to which identified other intangibles assets are properly includable

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

(and with the appropriate fair value) or properly excludable, by applying the recognition criteria. This judgment affects not only the other intangible assets but the remainder calculation of goodwill. The assessment of useful life for each acquired intangible impacts future financial position and operating performance through amortization expense.

Deferred service revenue and deferred gross profits. Deferred service revenue and deferred gross profit arise when customers are billed for products and/or services in advance of revenue recognition. Our deferred gross profit, classified as a current liability, consists primarily of unearned revenue on sale of equipment for which installation has not been completed, net of deferred cost of sales for such equipment, and the unearned revenue for software licenses. Our deferred service revenue, separated into current and long-term liabilities, consists of the unearned portion of service contracts for which revenue is recognized over their duration.

Valuation of share-based awards. We account for share-based compensation plans in accordance to the provisions of ASC 718, *Stock Compensation*. We estimate the fair value of our employee stock awards at the date of grant using certain subjective assumptions, such as expected volatility, which is based on a combination of historical and market-based implied volatility, and the expected term of the awards which is based on our historical experience of employee stock option exercises including forfeitures. Our valuation assumptions used in estimating the fair value of share-based awards may change in future periods. We recognize the fair value of awards over their vesting period or requisite service period. In addition, we calculate our pool of excess tax benefits available within additional paid-in capital in accordance with the provisions of ASC 718.

Accounting for 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 these tax rates change, we will incur a benefit or detriment to our income tax expense in the period of change. If we were to determine that 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, *Income Taxes*, 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.

Please refer to Note 14, "Income Taxes" for further information.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Shipping and handling costs. Our shipping and handling costs charged to customers are included in net revenue and the associated expense is recorded in selling, general and administrative expenses for all periods presented. Shipping and handling costs amounted to \$2.7 million, \$2.1 million and \$1.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Advertising. Advertising costs are expensed as incurred and amounted to \$0.9 million, \$1.1 million and \$0.7 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Operating leases. We lease our buildings under operating leases accounted for in accordance with ASC 840, *Leases*.

Sales taxes. Sales taxes collected from customers and remitted to governmental authorities are not included in our revenue.

Foreign currency translation. The functional currency of our foreign subsidiary is the U.S. dollar. Non-functional currency monetary balances are re-measured into the functional currency of the subsidiary with any related gain or loss recorded in other income, in the accompanying Consolidated Statements of Operations.

Total comprehensive income. Total comprehensive income was immaterially different from net income for the year ended December 31, 2011. The only difference included in total comprehensive income for fiscal 2011 was the tax-effected unrealized gain on available-for-sale securities for the holding period September 22, 2011 to December 31, 2011, which was immaterial. There were no differences due to other comprehensive income for the years ended December 31, 2010 or 2009.

Segment information. We manage our business on the basis of a single operating segment, and a single reporting unit within that segment per ASC 280, *Segment Reporting*. 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. The September 2010 acquisition of Pandora Data Systems resulted in neither the creation of a new reporting unit nor a new operating segment. Substantially all of our long-lived assets are located in the United States. For the years ended December 31, 2011, 2010 and 2009, all of our total revenues and gross profits were generated by the medication and supply dispensing systems operating segment from customers in the United States and no one customer accounted for greater than 10% of our revenues.

Recently Issued and Adopted Accounting Standards

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

OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. This ASU prohibits equity statement presentation of other comprehensive income, requiring instead either a single continuous operating statement or two separate, but consecutive, statements of net income and other comprehensive income. The new guidance does not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings-per-share computation based on net income does not change. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, in order to redeliberate the portion of the earlier ASU relating to presentation of reclassifications from other comprehensive income. Both updates are required for us the first quarter of 2012, applied retrospectively. We have opted for the permitted early adoption, applied retrospectively, of both updates in this Annual Report on Form 10-K for the year ended December 31, 2011. As ASU 2011-05 and ASU 2011-12 are only presentation standards, their adoption did not have any impact on our financial position, operating results or cash flows.

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

Note 2. Acquisition

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

In connection with the acquisition, we recorded \$3.6 million of goodwill, equal to the excess of the fair value of the purchase consideration over the fair values of the net tangible and intangible assets

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Acquisition (Continued)

acquired, which is tax deductible over a fifteen-year period. The following table summarizes the fair value acquisition accounting for Pandora on the September 29, 2010 purchase date (in thousands):

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

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

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

This lawsuit was settled on February 17, 2011 for \$1.2 million, the settlement amount of which was paid entirely from the selling shareholders' escrow account. As this is considered a new development, rather than evidence of conditions existing at the September 29, 2010 acquisition date, the disclosure of this dispute in the original purchase price allocation was not adjusted. However, as a recognized subsequent event, on our balance sheet as of December 31, 2010 we recorded the updated \$1.2 million values for the acquired legal contingency and the indemnification asset. Furthermore, during the three months ended March 31, 2011, the \$1.2 million asset and \$1.2 million liability were reversed after settlement from the seller's escrow account. There was no impact on net income for either 2010 or 2011.

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

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares less shares subject to repurchase plus, if dilutive, potential common stock outstanding during the period. Potential common stock includes the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. Potential common stock which is anti-dilutive is excluded. Since their impact is anti-dilutive, the total number of shares excluded from the calculations of diluted net income per share for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 were 1,833,574 shares, 2,005,642 shares and 4,061,857 shares, respectively.

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

| | Years Ended December 31, | | |
|---|--------------------------|----------|---------|
| | 2011 | 2010 | 2009 |
| Basic: | | | |
| Net income | \$ 10,389 | \$ 4,892 | \$ 444 |
| Weighted average shares outstanding basic | 33,123 | 32,651 | 31,691 |
| Net income per share basic | \$ 0.31 | \$ 0.15 | \$ 0.01 |
| Diluted: | | | |
| Net income | \$ 10,389 | \$ 4,892 | \$ 444 |
| Weighted average shares outstanding basic | 33,123 | 32,651 | 31,691 |
| Dilutive effect of employee stock plans | 980 | 862 | 372 |
| Weighted average shares outstanding diluted | 34,103 | 33,513 | 32,063 |
| Net income per share diluted | \$ 0.30 | \$ 0.15 | \$ 0.01 |

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

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

| | December 31, 2011 | | | | | | |
|---|-------------------|------------------|-------------------|------------|--|------------------------|-------------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value | Net Carrying Amount Cash / Equivalents | Short-Term Investments | Security Classification |
| Cash | \$ 14,452 | \$ | \$ | \$ 14,452 | \$ 14,452 | | N/A |
| Money market funds | 177,310 | | | 177,310 | 177,310 | | Available for sale |
| Non-U.S. government securities | 8,106 | 1 | | 8,107 | | 8,107 | Available for sale |
| Total cash, cash equivalents and short-term investments | \$ 199,868 | \$ 1 | | \$ 199,869 | \$ 191,762 | \$ 8,107 | |

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

The short term investments purchased in September 2011 are comprised of California revenue anticipation notes, which mature in June 2012. As this is the initial investment in a broader portfolio strategy for yield management, these are considered available-for-sale. The notes are considered a Level 2 asset class, because their pricing is drawn from multiple market-related inputs, but in general not from unadjusted trades accessible to us for the same-day, same-security.

