OMNICELL INC /CA/
Form 10-Q/A
November 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2005

Or

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

For the transition period from to

Commission File Number 000-33043

Omnicell, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

As of October 31, 2005 there were 26,233,507 shares of the Registrant s Common Stock outstanding.

Explanatory Note

Omnicell, Inc. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, as filed with the Securities and Exchange Commission on August 9, 2005 to (1) restate the full text of the Quarterly Report as originally filed, (2) amend and restate the Exhibit Index in Item 6, and (3) correct an inadvertent error in and refile Exhibits 31.1 and 31.2.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2005 (Unaudited)	December 31, 2004 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,259	$ 19,482
Short-term investments	3,713	11,117
Accounts receivable, net	22,432	21,967
Inventories	15,961	14,592
Receivables subject to a sales agreement	2,987	2,878
Prepaid expenses and other current assets	7,685	7,730
Total current assets	77,037	77,766
Property and equipment, net	5,009	5,660
Long-term receivables subject to sales agreement	2,234	3,224
Purchased intangibles	3,092	3,679
Goodwill	2,450	2,127
Other assets	4,770	7,035
Total assets	$ 94,592	$ 99,491
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,841	$ 4,489
Accrued liabilities	9,296	12,918
Deferred service revenue	15,708	13,922
Deferred gross profit	7,195	7,846
Obligation resulting from sale of receivables	2,987	2,878
Total current liabilities	42,027	42,053
Long-term obligation resulting from sale of receivables	2,234	3,224
Other long-term liabilities	250	517
Stockholders equity	50,081	53,697
Total liabilities and stockholders equity	$ 94,592	$ 99,491

(1) Derived from the December 31, 2004 audited consolidated balance sheet.

See accompanying notes.

OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues:				
Product revenues	$ 21,752	$ 23,380	$ 44,494	$ 45,607
Service and other revenues	6,846	5,827	12,855	11,429
Total revenues	28,598	29,207	57,349	57,036
Cost of revenues:				
Cost of product revenues	10,052	9,340	21,585	18,537
Cost of service and other revenues	2,286	2,185	5,123	4,206
Total cost of revenues	12,338	11,525	26,708	22,743
Gross profit	16,260	17,682	30,641	34,293
Operating expenses:				
Research and development	2,732	1,837	5,441	4,203
Selling, general and administrative	13,563	13,218	30,705	25,094
Restructuring and severance charges		171	406	171
Total operating expenses	16,295	15,226	36,552	29,468
(Loss) income from operations	(35)	2,456	(5,911)	4,825
Interest and other income	122	77	247	161
Interest and other expense	(4)	(56)	(28)	(58)
Income (loss) before provision for income taxes	83	2,477	(5,692)	4,928
Provision for income taxes	17	104	34	201
Net (loss) income	$ 66	$ 2,373	$ (5,726)	$ 4,727
Net income (loss) per share basic	$ 0.00	$ 0.10	$ (0.22)	$ 0.19
Net income (loss) per share diluted	$ 0.00	$ 0.09	$ (0.22)	$ 0.17
Weighted average shares outstanding basic	25,784	24,752	25,637	24,527
Weighted average shares outstanding diluted	26,743	27,709	25,637	27,927

See accompanying notes.

