OMNICELL, Inc
Form 10-Q
August 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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 (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 o No o

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

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

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

The number of shares of Registrant s common stock (par value $0.001) outstanding as of August 3, 2009 was 31,656,539.

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

OMNICELL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2009 (unaudited)	December 31, 2008 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 126,426	$ 120,439
Accounts receivable, net	67,655	56,472
Inventories	9,624	12,957
Prepaid expenses	9,787	9,310
Deferred tax assets	14,871	14,871
Other current assets	7,040	10,938
Total current assets	235,403	224,987
Property and equipment, net	14,326	16,180
Non-current net investment in sales-type leases	9,531	10,896
Goodwill	24,982	24,982
Other intangible assets	5,362	6,706
Non-current deferred tax assets	15,704	15,889
Other assets	9,298	8,902
Total assets	$ 314,606	$ 308,542
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,584	$ 9,377
Accrued compensation	8,574	8,889
Accrued liabilities	14,336	10,357
Deferred service revenue	12,830	12,084
Deferred gross profit	12,334	16,648
Total current liabilities	58,658	57,355
Long-term deferred service revenue	15,971	16,782
Other long-term liabilities	776	848
Total liabilities	75,405	74,985
Stockholders equity:		
Total stockholders equity	239,201	233,557
Total liabilities and stockholders equity	$ 314,606	$ 308,542

(1) Information derived from our December 31, 2008 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, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenues:				
Product revenues	$ 41,983	$ 52,870	$ 84,278	$ 105,286
Services and other revenues	10,660	10,504	20,569	20,179
Total revenues	52,643	63,374	104,847	125,465
Cost of revenues:				
Cost of product revenues	19,175	24,349	39,455	48,319
Cost of services and other revenues	6,539	6,665	13,434	12,440
Restructuring charges			1,209	
Total cost of revenues	25,714	31,014	54,098	60,759
Gross profit	26,929	32,360	50,749	64,706
Operating expenses:				
Research and development	4,574	4,978	8,551	9,255
Selling, general and administrative	21,038	22,878	42,537	46,085
Restructuring charges			1,315	
Total operating expenses	25,612	27,856	52,403	55,340
Income (loss) from operations	1,317	4,504	(1,654)	9,366
Interest and other income, net of other expense	194	722	376	2,131
Income (loss) before provision for (benefit from) income taxes	1,511	5,226	(1,278)	11,497
Provision for (benefit from) income taxes	607	2,473	(311)	5,011
Net income (loss)	$ 904	$ 2,753	$ (967)	$ 6,486
Net income (loss) per share-basic	$ 0.03	$ 0.09	$ (0.03)	$ 0.20
Net income (loss) per share-diluted	$ 0.03	$ 0.08	$ (0.03)	$ 0.19
Weighted average shares outstanding:				
Basic	31,578	31,716	31,516	32,954
Diluted	31,961	32,549	31,516	34,065

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, 2009	Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ (967)	$ 6,486
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,874	4,484
Provision for receivable allowance	146	133
Loss on disposal of property and equipment	20	
Loss on impairment of intangible assets	231	
Share-based compensation expense	4,858	6,000
Provision for excess and obsolete inventories	2,287	527
Deferred income taxes	185	2,607
Excess tax benefits from employee stock plans	(4)	1,424
Changes in operating assets and liabilities:		
Accounts receivable, net	(11,375)	(3,361)
Inventories	1,017	(2,431)
Prepaid expenses	(477)	1,578
Other current assets	3,887	747
Net investment in sales-type leases	1,410	690
Other assets	(1,606)	(360)
Accounts payable	1,207	1,957
Accrued compensation	(314)	186
Accrued liabilities	3,987	(2,997)
Deferred service revenue	992	1,646
Deferred gross profit	(4,314)	(509)
Other long-term liabilities	(72)	(97)
Net cash provided by operating activities	5,963	18,730
Cash flows from investing activities:		
Acquisition of intangible assets and intellectual property	(65)	(107)
Proceeds from sale of property and equipment		100
Purchases of property and equipment	(1,667)	(5,291)
Net cash used in investing activities	(1,732)	(5,298)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock purchase plan and option exercises	1,756	4,603
Repurchases of treasury stock, net		(65,064)
Net cash provided by (used in) financing activities	1,756	(60,461)
Net increase (decrease) in cash and cash equivalents	5,987	(47,029)
Cash and cash equivalents at beginning of period	120,439	169,812
Cash and cash equivalents at end of period	$ 126,426	$ 122,783