The following table displays the financial assets carried at fair value, on a recurring basis (in thousands):

| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|--------------------------------|---|---|---|------------------|
| At December 31, 2011 | | | | |
| Money market funds | \$ 177,310 | | | \$ 177,310 |
| Non-U.S. Government securities | | \$ 8,107 | | \$ 8,107 |
| Total | \$ 177,310 | \$ 8,107 | | \$ 185,417 |
| At December 31, 2010 | | | | |
| Money market funds | \$ 150,042 | | | \$ 150,042 |
| Total | \$ 150,042 | | | \$ 150,042 |

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

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table displays the financial assets carried at amortized cost, but for which disclosure of fair value is required on a recurring basis (in thousands):

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

Note 5. Inventories

Inventories consist of the following (in thousands):

| | December 31, | |
|-----------------|------------------|-----------------|
| | 2011 | 2010 |
| Raw materials | \$ 7,666 | \$ 4,252 |
| Work in process | 14 | 153 |
| Finished goods | 10,427 | 5,380 |
| Total | \$ 18,107 | \$ 9,785 |

Note 6. Property and Equipment

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

| | December 31, | |
|---|------------------|------------------|
| | 2011 | 2010 |
| Equipment | \$ 25,101 | \$ 20,045 |
| Furniture and fixtures | 1,811 | 1,681 |
| Leasehold improvements | 3,692 | 3,182 |
| Purchased software | 20,641 | 18,095 |
| Capital in process | 2,283 | 1,689 |
| | 53,528 | 44,692 |
| Accumulated depreciation and amortization | (36,222) | (30,341) |
| Property and equipment, net | \$ 17,306 | \$ 14,351 |

Depreciation and amortization of property and equipment was approximately \$5.7 million, \$5.6 million and \$6.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Net Investment in Sales-Type Leases

Our sales-type leases are for terms generally ranging up to five years. Sales-type lease receivables are collateralized by the underlying equipment. The components of our net investment in sales-type leases are as follows (in thousands):

| | December 31, | |
|--|--------------|-----------|
| | 2011 | 2010 |
| Net minimum lease payments to be received | \$ 15,063 | \$ 16,284 |
| Less unearned interest income portion | 1,229 | 1,843 |
| Net investment in sales-type leases | 13,834 | 14,441 |
| Less current portion(1) | 5,049 | 5,217 |
| Non-current net investment in sales-type leases(2) | \$ 8,785 | \$ 9,224 |

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

(2) Net of allowance for doubtful accounts of \$0.1 million and \$0.3 million as of December 31, 2011 and December 31, 2010, respectively.

The minimum lease payments for each of the five succeeding fiscal years are as follows (in thousands):

| | |
|-------|-----------|
| 2012 | \$ 5,664 |
| 2013 | 3,860 |
| 2014 | 2,806 |
| 2015 | 1,826 |
| 2016 | 907 |
| Total | \$ 15,063 |

The following table summarizes the credit losses and recorded investment in sales-type leases, excluding unearned interest, as of December 30, 2011 and December 31, 2010 (in thousands):

| | Allowance for Credit Losses | Recorded Investment in Sales-type Leases Gross | Recorded Investment in Sales-type Leases Net |
|--|--------------------------------|--|--|
| Credit loss disclosure for December 30, 2011: | | | |
| Accounts individually evaluated for impairment | \$ 178 | \$ 178 | \$ |
| Accounts collectively evaluated for impairment | 106 | 13,940 | 13,834 |
| Ending balances: December 30, 2011 | \$ 284 | \$ 14,118 | \$ 13,834 |
| Credit loss disclosure for December 31, 2010: | | | |
| Accounts individually evaluated for impairment | \$ 283 | \$ 283 | \$ |
| Accounts collectively evaluated for impairment | 128 | 14,569 | 14,441 |

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| | | | | | | |
|------------------------------------|----|-----|----|--------|----|--------|
| Ending balances: December 31, 2010 | \$ | 411 | \$ | 14,852 | \$ | 14,441 |
|------------------------------------|----|-----|----|--------|----|--------|

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Net Investment in Sales-Type Leases (Continued)

The following table summarizes the activity for the allowance for credit losses account for the investment in sales-type leases for the year ended December 30, 2011 (in thousands):

| | Year Ended December 30, 2011 | |
|--|---------------------------------|-------|
| Allowance for credit losses, December 31, 2010 | \$ | 411 |
| Current period provision (reversal) | | (22) |
| Recoveries of amounts previously charged off | | (105) |
| Allowance for credit losses at December 31, 2011 | \$ | 284 |

Note 8. Goodwill and Other Intangible Assets

Under ASC 350, *Intangibles Goodwill and Other*, goodwill is not subject to amortization. We evaluate goodwill for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable. In 2010, the increase in goodwill of \$3.6 million was due to the acquisition of Pandora Data Systems. No goodwill impairment was recognized in 2011, 2010 or 2009.

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

| | December 31, 2011 | | | December 31, 2010 | | | Amortization Life |
|---|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|----------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Finite-lived intangibles: | | | | | | | |
| Customer relationships | \$ 4,230 | \$ 1,591 | \$ 2,639 | \$ 4,230 | \$ 1,142 | \$ 3,088 | 5 - 16 years |
| Acquired technology | 980 | 175 | 805 | 980 | 35 | 945 | 3 - 7 years |
| Patents | 889 | 190 | 699 | 654 | 152 | 502 | 20 years |
| Trade name | 90 | 37 | 53 | 90 | 8 | 82 | 3 year |
| Non-compete agreements | 60 | 25 | 35 | 60 | 5 | 55 | 3 year |
| Total finite-lived intangibles | 6,249 | 2,018 | 4,231 | 6,014 | 1,342 | 4,672 | |
| Goodwill | 28,543 | | 28,543 | 28,543 | | 28,543 | Indefinite |
| Net other intangible assets & goodwill | \$ 34,792 | \$ 2,018 | \$ 32,774 | \$ 34,557 | \$ 1,342 | \$ 33,215 | |

During 2011, 2010 and 2009, we capitalized third-party costs associated with internally-developed patent costs of \$0.2 million, \$0.2 million and \$0.1 million, respectively.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Goodwill and Other Intangible Assets (Continued)

Amortization expense of other intangible assets totaled \$0.7 million, \$2.2 million and \$2.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. Amortization expenses are recorded in cost of product revenues and also in selling, general and administrative expenses, based on the nature of the underlying intangible asset. Estimated future amortization expense of the finite-lived intangible assets at December 31, 2011 is as follows (in thousands):

| | | |
|--------------|-----------|--------------|
| 2012 | \$ | 656 |
| 2013 | | 643 |
| 2014 | | 603 |
| 2015 | | 580 |
| 2016 | | 230 |
| Thereafter | | 1,519 |
| Total | \$ | 4,231 |