OMNICELL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2005	**2004**
Operating activities:		
Net (loss) income	$ (5,726)	$ 4,727
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,151	1,914
Loss on the sale of property and equipment	3	46
Stock-based compensation		11
Changes in operating assets and liabilities:		
Accounts receivable, net	(465)	111
Inventories	(1,369)	(4,213)
Prepaid expenses and other current assets	(64)	(1,564)
Other assets	3,254	(1,859)
Accounts payable	2,352	6,138
Accrued liabilities	(3,513)	(6,066)
Deferred service revenue	1,786	2,333
Deferred gross profit	(651)	759
Other long-term liabilities	(1,257)	(126)
Net cash (used in) provided by operating activities	(3,499)	2,211
Investing activities:		
Acquisition of intangible assets and intellectual property	(323)	(1,292)
Acquisition of privately held company, net of cash acquired		(1,000)
Purchases of short-term investments	(1,575)	(16,102)
Maturities of short-term investments	9,000	8,928
Purchases of property and equipment	(919)	(1,898)
Investment in privately held company		(63)
Proceeds from the sale of property and equipment	4	22
Net cash provided by (used in) investing activities	6,187	(11,405)
Financing activities:		
Proceeds from issuance of common stock	2,089	5,171
Repayment of note payable		(305)
Net cash provided by financing activities	2,089	4,866
Net increase (decrease) in cash and cash equivalents	4,777	(4,328)
Cash and cash equivalents at beginning of period	19,482	24,499
Cash and cash equivalents at end of period	$ 24,259	$ 20,171
Supplemental cash flow information:		
Cash paid for interest	$ 6	$ 3
Cash paid for income taxes	$ 40	$ 326

See accompanying notes.

OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Summary of Significant Accounting

Description of the Company

Omnicell, Inc. (Omnicell, 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 broad range of solutions is designed for many clinical areas of the healthcare facility the central pharmacy, nursing units, operating room, cardiac catheterization lab and the patient s bedside. Our solutions enable healthcare facilities to acquire, manage, dispense and administer medications and medical-surgical supplies, and are intended to enhance patient safety, reduce medication errors, improve workflow and increase operational efficiency. Our medication and supply dispensing systems facilitate the distribution of medications and medical-surgical supplies at the point of care. Our physician order management system streamlines communication between nursing and pharmacy staff. Our decision support solution allows healthcare facilities to monitor trends in drug utilization and diversion, improve regulatory compliance and reduce costs by monitoring usage patterns and optimizing product management. Our Web-based procurement application automates and integrates healthcare facilities requisition and approval processes. Each of these systems interface with healthcare facilities existing information systems to accurately capture and display critical patient data. In 2002, we acquired two products, Omnicell PharmacyCentral, a central pharmacy carousel storage and retrieval solution, and SafetyMed, a mobile workflow and patient safety system. In August 2003, we acquired BCX Technology, Inc., a provider of open bar code supply management systems now branded as OptiFlex open systems, to complement our cabinet-based supply solutions. In March 2004, we acquired Ariel Distributing, Inc. s closed-loop, controlled substance inventory management software for healthcare system pharmacies, marketed by Omnicell under the product name SecureVault. When used in combination, our products and services offer a comprehensive solution to enable healthcare facilities to enhance patient safety while improving operational efficiency.

As a result of our product development efforts and acquisitions, we offer end-to-end solutions for both the medication-use process and the medical-surgical supply chain, providing additional market opportunities in areas beyond our solutions traditional location in the healthcare facility the nursing unit. For the medication-use process, we provide the central pharmacy with a physician order management system, OmniLinkRx, an Omnicell PharmacyCentral solution, SafetyPak, an automated medication packaging system, and SecureVault, a controlled substance inventory management system. In addition, we offer SafetyMed RN, a mobile nursing workflow automation solution for use at the patient bedside. For the medical-surgical supply chain, we offer OmniBuyer, our Web-based procurement application, for materials management decision makers.

Basis of Presentation

The accompanying unaudited condensed consolidated financial information has been prepared by management, in accordance with accounting principles generally accepted in the United States pursuant to instructions to Form 10-Q and Article 10 of Regulation S-X related to interim financial information. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the Securities and Exchange Commission s rules and regulations. The consolidated financial statements include Omnicell and our wholly-owned subsidiaries, APRS, Inc., Omnicell HealthCare Canada, Inc. and BCX Technology, Inc. All significant intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, all adjustments (which would include only normal recurring adjustments) necessary

to present fairly the financial position as of June 30, 2005 and the results of operations and cash flows for all periods presented have been made. The condensed consolidated balance sheet as of December 31, 2004 has been derived from the audited financial statements as of that date.