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization & Summary of Significant Accounting Policies

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

Basis of Presentation. These interim condensed consolidated financial statements are unaudited but reflect, in the opinion of management, all adjustments, consisting of normal recurring adjustments and accruals, necessary to present fairly the financial position of Omnicell and its subsidiaries as of June 30, 2009 and 2008, and the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles, or GAAP, have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Our results of operations for the three and six months ended June 30, 2009 and cash flows for the six months ended June 30, 2009 are not necessarily indicative of results that may be expected for the year ending December 31, 2009, 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.

Reclassifications. Certain reclassifications have been made to prior year reported accounts receivable, other current assets, obligations resulting from sale of receivables and accrued liabilities in the condensed consolidated balance sheet to conform with the current year balance sheet presentation. Certain prior period amounts in our unaudited condensed consolidated statement of cash flows have been reclassified to conform to the current period presentation. Amounts reclassified include other current assets, accrued liabilities and acquisition of privately held company, net of cash acquired.

Fair value of financial instrument. Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements, or SFAS No. 157, on a prospective basis for our financial assets and liabilities recognized at fair value on a recurring basis using the fair value hierarchy established in SFAS No. 157.

SFAS No. 157 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, 2009 and December 31, 2008, our financial assets utilizing Level 1 inputs included cash equivalents. For these items, quoted market prices are readily available and fair value approximates carrying value. We do not currently have any financial instruments utilizing Level 2 and Level 3 inputs.

Sales of accounts receivable. We offer our customers multi-year, non-cancelable payment terms. Generally we sell non-U.S. government receivables to third-party leasing companies on a non-recourse basis. We reflect the financing costs on the sale of these receivables as a component of our revenue. We record our revenue at the net present value of the multi-year

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payment stream using the contractual interest rate charged to us by the third-party leasing company. We record the sale of our accounts receivables as true sales in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. During the six months ended June 30, 2009 and 2008, we transferred non-recourse accounts receivable totaling $21.3 million and $36.2 million, respectively, which approximated fair value, to third party leasing companies. At June 30, 2009 and December 31, 2008, accounts receivable included $8.9 million and $4.7 million, respectively, due from third party leasing companies for transferred non-recourse accounts receivable. Due to the nature of the recourse clauses in certain sales arrangements, we recorded $0.1 million and $0.2 million as of June 30, 2009 and December 31, 2008, respectively, as receivables subject to sales agreements and obligations resulting from sales of receivables.

Dependence on suppliers. We have significant supply agreements with two suppliers for construction and supply of several sub-assemblies and inventory management of sub-assemblies used in our hardware products. There are no minimum purchase requirements. The contracts may be terminated by either the supplier or by us without cause and at any time upon delivery of from two to six months notice. Purchases from these suppliers for the three and six months ended June 30, 2009 were approximately $5.6 million and $12.3 million, respectively. Purchases from these suppliers for the comparable periods in 2008 were approximately $5.6 million and $12.5 million, respectively.

Income Taxes. For the three and six months ended June 30, 2009, we recorded an income tax expense of $0.6 million and an income tax benefit of $0.3 million, respectively, as compared with an income tax expense of $2.5 million and $5.0 million for the corresponding periods in 2008. The effective tax rate for three and the six months ended June 30, 2009 was 40.2% and a benefit rate of 24.3% as compared to effective tax rates of 47.3% and 43.6% for the corresponding periods in 2008. The reduction in the effective tax rate for the three months ended June 30, 2009 as compared to the corresponding periods in 2008 is due mostly to Federal and California research and development tax credits. The reduction in the benefit rate for the six months ended June 30, 2009 as compared to the corresponding period in 2008 is due mostly to the re-measurement of the California deferred tax assets as discussed below. The estimated annual tax rate differs from the statutory tax rate of 35% primarily due to the impact of state income taxes and statutory stock compensation options charges under SFAS No. 123(R), partially offset by the benefit from research and development credits.

