

OMNICELL, Inc
Form 10-Q
August 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 000-33043

OmniceLL, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

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

1201 Charleston Road

Mountain View, CA 94043

(650) 251-6100

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

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

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

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

Large accelerated filer o
Accelerated filer x
Non-accelerated filer o
Smaller reporting company o
(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 o No x

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The number of shares of Registrant's common stock (par value \$0.001) outstanding as of August 1, 2011 was 33,134,997.

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Table of Contents**PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****OMNICELL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)**

	June 30, 2011 (unaudited)	December 31, 2010 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 181,258	\$ 175,635
Short-term investments		8,074
Accounts receivable, net of allowances of \$496 and \$497 at June 30, 2011 and December 31, 2010, respectively	43,105	42,732
Inventories	17,382	9,785
Prepaid expenses	10,568	11,959
Deferred tax assets	13,052	13,052
Other current assets	5,940	7,266
Total current assets	271,305	268,503
Property and equipment, net	16,320	14,351
Non-current net investment in sales-type leases	8,913	9,224
Goodwill	28,543	28,543
Other intangible assets	4,414	4,672
Non-current deferred tax assets	10,057	9,566
Other assets	9,901	8,365
Total assets	\$ 349,453	\$ 343,224
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 14,380	\$ 13,242
Accrued compensation	8,122	7,731
Accrued liabilities	6,224	8,684
Deferred service revenue	18,717	16,788
Deferred gross profit	11,300	11,719
Total current liabilities	58,743	58,164
Long-term deferred service revenue	18,855	19,171
Other long-term liabilities	625	675
Total liabilities	78,223	78,010

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Stockholders' equity:				
Total stockholders' equity		271,230		265,214
Total liabilities and stockholders' equity	\$	349,453	\$	343,224

(1) Information derived from our December 31, 2010 audited Consolidated Financial Statements.

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Product revenues	\$ 46,218	\$ 42,023	\$ 88,793	\$ 84,318
Services and other revenues	14,787	12,670	29,372	24,535
Total revenues	61,005	54,693	118,165	108,853
Cost of revenues:				
Cost of product revenues	19,730	19,009	37,566	38,274
Cost of services and other revenues	7,468	6,816	15,142	14,125
Total cost of revenues	27,198	25,825	52,708	52,399
Gross profit	33,807	28,868	65,457	56,454
Operating expenses:				
Research and development	5,280	4,950	10,120	9,515
Selling, general and administrative	24,297	20,426	50,078	41,938
Total operating expenses	29,577	25,376	60,198	51,453
Income from operations	4,230	3,492	5,259	5,001
Interest and other income, net of other expense	71	53	125	127
Income before provision for income taxes	4,301	3,545	5,384	5,128
Provision for income taxes	1,714	1,580	2,127	2,184
Net income	\$ 2,587	\$ 1,965	\$ 3,257	\$ 2,944
Net income per share-basic	\$ 0.08	\$ 0.06	\$ 0.10	\$ 0.09
Net income per share-diluted	\$ 0.08	\$ 0.06	\$ 0.10	\$ 0.09
Weighted average shares outstanding:				
Basic	33,003	32,567	33,093	32,388
Diluted	33,981	33,452	34,039	33,303

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

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OMNICELL, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 3,257	\$ 2,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,794	4,302
Provision for receivable allowance	(43)	(117)
Share-based compensation expense	4,843	4,254
Income tax benefits from employee stock plans	2,303	2,281
Excess tax benefits from employee stock plans	(2,517)	(2,650)
Provision for excess and obsolete inventories	865	829
Deferred income taxes	(491)	(605)
Changes in operating assets and liabilities:		
Accounts receivable, net	(384)	2,703
Inventories	(8,462)	(62)
Prepaid expenses	1,391	830
Other current assets	(288)	466
Net investment in sales-type leases	710	(140)
Other assets	215	156
Accounts payable	1,138	(344)
Accrued compensation	391	(2,069)
Accrued liabilities	(1,260)	1,118
Deferred service revenue	2,278	464
Deferred gross profit	(419)	(835)
Other long-term liabilities	(50)	62
Net cash provided by operating activities	7,271	13,587
Cash flows from investing activities:		
Maturities of short-term investments	8,143	
Acquisition of intangible assets and intellectual property	(69)	(139)
Software development for external use	(3,088)	(1,451)
Purchases of property and equipment	(4,764)	(3,380)
Net cash provided by (used in) investing activities	222	(4,970)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase and stock option plans	3,613	4,659
Stock repurchases	(8,000)	
Excess tax benefits from employee stock plans	2,517	2,650
Net cash (used in) provided by financing activities	(1,870)	7,309
Net increase in cash and cash equivalents	5,623	15,926
Cash and cash equivalents at beginning of period	175,635	169,230
Cash and cash equivalents at end of period	\$ 181,258	\$ 185,156

Supplemental disclosure of non-cash operating activity

Satisfaction of acquired legal contingency with indemnification asset (Note 2)	\$	(1,200)	\$
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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OMNICELL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization & Summary of Significant Accounting Policies

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

Basis of Presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of June 30, 2011, the results of operations for the three months and six months ended June 30, 2011 and 2010 and the statement of cash flows for the six months ended June 30, 2011 and 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP), have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Our results of operations and cash flows for the three months and six months ended June 30, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011, or for any future period.

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

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

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

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Reclassifications. Certain reclassifications have been made to the prior year consolidated statement of cash flows to conform to the current period presentation, including software development for external use as investing cash flows instead of operating cash flows. None of these reclassifications are material to the consolidated financial statements.

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

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

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

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

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

At June 30, 2011 and December 31, 2010, our financial assets utilizing Level 1 inputs included cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. At December 31, 2010 we had a short-

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term investment in California revenue anticipation notes, the valuation inputs of which were classified as Level 2. We do not currently have any material financial instruments utilizing Level 3 inputs.

Classification of marketable securities. Marketable securities for which we have the intent and ability to hold to maturity are classified as Held-to-maturity and are carried at their amortized cost, including accrued interest. At December, 31, 2010 we held \$8.1 million of non-U.S. Government securities which were classified as Held-to-maturity short-term investments, and which matured on June 28, 2011. We do not hold securities for purposes of trading. However, securities held as investments for the indefinite future, pending future spending requirements are classified as Available-for-sale and are carried at their fair value, with any unrealized gain or loss recorded to other comprehensive income until realized. At June 30, 2011 and December 31, 2010 we held \$167.1 million and \$150.4 million, respectively, of money market mutual funds classified as Available-for-sale cash equivalents.

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

- **Products**