The condensed consolidated financial statements should be read in conjunction with our December 31, 2004 audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire fiscal year ending December 31, 2005.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in accounting for, but not limited to, the

allowance for doubtful accounts, inventory valuation, purchased residual interests, asset and goodwill impairments, accrued liabilities and taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments in a money market account and trade receivables, including receivables with multi-year payment terms. Our products are primarily sold to customers and to distributors. We perform ongoing credit evaluations of our customers and maintain reserves for credit losses. Credit is extended based on such evaluations and collateral is generally not required. Credit losses have not traditionally been material and such losses have been within management s expectations. The majority of our receivables with multi-year payment terms are sold to a financing company. We maintain a reserve for potentially uncollectible accounts receivable based on our assessment of collectibility. We assess collectibility based on a number of factors, including past history, the number of days an amount is past due (based on invoice due date), credit ratings of our customers, current events and circumstances regarding the business of our customers and other factors that we believe are relevant.

Revenues generated from customers in North America for the three months ended June 30, 2005 and 2004 equaled 99.0% and 99.0% of total revenues, respectively. Revenues generated from customers in North America for the six months ended June 30, 2005 and 2004 equaled 99.3% and 97.0% of total revenues in each period, respectively. No single customer accounted for more than 10.0% of total revenues for the three or six months ended June 30, 2005. There was no customer that accounted for more than 10.0% of total revenues in the same period last year. One leasing company accounted for 5.0% of trade accounts receivable at June 30, 2005. The same leasing company accounted for 12.0% of trade accounts receivable at December 31, 2004.

Goodwill and Purchased Intangible Assets

We measure goodwill and intangible assets with an indefinite life for impairment when indicators of impairment exist and at least on an annual basis. The intangible asset with an indefinite life consists of the trade name acquired as part of the BCX Technology, Inc. acquisition. No impairment of goodwill or intangible assets with an indefinite life was recognized during the six months ended June 30, 2005 and 2004. We had goodwill of $2.4 million and an intangible asset with an indefinite life of $0.2 million at June 30, 2005.

Purchased intangible assets with finite lives include acquired developed software technology, service contracts, customer relationships and backlog acquired in a business combination. Purchased intangible assets with finite lives are amortized on a straight-line basis over their useful lives of three to six years. Additionally, purchased intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. No impairment of purchased intangible assets with finite lives was recognized for the six months ended June 30, 2005 and 2004.

Revenue Recognition

Our revenue recognition policy significantly impacts our results of operations because it determines the timing of when revenue is recognized. It also impacts the timing of certain expenses, such as commissions, as they are determined by the timing of the recognition of corresponding

revenues. We follow specific and detailed policies on recognizing revenue. Revenue results are difficult to predict and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter and could result in future operating losses.

Revenues are derived primarily from sales of medication and supply dispensing systems and subsequent service agreements. We market these systems for sale with 30 day or multi-year payment terms. Medication dispensing and supply automation system sales, which are accounted for in accordance with American Institute of Certified Public Accountant s Statement of Position 97-2, Software Revenue Recognition, (SOP 97-2), are recognized when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered and installations are complete; Omnicell s price to the customer is fixed or determinable; and collectibility is reasonably assured. The majority of our product revenue is derived from the sale and installation of medication and supply dispensing systems. We ship our systems based on customer requested installation dates. Our field operations employees generally perform system installations. The installations are considered complete and revenue is recognizable when the database files are complete, the systems are configured and labeled, Omnicell s software is installed and deemed functional, the basic interfaces are complete, the systems are in the customer-designated locations and the systems have been tested. We further require our customers to confirm that we have completed our installation obligations by providing to us a customer certification form indicating the date Omnicell s installation obligations were completed. Delays at a customer site due to construction or other causes could result in our inability to install, and therefore recognize revenue. We also sell our medication dispensing and supply automation systems through

distributors in Asia, Australia, Europe, the Middle East and South America, and through a sales agent in Canada. We recognize revenue upon shipment of our systems to distributors when the distributors have specific purchase orders from identified end-users.