Note 9. Other Assets

Other assets consist of the following (in thousands):

| | December 31, | |
|---|-----------------|-----------------|
| | 2011 | 2010 |
| Capitalized software development costs, net of accumulated amortization of \$5,018 and \$3,441 in 2011 and 2010, respectively | \$ 8,077 | \$ 5,462 |
| Non-current deferred service billings receivable | 763 | 2,162 |
| Long-term deposits | 526 | 383 |
| Other assets | 350 | 358 |
| Total | \$ 9,716 | \$ 8,365 |

Note 10. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

| | December 31, | |
|--|-----------------|-----------------|
| | 2011 | 2010 |
| Accrued GPO (Group Purchasing Organization) fees | \$ 2,437 | \$ 2,272 |
| Rebates and lease buyouts | 1,748 | 1,923 |
| Advance payments from customers | 1,631 | 1,978 |
| Pre-acquisition contingency | | 1,200 |
| Other | 1,326 | 1,311 |
| Total | \$ 7,142 | \$ 8,684 |

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Deferred Gross Profit

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

| | December 31, | |
|---|--------------|-----------|
| | 2011 | 2010 |
| Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed | \$ 24,181 | \$ 18,739 |
| Cost of sales, excluding installation costs | (9,971) | (7,020) |
| Deferred gross profit | \$ 14,210 | \$ 11,719 |

Note 12. Commitments

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

| | |
|------------|-----------|
| 2012 | \$ 4,220 |
| 2013 | 3,669 |
| 2014 | 3,812 |
| 2015 | 3,743 |
| 2016 | 3,672 |
| Thereafter | 23,718 |
| Total | \$ 42,834 |

Commitments under operating leases relate primarily to leasehold property and office equipment. For 2011, we had \$0.5 million of non-cancellable sublease income. Rent expense totaled \$3.3 million, \$3.6 million and \$3.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. Our near-term commitments to our contract manufacturers and suppliers totaled \$4.6 million as of December 31, 2011.

At December 31, 2011, we have recorded \$1.2 million for uncertain tax positions under long term liabilities, in accordance with US GAAP, summarized under Note 1 "Organization and Summary of Significant Accounting Policies." As these liabilities do not reflect actual tax assessments, the timing and amount of payments we might be required to make will depend upon a number of factors. Accordingly, as the timing and amount of payment cannot be estimated, the \$1.2 million of uncertain tax position liabilities has not been included in the table of commitments above.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Contingencies

Legal Proceedings

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

On October 20, 2010, Omnicell filed a declaratory judgment complaint against Medacis Solutions Group, LLC in the U.S. District Court in the Northern District of California, entitled Omnicell, Inc. and Pandora Data Systems, Inc. v. Medacis Solutions Group, LLC, Case Number 10-cv-4746 (the "California Action"). Pandora Data Systems, Inc. had entered into a Settlement and License Agreement with Medacis in October 2008 (the "Settlement Agreement") pursuant to which, among other things, Medacis granted to Pandora a non-exclusive license to Medacis's U.S. Patent Number 6,842,736. We sought an order declaring that Omnicell, as now-owner of Pandora Data Systems, Inc., was entitled to certain rights and benefits under the license. On November 12, 2010, Medacis filed a motion to dismiss the California Action, or in the alternative, to transfer venue to the U.S. District Court for the District of Connecticut. Also on November 12, 2010, Medacis filed a motion in the U.S. District Court in the District of Connecticut to reopen a litigation entitled Medacis Solutions Group, LLC v. Pandora Data Systems, Inc., Case Number 3:07-CV-00692(JCH) (the "Connecticut Litigation"), which had been dismissed and administratively closed since October 29, 2008. Medacis sought, among other things, relief from the Stipulation of Dismissal entered on October 29, 2008 dismissing the Connecticut Litigation for the limited purpose of interpreting and enforcing the Settlement Agreement, the entry of a temporary restraining order and preliminary and permanent injunctions prohibiting breaches of the Settlement Agreement, a finding that Pandora breached the Settlement Agreement and an award of monetary damages resulting from Pandora's alleged breaches. On February 10, 2011, the Court granted Medacis's motion and dismissed the California Action without prejudice. On February 14, 2011, Omnicell and Pandora filed a notice of appeal regarding dismissal of the California Action with the U.S. Court of Appeals for the Ninth Circuit.

On May 19, 2011, we entered into a final settlement agreement with Medacis, pursuant to which we agreed to pay Medacis \$1.0 million in exchange for a fully-paid, perpetual license to Medacis's patented technology and the parties agreed to dismiss all pending lawsuits and fully release each other from all claims. In addition, we agreed that a license transfer fee payment of \$0.5 million would be made to Medacis in the event certain change-in-control conditions are met. The \$1.0 million loss for this settlement was accrued during the three months ended March 31, 2011 and recorded within selling, general and administrative expenses, and was paid during the quarter ended June 30, 2011.

Guarantees

As permitted under Delaware law and our certificate of incorporation and bylaws, we have agreed to indemnify our directors and officers against certain losses that they may suffer by reason of the fact

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Contingencies (Continued)

that such persons are, were or become our directors or officers. The term of the indemnification period is for the director's or officer's lifetime and there is no limit on the potential amount of future payments that we could be required to make under these indemnification agreements. We have purchased directors' and officers' liability insurance policy that may enable us to recover a portion of any future payments that we may be required to make under these indemnification agreements. Assuming the applicability of coverage and the willingness of the insurer to assume coverage and subject to certain retention, loss limits and other policy provisions, we believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations. However, no assurances can be given that the insurers will not attempt to dispute the validity, applicability or amount of coverage without expensive and time-consuming litigation against the insurers.

Additionally, we undertake indemnification obligations in our ordinary course of business in connection with, among other things, the licensing of our products and the provision of our support services. In the ordinary course of our business, we have in the past and may in the future agree to indemnify another party, generally our business affiliates or customers, against certain losses suffered or incurred by the indemnified party in connection with various types of claims, which may include, without limitation, claims of intellectual property infringement, certain tax liabilities, our gross negligence or intentional acts in the performance of support services and violations of laws. The term of these indemnification obligations is generally perpetual. In general, we attempt to limit the maximum potential amount of future payments that we may be required to make under these indemnification obligations to the amounts paid to us by a customer, but in some cases the obligation may not be so limited. In addition, we have in the past and may in the future warrant to our customers that our products will conform to functional specifications for a limited period of time following the date of installation (generally not exceeding 30 days) or that our software media is free from material defects. From time to time, we may also warrant that our professional services will be performed in a good and workmanlike manner or in a professional manner consistent with industry standards. We generally seek to disclaim most warranties, including any implied or statutory warranties such as warranties of merchantability, fitness for a particular purpose, title, quality and non-infringement, as well as any liability with respect to incidental, consequential, special, exemplary, punitive or similar damages. In some states, such disclaimers may not be enforceable. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. We have not been subject to any significant claims for such losses and have not incurred any material costs in defending or settling claims related to these indemnification obligations. Accordingly, we believe it is unlikely that we will be required to pay any material amounts pursuant to these indemnification obligations or potential warranty claims and, therefore, no liabilities have been recorded for such indemnification obligations as of December 31, 2011 or December 31, 2010.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Income Taxes