In February 2009, California enacted a change in law which allows an elective single sales factor apportionment for taxable years beginning on or after January 1, 2011. We expect to benefit from the California single sales factor election. In accordance with SFAS No. 109, Accounting for Income Taxes, we re-measured our deferred tax assets in the first quarter of 2009, taking into account the reversal pattern and the expected California tax rate under the elective single sales factor. As a result of this change, we recorded a decrease to our California deferred tax assets by $0.2 million which resulted in a discrete income tax expense of $0.2 million for the three months ended March 31, 2009.

Other comprehensive income (loss). Other comprehensive income (loss) is the same as net income (loss) for the three and six months ended June 30, 2009 and 2008.

Segment Information. We manage our business on the basis of one reportable segment. Our products and technologies share similar distribution channels and customers and are sold primarily to hospitals and healthcare facilities to improve patient safety and care and enhance operational efficiency. Our sole operating segment is medication and supply dispensing systems. Substantially all of our long-lived assets are located in the United States. For the three and six months ended June 30, 2009 and 2008, substantially all of our total revenues and gross profits were generated by the medication and supply dispensing systems operating segment from customers in the United States and no one customer accounted for greater than 10% of our revenues.

Subsequent Events. We have evaluated subsequent events, as defined by Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, through August 5, 2009, the day our condensed consolidated financial statements for the second quarter of 2009 were issued and conclude there are no additional disclosures required.

Recently Issued Accounting Pronouncements.

In April 2009, the Financial Accounting Standards Board (FASB) issued three related Staff Positions (FSP): (i) FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP FAS 157-4, (ii) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, or FSP FAS 115-2, and (iii) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, or FSP FAS 107-1, which will be effective for interim and annual periods ending after June 15, 2009. FSP FAS 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and

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level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP FAS 115-2 modifies the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP FAS 107-1 enhances the disclosure of instruments under the scope of SFAS No. 157 for both interim and annual periods. Our adoption of these Staff Positions did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP No. 141(R)-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP FAS 141(R)-1. FSP FAS 141(R)-1 amends the provisions in SFAS No. 141(R), Business Combinations for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS No. 141(R) and instead carries forward most of the provisions in SFAS No. 141 for acquired contingencies. FSP FAS 141(R)-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of FSP FAS 141(R)-1 will have an impact on our consolidated financial statements unless and until we complete a business combination.

In May 2009, the FASB issued Statement of Financial Accounting Standard, or SFAS, No. 165, Subsequent Events, or SFAS No. 165. SFAS No. 165 requires an entity to disclose the date through which the entity has evaluated subsequent events and whether that evaluation date is the date financial statements are issued (for public entities) or the date the financial statements were available to be issued (for nonpublic entities that do not widely distribute their financial statements). SFAS No. 165 is effective for interim reporting periods ending after June 15, 2009. Our adoption of SFAS No. 165 did not have an impact on our consolidated financial statements.

In June 2009, the FASB issued two SFAS which will become effective for annual reporting periods that begin after November 15, 2009. These are SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, and SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 166 removes the concept of a qualifying special purpose entity from Statement No. 140 and requires that a transferor recognize and initially measure at fair value all assets obtained and all liabilities incurred as a result of a transfer of financial assets accounted for as a sale. SFAS No. 167 requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. We do not expect the adoption of either of these financial accounting standards to have an impact on our consolidated financial statements.

Note 2. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares less shares subject to repurchase plus, if dilutive, potential common stock outstanding during the period. Potential common stock include the effect of outstanding dilutive stock options, restricted stock awards and restricted stock units computed using the treasury stock method. Since their impact is anti-dilutive, the total number of shares excluded from the calculations of diluted net income (loss) per share for the three and six months ended June 30, 2009 and 2008 were 4,374,977 and 1,527,400, respectively.

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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.	
	2009	2008	2009	2008
Basic:				
Net income (loss)	$ 904	$ 2,753	$ (967)	$ 6,486
Weighted average shares outstanding - basic	31,578	31,716	31,516	32,954
Net income (loss) per share - basic	$ 0.03	$ 0.09	$ (0.03)	$ 0.20
Diluted:				
Net income (loss)	$ 904	$ 2,753	$ (967)	$ 6,486
Weighted average shares outstanding - basic	31,578	31,716	31,516	32,954
Add: Dilutive effect of employee stock plans	383	833		1,111
Weighted average shares outstanding - diluted	31,961	32,549	31,516	34,065
Net income (loss) per share - diluted	$ 0.03	$ 0.08	$ (0.03)	$ 0.19

Note 3. Stockholders Equity

Treasury Stock

During 2008, our board of directors authorized stock repurchase programs for the repurchase of up to $90.0 million of our common stock. All repurchased shares were recorded as treasury stock and were accounted for under the cost method. No repurchased shares have been retired. The timing, price and volume of the repurchases are based on market conditions, relevant securities laws and other factors. The stock repurchase program does not obligate us to repurchase any specific number of shares, and we may terminate or suspend the repurchase program at any time. From the inception of the program in February 2008 through June 30, 2009, we repurchased a total of 4,066,296 shares at an average cost of $16.00 per share through open market purchases.