Revenues from multi-year payment arrangements are recognized upon completion of Omnicell s installation obligation, if any, and at the beginning of the non-cancelable payment term. Most of our multi-year payment receivables are sold to third-party leasing finance companies. We record revenue at the net present value of the payment stream utilizing an implicit interest rate comparable to those charged by a third-party leasing company.

We exclude from revenues any amount paid to us for a new sale that relates to the termination of an existing payment stream. Generally, Omnicell has no obligation to the leasing company once the receivable is sold. At June 30, 2005 and 2004, accounts receivable included approximately $1.6 million and $5.0 million, respectively, due from finance companies for lease receivables sold. U.S. government customers sign five-year non-cancelable payment terms but are subject to one-year government budget funding cycles. In our judgment and based on our history with these accounts, we believe these receivables are collectible. However, in the future, if any of Omnicell s U.S. government customers do not receive their annual funding, the ability to collect payments on unsold leases could be impaired and may result in a write down of our unsold leases to U.S. government customers. Further, it could impair our ability to make additional sales to U.S. government customers and impair our ability to sell these receivables to third-party leasing companies. As of June 30, 2005 and December 31, 2004, the balance of our unsold leases to U.S. government customers was $3.6 million and $3.7 million respectively.

Post-installation technical support, such as phone support, on-site service, parts and access to software upgrades, when and if available, is provided by Omnicell under separate support services terms. When support services are sold under multiple element arrangements, we allocate revenue to support services based on its fair value. We recognize revenue for support services ratably over the related support services contract period. In addition, we enter into professional services and training arrangements. We recognize revenue for these arrangements upon performance of such services. Deferred service revenue represents amounts received under service agreements for which the services have not yet been performed.

Revenues from our Web-based procurement application are recognized ratably over the subscription period. Web-based procurement application revenues were not significant (less than 1.5% of total revenues) for the six months ended June 30, 2005 and 2004, and are included in product and service and other revenue.

Sales of Accounts Receivable

We offer our customers multi-year, non-cancelable payment terms. We typically sell our customers multi-year payment agreements to a third-party leasing company. In these sales, we generally transfer customer accounts receivable to the leasing company on a non-recourse basis at the Company s book value so no gain is recorded on the transfer. In these non-recourse transfers, we remove the sold receivable from our assets as we have assessed that the sales should be accounted for as true sales in accordance with Statement of Financial Accounting Standard (SFAS) No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

Research and Development Expenses

Our policy is to expense research and development costs as incurred, other than certain software development costs. Our research and development expenses include engineering and development salaries, wages and benefits, prototyping and laboratory expenses, consulting expenses and engineering-related facilities and overhead charges. Most of the research and development expenses are personnel- or facilities-related and are relatively fixed. Prototyping and consulting expenses vary depending on the stage of completion of various engineering and development projects.

Software Development Costs

Development costs related to software implemented in our medication and supply dispensing systems and incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products ranging from three to five years.

Technological feasibility is established upon completion of a working model, which is a matter of judgment using the guidelines of SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. All such development costs incurred prior to the completion of a working model are recognized as research and development expense. As of June 30, 2005 and December 31, 2004, the balance of capitalized software development costs was approximately $1.5 million and

$1.7 million, respectively. These costs are reported as a component of other assets. Amortization of capitalized software development costs was $0.2 million and $0.1 million for the six months ended June 30, 2005 and 2004, respectively.

Restructuring and Other Charges

In the first quarter of 2005, we initiated a restructuring to reduce costs, improve operational efficiencies and realign Omnicell to a new strategic direction. As part of this restructuring, we reduced our headcount by approximately 6.0% or 28 employees, including 4 in research and development and 24 in selling, general and administrative positions. We incurred $0.4 million in restructuring and other charges during the first quarter of 2005, all of which was paid out by the end of such quarter.