The following is a geographical breakdown of income before the provision for income taxes (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2011 | 2010 | 2009 |
| Domestic | \$ 16,177 | \$ 9,551 | \$ 844 |
| Foreign | (88) | 406 | 348 |
| Total income before provision for income taxes | \$ 16,089 | \$ 9,957 | \$ 1,192 |

The provision for income taxes consists of the following (in thousands):

| | Year Ended December 31, | | |
|----------------------------------|-------------------------|----------|--------|
| | 2011 | 2010 | 2009 |
| Current: | | | |
| Federal | \$ 4,285 | \$ 196 | \$ 504 |
| State | 896 | 207 | 360 |
| Foreign | (70) | 369 | 27 |
| Total current | 5,111 | 771 | 891 |
| Deferred: | | | |
| Federal | 1,116 | 3,757 | 20 |
| State | (527) | 473 | (163) |
| Foreign | | 64 | |
| Total deferred | 589 | 4,294 | (143) |
| Total provision for income taxes | \$ 5,700 | \$ 5,065 | \$ 748 |

The provision for income taxes differs from the amount computed by applying the statutory federal tax rate as follows (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|----------|--------|
| | 2011 | 2010 | 2009 |
| U.S. federal tax provision at statutory rate | \$ 5,631 | \$ 3,485 | \$ 417 |
| State taxes | 240 | 543 | 198 |
| Non-deductible expenses | 481 | 350 | 97 |
| Share-based compensation expense | 443 | 244 | 281 |
| Research tax credits | (755) | (137) | 10 |
| Repatriation of foreign earnings | (77) | 560 | |
| Domestic production deduction | (271) | | |
| Other | 7 | 20 | (255) |
| Total | \$ 5,700 | \$ 5,065 | \$ 748 |

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Income Taxes (Continued)

Significant components of our deferred tax assets (liabilities) are as follows (in thousands):

| | December 31, | |
|--|------------------|------------------|
| | 2011 | 2010 |
| Deferred tax assets (liabilities): | | |
| Tax credit carry forwards | \$ 3,066 | \$ 3,135 |
| Inventory related items | 3,032 | 2,998 |
| Reserves and accruals | (1,277) | (963) |
| Deferred revenue | 11,979 | 11,010 |
| Depreciation and amortization | (4,040) | (1,863) |
| Stock compensation | 9,187 | 8,177 |
| Other, net | 82 | 124 |
| Total deferred tax assets (liabilities) | 22,029 | 22,618 |
| Valuation allowance | | |
| Net deferred tax assets (liabilities) | \$ 22,029 | \$ 22,618 |

Deferred income tax assets (liabilities) are provided for temporary differences that will result in future tax deductions or future taxable income, as well as the future benefit of tax credit carry forwards. Management believes that deferred tax assets are more likely than not to be realized in accordance with ASC 740-10-30. In the event that we determine all or part of the net deferred tax assets are not realizable in the future, we will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made.

As of December 31, 2011, state net operating loss carry forwards available for income tax purposes is approximately \$5.3 million. These net operating losses begin to expire in the year 2019. For income tax purposes, we have federal and California research tax credits of approximately \$6.0 million and \$5.9 million, respectively. Federal research tax credit carry forwards will expire in years 2022 through 2031. California credits are available indefinitely to reduce cash taxes otherwise payable. Pursuant to the requirements of ASC 718, we do not include unrealized stock option attributes as components of our gross deferred tax assets. The tax effected amounts of gross unrealized net operating loss and business tax credit carry forwards excluded under ASC 718 for the year ended December 31, 2011 are approximately \$5.1 million, which will result in increases to additional paid in capital if and when realized as a reduction in income taxes otherwise paid.

We file income tax returns in the U.S. Federal jurisdiction, various states and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities, including major jurisdiction as the United States, California and India. We are currently under audit by IRS and California Franchise Tax Board for years 2008 and 2009. However, since we have tax attribute carryforwards from these years that could be subject to adjustment, if and when utilized, federal and California remain open from 1996 and 1992, respectively. The India statute of limitations remains open for years 2007 through 2011.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Income Taxes (Continued)

The aggregate changes in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for the three years ended December 31, 2011 is as follows (in thousands):

| | |
|--|-----------------|
| Balance as of December 31, 2008 | \$ 3,659 |
| Increases related to tax positions taken during a prior period | 448 |
| Increases related to tax positions taken during the current period | 346 |
| Decreases related to expiration of statute of limitations | (158) |
| Balance as of December 31, 2009 | 4,295 |
| Increases related to tax positions taken during a prior period | 795 |
| Decreases related to tax positions taken during the prior period | (80) |
| Increases related to tax positions taken during the current period | 421 |
| Balance as of December 31, 2010 | 5,431 |
| Increases related to tax positions taken during a prior period | |
| Decreases related to tax positions taken during the prior period | (88) |
| Increases related to tax positions taken during the current period | 453 |
| Balance as of December 31, 2011 | \$ 5,796 |

As of December 31, 2011, the total amount of gross unrecognized tax benefits, if realized, would affect our tax expense by approximately \$4.6 million. We recognize interest and/or penalties related to uncertain tax positions in operating expenses, which for 2011 was immaterial. We do not believe there will be any material changes in our unrecognized tax positions over the next twelve months.

Note 15. Stockholders' Equity**Treasury Stock**

During 2008, our board of directors authorized a stock repurchase program for the repurchase of up to \$90.0 million of our common stock. The timing, price and volume of the repurchases have been and will be 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. Through December 31, 2011, a total of 4,955,807 shares at an average cost of \$15.67 per share were repurchased through a combination of open market purchases and pursuant to a 10b18 trading plan. No shares were repurchased during the years ended December 31, 2010 and 2009. For the year ended December 31, 2008, shares with an aggregate value of \$65.0 million, excluding broker commissions of \$0.1 million, were repurchased. All repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired. As of December 31, 2011, we had \$12.4 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs. Additionally, for the years ended December 31, 2011, 2010 and 2009, we withheld 43,174 shares, 25,817 shares and 16,855 shares, respectively from employees to satisfy tax withholding obligations on the vesting of restricted stock.

Share Purchase Rights Plan

On February 6, 2003, our board of directors approved the adoption of a Share Purchase Rights Plan, or the Rights Plan. Terms of the Rights Plan provide for a dividend distribution of one preferred share purchase right, or a Right, for each outstanding share of our common stock, par value \$0.001 per share. The dividend was payable on February 27, 2003 to the stockholders of record on that date.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Stockholders' Equity (Continued)

The Rights are not exercisable until the distribution date, which is the earlier of the date of a public announcement that a person, entity or group of affiliated or associated persons have acquired beneficial ownership of 15% or more of the outstanding share of our common stock (an "Acquiring Person") or (ii) 10 business days (or such later date as may be determined by action of the board of directors prior to such time as any person or entity becomes an Acquiring Person) following the commencement of, or announcement of an intention to commence, a tender offer or exchange offer the consummation of which would result in any person or entity becoming an Acquiring Person. In the event that any person or group of affiliated or associated persons becomes an Acquiring Person or a tender offer is commenced or announced to commence, each stockholder holding a Right will thereafter have the right to receive upon exercise of the Right that number of shares of Common Stock having a market value of two times the exercise price of the Right. The description and terms of the Rights are set forth in a Rights Agreement, dated as of February 6, 2003 entered into between us and EquiServe Trust Company, N.A., as rights agent. Sutter Hill Ventures and ABS Capital Partners and their respective affiliated entities will be exempt from the Rights Plan, unless they acquire beneficial ownership of 17.5% or 22.5% or more, respectively, of our common stock. At no time will the Rights have any voting power. The Rights will expire on February 27, 2013, unless the Rights are earlier redeemed or exchanged by Omnicell.