During the three and six months ended June 30, 2009, we did not repurchase any shares through the stock repurchase programs. For the three and six months ended June 30, 2008, we repurchased 1,932,398 shares and 4,066,296 shares, respectively. As of June 30, 2009, we had $25.0 million of remaining authorized funds to repurchase additional shares under the stock repurchase programs. Additionally, for the three and six months ended June 30, 2009, we withheld 2,784 shares and 6,922 shares, respectively, from employees to satisfy tax withholding obligations on the vesting of restricted stock units**.** For the three and six months ended June 30, 2008, 2,160 shares were withheld from employees to satisfy tax withholding obligation on the vesting of restricted stock units.

Note 4. Stock Option Plans and Share-Based Compensation

Stock Option Plans

On May 19, 2009 at the Company s 2009 Annual Meeting of Stockholders, or the 2009 Annual Meeting, the Company s stockholders approved the Company s 2009 Equity Incentive Plan, or the 2009 Plan. The 2009 Plan succeeds the Company s 1999 Equity Incentive Plan, as amended, the Company s 2003 Equity Incentive Plan, as amended, and the Company s 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. At June 30, 2009, 1,627,519 shares of common stock were reserved for future issuance under the 2009 Plan. At June 30, 2009, $10.6 million of total unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted average period of 2.6 years.

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A summary of option activity under the Prior Plans and the 2009 Plan for the six months ended June30, 2009 is presented below:

Options:	Number of Shares (in thousands)		Weighted-Average Exercise Price
Outstanding at December 31, 2008	4,711	$	13.45
Granted	643	$	8.31
Exercised	(21)	$	4.94
Forfeited	(155)	$	16.93
Expired	(222)	$	13.91
Outstanding at June 30, 2009	4,956	$	12.68
Exercisable at June 30, 2009	3,391	$	12.06

Restricted Stock and Restricted Stock Units

The non-employee members of our Board of Directors are granted restricted stock on the day of our annual meeting of stockholders and such shares of restricted stock vest on the date of the subsequent year s annual meeting of stockholders, provided such non-employee director remains a director on such date. Restricted stock units, or RSUs, are granted to certain of our employees and generally vest over a period of four years and are expensed ratably on a straight-line basis over the vesting period. The fair value of both restricted stock and RSUs granted pursuant to our stock option plans is the product of the number of shares granted and the grant date fair value of our common stock. Our unrecognized compensation cost related to nonvested restricted stock at June 30, 2009 is approximately $0.4 million and is expected to be recognized over a weighted average period of 0.9 years. Expected future compensation expense relating to RSUs outstanding on June 30, 2009 is $4.0 million over a weighted-average period of 2.9 years. A summary of activity of both restricted stock and RSUs for the six months ended June 30, 2009 is presented below:

	Restricted Stock			Restricted Stock Units		
	Number of Shares (in thousands)		Weighted - Average Grant Date Fair Value Per Share	Number of Shares (in thousands)		Weighted - Average Grant Date Fair Value Per Share
Non-vested, December 31, 2008	41	$	11.91	236	$	20.11
Granted	52	$	9.25	95	$	8.20
Vested	(41)	$	11.91	(40)	$	19.82
Forfeited		$		(23)	$	18.79
Non-vested, June 30, 2009	52	$	9.25	268	$	16.07

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan, or ESPP, under which employees can purchase shares of our common stock based on a percentage of their compensation, but not greater than 15% of their earnings, up to a maximum of $25,000 of fair value per year. The purchase price per share must be equal to the lower of 85% of the fair value of the common stock at the beginning of a 24-month offering period or the end of each six-month purchasing period. As of June 30, 2009, 2,331,555 shares had been issued under the ESPP. At the company s 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 June 30, 2009, there were a total of 3,000,000 shares reserved for future issuance under the ESPP. During the six months ended June 30, 2009, 215,698 shares of common stock were purchased under the ESPP.