Provision for Income Taxes

The income tax provision for the six months ended June 30, 2005 consists solely of state minimum taxes due to the year-to-date loss. The income tax provision for the six months ended June 30, 2004 consisted of both federal and state alternative minimum taxes and other state taxes. The amount provided in the first six months of 2004 was less than the combined U.S. federal and state statutory rates due to the recognition of federal and state net operating loss carryforwards.

Stock-Based Compensation

Until we adopt SFAS 123R, Share Based Payment (SFAS 123R), the revision of SFAS 123, Accounting for Stock-Based Compensation, we will continue to follow SFAS No. 123 to account for share-based payments to employees using the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion 25). Under APB Opinion 25, the intrinsic value method of accounting, we generally recognize no compensation cost for employee stock options.

SFAS 123 permits the use of either a fair value based method or the intrinsic value method defined in APB Opinion 25 to account for stock-based compensation arrangements. Companies that elect to employ the intrinsic value method provided in APB Opinion 25 are required to disclose the pro forma net income that would have resulted from the use of the fair value based method provided under SFAS 123. As permitted by SFAS 123, we have elected to determine the value of stock-based compensation arrangements under the intrinsic value based method of APB Opinion 25. Accordingly, we only recognize compensation expense when options are granted to employees and directors with an exercise price below fair value at the date of grant. Any resulting compensation expense is recognized ratably over the vesting period. The following table sets forth pro forma information as if compensation expense had been determined using the fair value method under SFAS 123:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net income (loss) as reported	$ 66	$ 2,373	$ (5,726)	$ 4,727
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects		3		11

Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,957)	(2,275)	(4,059)	(4,131)
Net (loss) income pro forma	$ (1,891)	$ 101	$ (9,785)	$ 607
Net (loss) income per share - basic as reported	$ 0.00	$ 0.10	$ (0.22)	$ 0.19
Net (loss) income per share - basic pro forma	$ (0.07)	$ 0.00	$ (0.38)	$ 0.02
Net (loss) income per share - diluted as reported	$ 0.00	$ 0.09	$ (0.22)	$ 0.17
Net (loss) income per share - diluted pro forma	$ (0.07)	$ 0.00	$ (0.38)	$ 0.02

Segment Information

We report segments in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). SFAS 131 requires the use of a management approach in identifying segments of an enterprise. We derive the majority of our revenues from medication and supply cabinet-based systems, which are treated as one segment for purposes of SFAS 131. These systems are similar in terms of their shared multiple common assemblies and subassemblies, as well as their basic operation and visual characteristics, and are used by hospitals and healthcare facilities to improve patient safety and care and enhance

operational efficiency. We have two operating segments: the medication and supply dispensing systems and the e-commerce business. Our chief operating decision-maker reviews information pertaining to reportable segments to the operating income level. There are no significant inter-segment sales or transfers. Assets of the operating segments are not segregated and substantially all of our long-lived assets are located in the United States. For the six months ended June 30, 2005 and 2004, substantially all of our total revenues and gross profits were generated by the medication and supply dispensing systems operating segment. Our Web-based e-commerce business operating segment generated less than 1.5% of consolidated revenues for the six months ended June 30, 2005 and 2004.

Net Income (loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares and, if dilutive, common stock equivalent shares outstanding during the period. Common stock equivalents include the effect of outstanding dilutive stock options and warrants, computed using the treasury stock method. All potentially dilutive securities have been excluded from the computation of diluted net income (loss) per share for the six months ended June 30, 2005, as their inclusion would be anti-dilutive. The total number of shares excluded from the calculations of diluted net income (loss) per share for the six months ended June 30, 2005 and 2004 was 3,894,832 and 416,654, respectively, with exercise price between $6.93 and $20.00.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Basic:				
Net income (loss)	$ 66	$ 2,373	$ (5,726)	$ 4,727
Weighted average shares of common stock outstanding	25,784	24,752	25,637	24,527
Weighted average shares outstanding-basic	25,784	24,752	25,637	24,527
Net income (loss) per share	$ 0.00	$ 0.10	$ (0.22)	$ 0.19
Diluted:				
Net income (loss)	$ 66	$ 2,373	$ (5,726)	$ 4,727
Weighted average shares of common stock outstanding	25,784	24,752	25,637	24,527
Add: Dilutive effect of employee stock options and warrants	959	2,957		3,400
Weighted average shares outstanding-diluted	26,743	27,709	25,637	27,927
Net income (loss) per share	$ 0.00	$ 0.09	$ (0.22)	$ 0.17

Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, which is an interpretation of FASB Statement No. 143, Accounting for Asset Retirement Obligations. The interpretation requires that a liability for the fair value of a conditional asset retirement obligation be recognized if the fair value of the liability can be

reasonably estimated. The interpretation is effective no later than the end of fiscal years ending after December 31, 2005 for calendar-year enterprises. Retrospective application for interim financial information is permitted but not required. Early adoption of the interpretation is encouraged. The interpretation is not expected to have a material impact on our results of operations or financial position.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections: a Replacement of Accounting Principles Board Opinion No. 20 (APB Opinion 20) and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. Retrospective application refers to the application of a different accounting principle to previously issued financial statements as if that principle had always been used. SFAS No. 154 s retrospective-application requirement replaces APB Opinion 20 s requirement to recognize most voluntary changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The requirements are effective for accounting changes made in fiscal years beginning after December 15, 2005 and will only impact the consolidated financial statements in periods in which a change in accounting principle is made.

In December 2004, the FASB issued a revision of SFAS 123, SFAS 123R, effective for reporting periods beginning after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission adopted a rule amendment that delayed the compliance dates for SFAS 123R such that we are now allowed to adopt the new standard no later than January 1, 2006. SFAS 123R supersedes APB Opinion 25 and will require companies to recognize compensation, using the fair-value based method, for costs related to share-based payments including stock options and stock issued under employee stock purchase plans. We expect to adopt FAS 123R on January 1, 2006.

The impact of the adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, valuation of employee stock options under SFAS 123R is similar to SFAS 123, with minor exceptions. The impact on the results of operations and earnings per share had we adopted SFAS 123, is described more fully in Note 1, Organization and Summary of Significant Accounting Policies. We currently expect that the adoption of SFAS 123R s fair value method will have a material impact on our results of operations, although it is not currently expected to impact our overall financial position. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43 (SFAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS No. 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are evaluating the impact of this standard on our consolidated financial statements.

Note 2. Acquisitions

SecureVault

On March 11, 2004, we acquired Ariel Distributing, Inc. s closed-loop, controlled substance inventory management software for healthcare system pharmacies, marketed by Omnicell as SecureVault. The total purchase price was $0.7 million, which included $0.5 million paid at the date of purchase, $0.1 million paid in May 2004 after completion of certain obligations by Ariel Distributing, Inc., and up to a maximum of $0.1 million in guaranteed minimum royalty payments, due quarterly and calculated as a percentage of license fees recognized by Omnicell for up to a maximum of two years. The total purchase price of $0.7 million will be amortized over five years using the straight-line method.

BCX Technology, Inc.

On August 15, 2003, we acquired 100% of the outstanding common shares of BCX Technology, Inc., a privately held company headquartered in Lebanon, Tennessee. BCX Technology, Inc., formed in 1995, is a software provider for inventory management solutions in acute care hospital settings. As part of the acquisition, we acquired the rights to ScanREQ, a state-of-the-art touch screen monitor and bar code scanning system now branded as OptiFlex open and integration systems. The financial results of BCX Technology, Inc. have been included in the consolidated financial statements since the date of acquisition. Pro forma results for 2003 as if BCX Technology, Inc. was acquired on January 1, 2003 are not materially different from our reported 2003 results. The acquisition was accounted for as a business combination with a total purchase price of $4.0 million, which included $3.0 million paid at the time of purchase, and $1.0 million, including $0.5 million relating to the achievement of performance milestones in 2003 paid in January 2004 and $0.3 million relating to the achievement of performance milestones in 2004 paid in January 2005. In connection with the acquisition, we also assumed certain liabilities of BCX Technology, Inc. totaling $0.1 million and incurred