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan

Description of Share-Based Plans

Equity Incentive Plan. On May 19, 2009, at our 2009 Annual Meeting of Stockholders, or the 2009 Annual Meeting, our stockholders approved the Omnicell, Inc. 2009 Equity Incentive Plan, or the 2009 Plan, which authorized 2,100,000 shares to be issued. The 2009 Plan succeeded the 1999 Equity Incentive Plan, as amended, the 2003 Equity Incentive Plan, as amended, and the 2004 Equity Incentive Plan, together the Prior Plans. No additional awards will be granted under any of the Prior Plans; however, all outstanding stock awards granted under the Prior Plans continue to be subject to the terms and conditions as set forth in the agreements evidencing such stock awards. For purposes of determining future common shares available for grant, for each share granted as a full-value award, including restricted stock and restricted stock units, or RSUs, performance stock awards, the shares available for grant were reduced by 1.4 shares. Equity awards granted as stock options and stock appreciation rights reduce the shares available for grant by one share.

On December 16, 2010, at a Special Meeting of Stockholders, our stockholders approved an amendment to increase the number of shares of common stock authorized for issuance under the 2009 Plan by 2,600,000 shares and to provide that the number of common stock shares available for issuance under the 2009 Plan be reduced by 1.8 shares for each share granted as a full-value award granted on and after October 1, 2010. For each share granted as a full-value award granted prior to October 1, 2010, future shares available for grants under the 2009 Plan were reduced by 1.4 shares. Awards granted as stock options and stock appreciation rights continue to reduce the number of shares available for issuance under the 2009 Plan on a one-for-one basis. At December 31, 2011, 2,518,088 shares of common stock were reserved for future issuance under the 2009 Plan.

Options granted under the 2009 Plan generally become exercisable over periods of up to four years, generally with one-fourth of the shares vesting one year from the vesting commencement date with respect to initial grants, and the remaining shares vesting in 36 equal monthly installments

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

thereafter; however our board of directors may impose different vesting terms at its discretion on any award. Options under the 2009 Plan generally expire ten years from the date of grant. We also grant both restricted stock and restricted stock units to participants under the 2009 Plan. The board of directors determines the award amount, the vesting provisions and the expiration period (not to exceed ten years) for each grant. Grants of restricted stock to non-employee directors are granted on the date of our annual meeting of stockholders and vest in full on the date of our next annual meeting of stockholders, provided such non-employee director remains a director on such date. The fair value of the stock on the date of issuance is amortized to expense from the date of grant to the date of vesting. RSUs granted to employees generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. We consider the dilutive impact of options, restricted stock and restricted stock units in our diluted net income per share calculation.

The board of directors shall administer the 2009 Plan unless and until the board of directors delegates administration to a committee. The Board has delegated administration of the 2009 Plan to the Compensation Committee of the Board and the 2009 Plan is generally administered by such committee. The board of directors may suspend or terminate the 2009 Plan at any time. The board of directors may also amend the 2009 Plan at any time or from time to time. However, no amendment will be effective unless approved by our stockholders after its adoption by the board of directors to the extent stockholder approval is necessary to satisfy the applicable listing requirements of NASDAQ.

If we sell, lease or dispose of all or substantially all of our assets, or we are acquired pursuant to a merger or consolidation, then the surviving entity may assume or substitute all outstanding awards under the 2009 Plan. If the surviving entity does not assume or substitute these awards, then generally the stock awards will immediately and fully vest.

1997 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.

At our 2009 Annual Meeting, the stockholders approved an amendment to the ESPP, which added 2,622,426 shares to the reserve for future issuance. As of December 31, 2011, there was a total of 1,926,560 shares reserved for future issuance under the ESPP. During the year ended December 31, 2011, 445,965 shares of common stock were purchased under the ESPP. As of December 31, 2011, 3,404,995 shares had been issued under the ESPP.

As of December 31, 2011, our unrecognized compensation cost related to the shares to be purchased under our ESPP was approximately \$0.5 million and is expected to be recognized over a weighted average period of 0.6 years.

401(k) Plan

We have established a 401(k) tax-deferred savings plan, whereby eligible employees may contribute a percentage of their eligible compensation, but not greater than 75% of their earnings, up to the maximum as required by law. On January 1, 2009, the Company began matching 401(k) contributions,

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

up to 3% maximum of employee contributions or \$1,000, whichever is lower. The Company's total 401(k) contributions for the years ended December 31, 2011 2010 and 2009 were \$0.6 million, \$0.5 million and \$0.5 million, respectively.

Share-Based Compensation Measurement and Disclosure

We adopted ASC 718, *Stock Compensation*, using the modified prospective transition method beginning January 1, 2006. For awards granted prior to but not yet vested as of January 1, 2006, share-based compensation expense was based on the grant-date fair value previously estimated in accordance with the original provisions of SFAS 123 and adjusted for estimated forfeitures. We have recognized compensation expense based on the estimated grant date fair value method required under ASC 718 using straight-line amortization method. As ASC 718 requires that share-based compensation expense be based on awards that are ultimately expected to vest, estimated share-based compensation in 2011, 2010 and 2009 has been reduced for estimated forfeitures.

Total share-based compensation resulting from stock option grants, restricted stock awards, restricted stock units and shares purchased under our ESPP were included in our consolidated statements of operations as follows (in thousands, except per share data):

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2011 | 2010 | 2009 |
| Cost of revenues | \$ 1,398 | \$ 1,350 | \$ 1,478 |
| Research and development | 1,269 | 755 | 1,184 |
| Selling, general and administrative | 6,832 | 6,910 | 7,063 |
| Total share-based compensation expense | \$ 9,499 | \$ 9,015 | \$ 9,725 |

We did not capitalize any share-based compensation into inventory during 2011, 2010 and 2009 as it was not material. Income tax (charges) benefits realized from share-based compensation and resulting increases (decreases) to additional paid in capital during 2011, 2010 and 2009 were \$2.9 million, \$2.0 million and \$(5.5) million, respectively.