Share-based Compensation

We have adopted the provisions of SFAS No. 123(R), Share-Based Payment, or SFAS No. 123(R), for share-based awards granted to employees and directors including employee stock option awards, restricted stock and RSUs issued pursuant to the Plans and employee stock purchases made under our ESPP using the estimated grant date fair value method of accounting in accordance with SFAS No. 123(R).

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The impact on our results for share-based compensation for the three and six months ended June 30, 2009 and 2008 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of product and service revenues	$ 287	$ 416	$ 665	$ 926
Research and development expenses	293	304	560	616
Selling, general and administrative expenses	1,794	2,213	3,633	4,458
Total share-based compensation expenses	$ 2,374	$ 2,933	$ 4,858	$ 6,000

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

Note 5. Inventories

Inventories consist of the following (in thousands):

	June 30, 2009	December 31, 2008
Raw materials	$ 7,669	$ 7,714
Work in process	199	
Finished goods	1,756	5,243
Total	$ 9,624	$ 12,957

Note 6. 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):

	June 30, 2009	December 31, 2008
Net minimum lease payments to be received	$ 16,069	$ 17,899
Less unearned interest income portion	2,122	2,575
Net investment in sales-type leases	13,947	15,324
Less current portion(1)	4,416	4,428
Non-current net investment in sales-type leases(2)	$ 9,531	$ 10,896

The minimum lease payments under sales-type leases as of June 30, 2009 are as follows (in thousands):

2009 (remaining amount)	$	2,908
2010		5,558
2011		4,231
2012		2,481
2013		811
Thereafter		80
Total	$	16,069

(1) A component of other current assets.
(2) Net of allowance for doubtful accounts of $0.4 million as of June 30, 2009 and $0.3 million as of December 31, 2008.

Note 7. Goodwill and Other Intangible Assets

Under SFAS No. 142 Goodwill and Other Intangible Assets, goodwill and intangibles assets with an indefinite life are not subject to amortization. Rather, we evaluate these assets for impairment at least annually or more frequently if events and changes in circumstances suggest that the carrying amount may not be recoverable.

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

	June 30, 2009			December 31, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Life
Indefinite-lived intangible:							
Trade name	$	$	$	$ 231	$	$ 231	Indefinite
Finite-lived intangibles:							
Customer base	3,184	815	2,369	3,184	631	2,553	5-8 years
Service contracts	268	268		268	268		5 years
Acquired technology	9,364	7,108	2,256	9,364	6,295	3,069	3-6 years
Patents	410	69	341	345	63	282	20 years
Trade name	220	171	49	220	116	104	2 years
Non-compete	720	373	347	720	253	467	3 years
Backlog	10	10		10	10		1 year
Total finite-lived intangibles	14,176	8,814	5,362	14,111	7,636	6,475	
Total other intangible assets	14,176	8,814	5,362	14,342	7,636	6,706	
Goodwill	24,982		24,982	24,982		24,982	Indefinite
Net other intangibles & goodwill	$ 39,158	$ 8,814	$ 30,344	$ 39,324	$ 7,636	$ 31,688	

Amortization expense totaled $0.6 million and $0.8 million for the three months ended June 30, 2009 and 2008, respectively. Amortization expense totaled $1.2 million and $1.5 million for the six months ended June 30, 2009 and 2008, respectively. Estimated annual expected amortization expense of the finite-lived intangible assets at June 30, 2009 is as follows (in thousands):

2009 (remaining amount)	$ 1,140
2010	2,078
2011	374
2012	374
2013	374
Thereafter	1,022
Total	$ 5,362

Note 8. Deferred Gross Profit

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

	June 30, 2009	December 31, 2008
Sales of medication and supply dispensing systems, which have been delivered and invoiced but not yet installed	$ 22,080	$ 24,576
Cost of revenues, excluding installation costs	(9,746)	(7,928)
Deferred gross profit	$ 12,334	$ 16,648

Note 9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2009	December 31, 2008
Pre-acquisition contingency	$ 5,350	$ 6,107
Accrued Group Purchasing Organization (GPO) fees	1,791	1,753
Advance payments from customers	3,907	