approximately $60,000 of acquisition related costs. Additionally, the acquisition agreement requires us to pay up to $0.7 million by January 1, 2006 if certain performance milestones are achieved in 2005. We allocated the purchase price to the tangible assets acquired based on management s estimate of their fair values. The fair values of the intangible assets, including the acquired current technology and trade name, were based upon the income approach to valuation. Under the income approach, we assumed a cash flow period of five

years, revenue growth rates of 5% to 25% on an annual basis and a discount rate of 20%. The purchase price allocation was as follows (in thousands):

Current assets	$	593
Property, plant and equipment		38
Intangible assets (1)		1,820
Goodwill		1,745
Total assets acquired		4,196
Current liabilities assumed		(134)
Net assets acquired	$	4,062

(1) Includes tradename of $231,000

Medisafe

On December 6, 2002, we purchased substantially all of the intellectual property assets of Medisafe, a provider of point-of-care patient safety solutions. As part of the transaction, Omnicell acquired technology for a new mobile workflow and patient safety system platform called SafetyMed. Based on the SafetyMed platform, SafetyMed RN is a solution for nurses that automates the workflow associated with medication administration and uses bar code technology to help ensure patient safety. The total purchase price was $3.0 million, which included $1.5 million paid at the date of purchase, $1.0 million paid in June 2003 after completion of certain obligations by Medisafe, and $0.5 million in guaranteed minimum royalties due in equal annual installments of $125,000 beginning in January 2005. In addition, we incurred approximately $20,000 of acquisition related costs. We allocated the purchase price to the acquired intangible assets and purchased in-process research and development based on the income approach to valuation. Under the income approach, we assumed a cash flow period of five years, revenue growth rates of 33% to 210% on an annual basis and discount rates of 25% to 35%. The purchase price allocation was as follows (in thousands):

Intangible assets	$	2,354
Contracted services		79
Purchased in-process research and development		588
Purchase price	$	3,021

As part of the purchase, Omnicell agreed to a royalty fee of 10% of related Medisafe product net revenues with a maximum limit of $2.5 million over a five-year period from the date of purchase. Payments made under the royalty arrangement that exceed the guaranteed minimum royalties will be expensed as incurred. We paid $125,000 in guaranteed minimum royalties in January 2005.

APRS, Inc.

On August 30, 2002, we acquired 100% of the outstanding common shares of APRS, Inc., a privately held company headquartered in Houston, Texas. APRS, Inc. was formed in 1997 to support, develop, and market integrated system solutions to health system pharmacies. The financial results of APRS, Inc. have been included in the consolidated financial statements since the date of acquisition. Pro forma results for Omnicell for

2002 as if APRS, Inc. was acquired on January 1, 2002 are not materially different from Omnicell s reported 2002 results. In connection with the acquisition, we paid cash of $1.0 million, assumed certain liabilities of APRS, Inc. totaling $0.5 million and incurred approximately $20,000 of acquisition related costs. We allocated the purchase price to the intangible assets and purchased in-process research and development based on the income approach to valuation. Under the income approach, we assumed a cash flow period of five years, revenue growth rates of 13% to 21% on an annual basis and a discount rate of 30%. The purchase price allocation was as follows (in thousands):

Current assets	$	294
Property, plant and equipment		43
Other assets		2
Intangible assets		716
Goodwill		382
Total assets acquired		1,437
Current liabilities assumed		(500)
Net assets acquired		937
Purchased in-process research and development		128
	$	1,065

Intangible Assets from SecureVault, BCX Technology, Inc., Medisafe, and APRS, Inc.

Intangible assets resulting from the SecureVault, BCX Technology, Inc., Medisafe, and APRS, Inc. acquisitions consist of the following (in thousands):

	June 30, 2005	December 31, 2004	Amortization Life
Customer base	$ 244		