Valuation Assumptions

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. The fair value of shares issued under the employee stock purchase plans is estimated on the date of issuance using the Black-Scholes-Merton model. The weighted average assumptions used for options granted and ESPP in 2011, 2010 and 2009 were as follows:

| Stock Option Plans | Year Ended December 31, | | |
|----------------------------|-------------------------|---------|---------|
| | 2011 | 2010 | 2009 |
| Risk-free interest rate(1) | 1.6% | 2.3% | 2.3% |
| Dividend yield | 0% | 0% | 0% |
| Volatility(2) | 48.5% | 50.3% | 60.2% |
| Expected life(3) | 5.2 yrs | 5.2 yrs | 5.0 yrs |

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

| Employee Stock Purchase Plan | Year Ended December 31, | | |
|------------------------------|-------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| Risk-free interest rate(1) | 0.5% | 0.4% | 0.7% |
| Dividend yield | 0% | 0% | 0% |
| Volatility(2) | 40.2% | 48.5% | 67.6% |
| Expected life(3) | 0.5 - 2 yrs | 0.5 - 2 yrs | 0.5 - 2 yrs |

(1) The risk-free interest rate for both stock options and the ESPP is based on the zero-coupon U.S. Treasury rate curve in effect at the time of the option grant or at the beginning of the ESPP offering period.

(2) Expected volatility for both stock options and the ESPP reflects a combination of historical and market-based implied volatility consistent with ASC 718 and Securities and Exchange Commission Staff Accounting Bulletin 107. We determined that the combination of historical and market-based implied volatility provides a more accurate reflection of our market conditions and is more representative of future stock price trends than employing solely historical volatility.

(3) Represents the period of time that options granted are expected to be outstanding, which is derived from historical data on employee exercise and post-vesting employment termination behavior.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)**Share-Based Payment Award Activity**

A summary of option activity under the 2009 Plan for the years ended December 31, 2011, 2010 and 2009 is presented below:

| Options: | Number of Shares (in thousands) | Weighted Average Exercise Price |
|--|------------------------------------|------------------------------------|
| Outstanding at December 31, 2008 | 4,711 | \$ 13.45 |
| Granted | 788 | \$ 8.72 |
| Exercised | (126) | \$ 8.81 |
| Expired | (183) | \$ 17.23 |
| Forfeited | (442) | \$ 13.81 |
| Outstanding at December 31, 2009 | 4,748 | \$ 12.61 |
| Granted | 666 | \$ 12.99 |
| Exercised | (431) | \$ 8.46 |
| Expired | (164) | \$ 16.50 |
| Forfeited | (79) | \$ 14.80 |
| Outstanding at December 31, 2010 | 4,740 | \$ 12.86 |
| Granted | 494 | \$ 14.57 |
| Exercised | (413) | \$ 8.30 |
| Expired | (86) | \$ 13.59 |
| Forfeited | (42) | \$ 20.76 |
| Outstanding at December 31, 2011 | 4,693 | \$ 13.36 |
| Vested and expected to vest at December 31, 2011 | 4,666 | \$ 13.36 |
| Exercisable at December 31, 2011 | 3,616 | \$ 13.47 |

Outstanding options at December 31, 2011 had a weighted-average remaining contractual life of 5.5 years and an aggregate intrinsic value of \$20.3 million. Vested and expected to vest options had a weighted-average remaining contractual life of 5.5 years and an aggregate intrinsic value of \$20.2 million. Exercisable options at December 31, 2011 had a weighted-average remaining contractual life of 4.6 years and an aggregate intrinsic value of \$16.5 million.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

The ranges of outstanding and exercisable options for equity share-based payment awards as of December 31, 2011 were as follows:

| Range of Exercise Prices | Number Outstanding (in thousands) | Weighted Average Exercise Price of Outstanding Options | Number Exercisable (in thousands) | Weighted Average Exercise Price of Exercisable Options |
|--------------------------|---|--|---|--|
| \$2.70 - \$7.94 | 754 | \$ 6.58 | 630 | \$ 6.32 |
| \$8.49 - \$10.41 | 478 | \$ 9.78 | 440 | \$ 9.76 |
| \$10.58 - \$10.75 | 701 | \$ 10.66 | 662 | \$ 10.66 |
| \$10.83 - \$12.48 | 634 | \$ 12.06 | 461 | \$ 11.94 |
| \$12.53 - \$14.07 | 502 | \$ 13.41 | 262 | \$ 13.26 |
| \$14.08 - \$15.04 | 500 | \$ 14.43 | 125 | \$ 14.87 |
| \$15.48 - \$20.95 | 687 | \$ 19.40 | 599 | \$ 19.83 |
| \$21.07 - \$26.25 | 313 | \$ 22.80 | 313 | \$ 22.80 |
| \$26.99 - \$26.99 | 38 | \$ 26.99 | 38 | \$ 26.99 |
| \$29.16 - \$29.16 | 86 | \$ 29.16 | 86 | \$ 29.16 |
| \$2.70 - \$29.16 | 4,693 | \$ 13.36 | 3,616 | \$ 13.47 |

As of December 31, 2011, \$6.2 million of total unrecognized compensation costs related to unvested options is expected to be recognized over a weighted average period of 2.6 years. The weighted average fair value of options granted was \$6.47, \$6.13 and \$4.57 during 2011, 2010 and 2009, respectively. The intrinsic value of options exercised during 2011, 2010 and 2009 was \$2.9 million, \$2.1 million and \$0.3 million, respectively. The total fair value of shares vested during 2011, 2010 and 2009 was \$4.0 million, \$4.9 million, \$5.6 million, respectively.

Restricted Stock and Restricted Stock Units

A summary of activity of restricted stock granted under the 2009 Plan as of December 31, 2011 is presented below:

| | Shares of Restricted Stock (in thousands) | Weighted-Average Grant Date Fair Value Per Share |
|--------------------------------|---|---|
| Nonvested at December 31, 2008 | 41 | 11.91 |
| Granted | 52 | 9.25 |
| Vested | (41) | 11.91 |
| Nonvested at December 31, 2009 | 52 | 9.25 |
| Granted | 79 | 12.91 |
| Vested | (54) | 9.40 |
| Nonvested at December 31, 2010 | 77 | 12.91 |
| Granted | 68 | 14.71 |
| Vested | (77) | 12.91 |
| Nonvested at December 31, 2011 | 68 | 14.71 |

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

The fair value of restricted stock is the product of the number of shares granted and the closing market price of our common stock on the grant date. The total fair value of restricted stock grants vested in 2011, 2010 and 2009 was \$1.1 million, \$0.7 million and \$0.5 million, respectively. Our unrecognized compensation cost related to nonvested restricted stock is approximately \$0.4 million and is expected to be recognized over a weighted average period of 0.4 years.

A summary of activity of restricted stock units, or RSUs, granted under the 2009 Plan as of December 31, 2011 is presented below:

| | Restricted Stock Units (in thousands) | Weighted-Average Grant Date Fair Value |
|--------------------------------|--|---|
| Nonvested at December 31, 2008 | 236 | 20.11 |
| Granted | 150 | 9.09 |
| Vested | (91) | 18.72 |
| Forfeited | (31) | 20.36 |
| Nonvested at December 31, 2009 | 264 | 14.32 |
| Granted | 195 | 12.83 |
| Vested | (140) | 15.10 |
| Forfeited | (11) | 15.34 |
| Nonvested at December 31, 2010 | 308 | 12.98 |
| Granted | 145 | 14.39 |
| Vested | (152) | 14.26 |
| Forfeited | (14) | 12.82 |
| Nonvested at December 31, 2011 | 287 | 13.03 |

The fair value of RSUs is the product of the number of shares granted and the closing market price of our common stock on the grant date. The total fair value of RSUs vested in 2011, 2010 and 2009 was \$2.4 million, \$1.9 million and \$1.6 million, respectively. Expected future compensation expense relating to RSUs outstanding on December 31, 2011 is \$3.6 million over a weighted- average period of 2.5 years.

Performance-Based Restricted Stock Units

In 2011, we began incorporating performance-based restricted stock units ("PSUs") as an element of our executive compensation plans. For the executive officers, the 2011 grants totaled 100,000 stock options, 50,000 time-based RSUs and 100,000 PSUs. Our unrecognized compensation cost related to non-vested performance-based restricted stock units at December 31, 2011 was approximately \$0.5 million and is expected to be recognized over a weighted-average period of 1.3 years. For the year ended December 31, 2011 we recognized \$0.6 million of compensation expense for the performance-based restricted stock units.

The number of PSU awards eligible for time-based vesting is based on the percentile placement of our total shareholder return among the companies listed in the NASDAQ Healthcare Index (the "Index"). We calculate total shareholder return based on the one year annualized rates of return reflecting price appreciation plus reinvestment of dividends. Stock price appreciation is calculated based on the average closing prices of the applicable company's common stock for the 20 trading days ending

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

on the last trading day of the year prior to the date of grant as compared to the average closing prices for the 20 trading days ended on the last trading day of the year of grant. The following table shows the percent of PSUs eligible for further time-based vesting based on our percentile placement:

| Percentile Placement of Our Total Shareholder Return | % of PSUs Eligible for Time-Based Vesting(1) |
|---|--|
| Below the 35th percentile | 0% |
| At least the 35th percentile, but below the 50th percentile | 50% |
| At least the 50th percentile, but below the 65th percentile | 100% |
| At least the 65th percentile, but below the 75th percentile | 110% to 119%(2) |
| At or above the 75th percentile | 120% |

(1) Depending on our market-based performance, the 100,000 PSUs awarded in 2011 could result in actual shares released of none, 50,000, 100,000 or linear interpolation between 110,000 and 120,000 shares, with 120,000 shares as the maximum result for market performance at or above the 75th percentile in the industry.

(2) In this range, the actual percentage of PSUs eligible for further time-based vesting is based on straight-line interpolation, where, for example, if the ranking is the 70th percentile, then the vesting percentage is 115%.

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

After the last trading day of 2011, the Compensation Committee of our Board of Directors determined 76.3% as the percentile rank of the company's 2011 total shareholder return, ranking 92nd out of the 427 member peer group. This resulted in 120% of the 2011 PSU awards, or 120,000 shares, as eligible for further time-based vesting. The eligible PSU awards will vest as follows: 25% of the eligible awards for the first year vested January 15, 2012 with the remaining eligible awards vesting in equal increments, semi-annually, over the subsequent three year period of 2012 to 2014. Vesting is contingent upon continued service.

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OMNICELL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Stock Option Plans, Share-Based Compensation and 401(k) Plan (Continued)

A summary of activity of the PSUs for the year ended December 31, 2011 is presented below:

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

Note 17. Facilities Closures and Restructuring

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

The \$1.2 million of third quarter 2010 restructuring/impairment charges were recorded primarily in operating expenses, consisting of \$0.3 million in severance for departing employees, \$0.5 million relocation benefits for transferring employees, \$0.2 million of exit and disposal costs related to the closed facilities, and \$0.2 million for impairment of leasehold improvements and certain service tax reimbursement claims. The majority of the \$0.2 million remaining restructuring accrued liabilities at December 31, 2010 were paid by December 31, 2011, except for the final legal/administrative exit costs for the India operation, which was less than \$0.1 million.

Table of Contents**SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS**

(in thousands)

| | Balance at beginning of year | Additions charged to costs and expenses(2) | Charged (credited) to other accounts | Describe charged to other accounts | Deductions | Describe deductions | Balance at end of year |
|--|---------------------------------------|--|---|--|------------|------------------------|---------------------------------|
| Allowances deducted from assets: | | | | | | | |
| For the year ended December 31, 2009 | | | | | | | |
| Accounts receivable(1) | \$ 1,349 | \$ 191 | \$ (251) | (3) | \$ (421) | (4) | \$ 868 |
| Investment in sales-type leases(1) | 335 | 673 | (438) | (5) | | | 570 |
| Total allowances deducted from assets | \$ 1,684 | \$ 864 | \$ (689) | | \$ (421) | | \$ 1,438 |
| For the year ended December 31, 2010 | | | | | | | |
| Accounts receivable(1) | \$ 868 | \$ 297 | \$ (484) | (3) | \$ (184) | (4) | \$ 497 |
| Investment in sales-type leases(1) | 570 | 3 | (40) | (5) | (122) | (4) | 411 |
| Total allowances deducted from assets | \$ 1,438 | \$ 300 | \$ (524) | | \$ (306) | | \$ 908 |
| For the year ended December 31, 2011 | | | | | | | |
| Accounts receivable(1) | \$ 497 | \$ 63 | \$ (96) | (3) | \$ (21) | (4) | \$ 443 |
| Investment in sales-type leases(1) | 411 | | (22) | (3) | (105) | (4) | 284 |
| Total allowances deducted from assets | \$ 908 | \$ 63 | \$ (118) | | \$ (126) | | \$ 727 |

-
- (1) Allowance for doubtful accounts.
- (2) Represents amounts charged to bad debt expense.
- (3) Represents amounts credited to bad debt expense.
- (4) Represents amounts written-off, net of recoveries.
- (5) Represents amounts credited to bad debt expense and lease receivable adjustment.

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| Signature | Title | Date |
|---|--------------|---------------|
| <hr/> <u>/s/ WILLIAM H. YOUNGER, JR.</u> William H. Younger, Jr. | Director | March 8, 2012 |
| <hr/> <u>/s/ RANDY D. LINDHOLM</u> Randy D. Lindholm | Director | March 8, 2012 |
| <hr/> <u>/s/ GARY S. PETERSMEYER</u> Gary S. Petersmeyer | Director | March 8, 2012 |
| <hr/> <u>/s/ DONALD C. WEGMILLER</u> Donald C. Wegmiller | Director | March 8, 2012 |
| <hr/> <u>/s/ SARA J. WHITE</u> Sara J. White | Director | March 8, 2012 |
| <hr/> <u>/s/ JOSEPH E. WHITTERS</u> Joseph E. Whitters | Director | March 8, 2012 |

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|--------------------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Omnicell, Inc. Incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1 (File No. 333-57024), as amended, filed on March 14, 2001. |
| 3.2 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Omnicell, Inc. Incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q (File No. 000-33043) filed on August 9, 2010. |
| 3.3 | Certificate of Designation of Series A Junior Participating Preferred Stock. Incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 28, 2003. |
| 3.4 | Bylaws of Omnicell, Inc., as amended. Incorporated by reference to Exhibit 3.3 to our Quarterly Report on Form 10-Q (File No. 000-33043) filed on August 9, 2007. |
| 4.1 | Form of Common Stock Certificate. Incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1 (File No. 333-57024), as amended, filed on March 14, 2001. |
| 4.2 | Rights Agreement, dated February 6, 2003, between Omnicell and EquiServe Trust Company, N.A. Incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K (File No. 000-33043) filed on February 14, 2003 (File No. 000-33043). |
| 10.1 | Real Property Lease, dated June 30, 2003, between Shoreline Park, LLC and Omnicell, Inc. Incorporated by reference to Exhibit 10.24 to our Quarterly Report on Form 10-Q (File No. 000-33043) filed on August 7, 2003. |
| 10.2 | First Lease Amendment, dated December 1, 2003, between Shoreline Park, LLC and Omnicell, Inc. |
| 10.3 | Second Amendment to Lease, dated August 15, 2008, between Google, Inc. and Omnicell, Inc. |
| 10.4 | Third Amendment to Lease, dated October 11, 2011, between Google, Inc. and Omnicell, Inc. |
| 10.5 | Lease, effective July 1, 1999, between AMLI Commercial Properties Limited Partnership and Omnicell, Inc. Incorporated by reference to Exhibit 10.2 to our Registration Statement on Form S-1 (File No. 333-57024), as amended, filed on March 14, 2001. |
| 10.6 | First Amendment to Lease, dated September 30, 1999, between AMLI Commercial Properties Limited Partnership and Omnicell, Inc. |
| 10.7 | Second Amendment to Lease, dated as of June 30, 2006, between The Prudential Insurance Company of America and Omnicell Technologies, Inc. Incorporated by reference to Exhibit 10.2 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 11, 2011. |
| 10.8 | Lease, dated April 14, 2010, between Point Place II, LLC and Omnicell, Inc. Incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 11, 2011. |
| 10.9 | Lease Agreement, dated October 20, 2011, between Middlefield Station Associates, LLC and Omnicell, Inc. |

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| Exhibit No. | Description |
|--------------------|--|
| 10.10 | Federal Supply Schedule Contract No. V797P3406k, effective August 7, 1997, between the Department of Veterans Affairs and Omnicell Technologies, Inc. Incorporated by reference to Exhibit 10.8 to our Registration Statement on Form S-1 (File No. 333-57024), as amended, filed on March 14, 2001. |
| 10.11 | Form of Director and Officer Indemnity Agreement. Incorporated by reference to Exhibit 10.12 to our Registration Statement on Form S-1 (File No. 333-57024), as amended, filed on March 14, 2001. |
| 10.12* | 1997 Employee Stock Purchase Plan, as amended. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q (File No. 000-33043) filed on August 5, 2009. |
| 10.13* | 1999 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 23, 2007. |
| 10.14* | Form of Stock Unit Grant Notice and Form of Stock Unit Award Agreement for 1999 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.11A to our Annual Report on Form 10-K (File No. 000-33043) filed on March 17, 2008. |
| 10.15* | Form of Restricted Stock Award Grant Notice and Form of Restricted Stock Award Agreement for 1999 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.11B to our Annual Report on Form 10-K (File No. 000-33043) filed on March 17, 2008. |
| 10.16* | 2003 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 23, 2007. |
| 10.17* | 2009 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (File No. 000-33043) filed on December 22, 2010. |
| 10.18* | Form of Option Grant Notice and Form of Option Agreement for 2009 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.16 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.19* | Form of Restricted Stock Unit Grant Notice and Form of Restricted Stock Unit Award Agreement for 2009 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.17 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.20* | Form of Restricted Stock Bonus Grant Notice and Form of Restricted Stock Bonus Agreement for 2009 Equity Incentive Plan, as amended. Incorporated by reference to Exhibit 10.18 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.21* | Form of Change of Control Agreement. Incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 16, 2006. |
| 10.22* | Addendum to Form of Change of Control Agreement dated December 30, 2010. Incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.23* | Amended and Restated Severance Benefit Plan. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on May 7, 2007. |
| 10.24* | 2011 Executive Officer Annual Base Salaries (effective July 1, 2011). Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 8, 2011. |
| 10.25* | 2012 Executive Officer Annual Base Salaries (effective July 1, 2012). Incorporated by reference Exhibit 10.1 to our Current Report on Form 8-K filed on February 13, 2012. |

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| Exhibit No. | Description |
|-------------|---|
| 10.26* | 2010 Omnicell Quarterly Executive Bonus Plan. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (File No. 000-33043) filed on March 17, 2010. |
| 10.27* | Employment Agreement, dated October 31, 2003, between Omnicell and Dan S. Johnston. Incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K (File No. 000-33043) filed on March 8, 2004. |
| 10.28* | Addendum to Offer Letter, dated December 30, 2010, between Omnicell and Dan S. Johnston. Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.29* | Employment Agreement, dated November 28, 2005, between Omnicell and Robin G. Seim. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (File No. 000-33043) filed on January 24, 2006. |
| 10.30* | Addendum to Offer Letter between Omnicell and Robin G. Seim dated December 30, 2010. Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.31* | Addendum to Change in Control Severance Letter between Omnicell and Robin G. Seim dated December 30, 2010. Incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.32* | Employment Agreement dated October 17, 2008, between Omnicell and Nhat H. Ngo. Incorporated by reference to Exhibit 10.29 to our Annual Report on Form 10-K (File No. 000-33043) filed on February 24, 2009. |
| 10.33* | Addendum to Change in Control Severance Letter between Omnicell and Nhat H. Ngo dated December 30, 2010. Incorporated by reference to Exhibit 10.28 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 10.34 | Employment Agreement dated December 5, 2008, between Omnicell and Marga Ortigas-Wedekind. Incorporated by reference to Exhibit 10.31 to our Annual Report on Form 10-K (File No. 000-33043) filed on February 24, 2009. |
| 10.35* | Addendum to Change in Control Severance Letter between Omnicell and Marga Ortigas-Wedekind dated December 30, 2010. Incorporated by reference to Exhibit 10.30 to our Annual Report on Form 10-K (File No. 000-33043) filed March 11, 2011. |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 24.1 | Powers of Attorney. Reference is made to the signature page to this report. |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-15 or Rule 15d-15(e) (e). |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-15 or Rule 15d-15(e) (e). |
| 32.1** | Certifications required by Rule 13a-14 (b) or Rule 15d-14 (b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350). |
| 101.INS*** | XBRL Instance Document |
| 101.SCH*** | XBRL Taxonomy Extension Schema Document |
| 101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF*** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB*** | XBRL Taxonomy Extension Label Linkbase Document |

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| Exhibit No. | Description |
|--------------------|--|
| 101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase Document |

*

Management contract or compensatory plan or arrangement.

**

This certification attached hereto as Exhibit 32.1 accompanying this Annual Report on Form 10-K is not deemed filed with the Securities and Exchange Commission and is not incorporated by reference into any filing of Omnicell, Inc. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended (whether made before or after the date of this Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.

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