
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

Commission File Number 001-33462

INSULET CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-3523891
(I.R.S. Employer Identification Number)

9 Oak Park Drive
Bedford, Massachusetts
(Address of principal executive offices)

01730
(Zip Code)

Registrant's telephone number, including area code: **(781) 457-5000**

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 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

As of November 7, 2008, the registrant had 27,762,578 shares of common stock outstanding.

INSULET CORPORATION
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

INSULET CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

	As of September 30, 2008 (Unaudited)	As of December 31, 2007
(In thousands, except share data)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 74,134	\$ 94,588
Accounts receivable, net	11,842	4,783
Inventories	16,467	7,990
Prepaid expenses and other current assets	3,521	1,391
Total current assets	105,964	108,752
Property and equipment, net	26,080	21,304
Other assets	3,288	685
Total assets	<u>\$ 135,332</u>	<u>\$ 130,741</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 5,965	\$ 4,544
Accrued expenses	7,587	4,464
Deferred revenue	2,271	1,350
Current portion of long-term debt	—	10,671
Total current liabilities	15,823	21,029
Long-term debt, net of current portion	85,000	16,006
Other long-term liabilities	2,861	1,431
Total liabilities	103,684	38,466
Stockholders' equity		
Preferred stock, \$.001 par value:		
Authorized: 5,000,000 shares at September 30, 2008 and December 31, 2007.		
Issued and outstanding: zero shares at September 30, 2008 and December 31, 2007	—	—
Common stock, \$.001 par value:		
Authorized: 100,000,000 shares at September 30, 2008 and December 31, 2007. Issued and outstanding: 27,748,162 and 27,223,820 shares at September 30, 2008 and December 31, 2007, respectively	29	28
Additional paid-in capital	251,706	247,835
Accumulated deficit	(220,087)	(155,579)
Subscription receivable	—	(9)
Total stockholders' equity	31,648	92,275
Total liabilities and stockholders' equity	<u>\$ 135,332</u>	<u>\$ 130,741</u>

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

INSULET CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except share and per share data) (Unaudited)			
Revenue	\$ 10,110	\$ 3,791	\$ 24,198	\$ 9,011
Cost of revenue	<u>10,197</u>	<u>7,583</u>	<u>29,980</u>	<u>19,054</u>
Gross loss	(87)	(3,792)	(5,782)	(10,043)
Operating expenses:				
Research and development	3,263	2,231	9,569	7,221
General and administrative	6,308	3,388	16,900	8,845
Sales and marketing	10,176	4,144	29,735	10,652
Impairment of assets	—	1,027	—	1,027
Total operating expenses	<u>19,747</u>	<u>10,790</u>	<u>56,204</u>	<u>27,745</u>
Operating loss	<u>(19,834)</u>	<u>(14,582)</u>	<u>(61,986)</u>	<u>(37,788)</u>
Interest income	481	1,418	1,554	2,435
Interest expense	<u>(1,399)</u>	<u>(475)</u>	<u>(4,076)</u>	<u>(2,444)</u>
Net interest income (expense)	(918)	943	(2,522)	(9)
Change in value of preferred stock warrant liability	—	—	—	(74)
Net loss	<u>(20,752)</u>	<u>(13,639)</u>	<u>(64,508)</u>	<u>(37,871)</u>
Net loss per share basic and diluted	<u>\$ (0.75)</u>	<u>\$ (0.52)</u>	<u>\$ (2.34)</u>	<u>\$ (2.85)</u>
Weighted average number of shares used in calculating basic and diluted net loss per share	<u>27,716,473</u>	<u>26,322,763</u>	<u>27,560,258</u>	<u>13,294,107</u>

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

INSULET CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2008	2007
	(In thousands) (Unaudited)	
Cash flows from operating activities		
Net loss	\$ (64,508)	\$ (37,871)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	4,665	3,352
Amortization of debt discount	596	179
Redeemable convertible preferred stock warrant expense	—	74
Stock compensation expense	2,618	939
Provision for bad debts	2,012	682
Loss on impairment and disposal of assets	—	1,027
Non cash interest expense	856	(57)
Changes in operating assets and liabilities:		
Accounts receivable	(9,071)	(2,608)
Inventory	(8,477)	(1,182)
Prepays and other current assets	(2,130)	64
Other assets	9	(478)
Accounts payable and accrued expenses	4,544	276
Other long term liabilities	2,330	1,012
Deferred revenue, short term	921	427
Net cash used in operating activities	<u>(65,635)</u>	<u>(34,164)</u>
Cash flows from investing activities		
Purchases of property and equipment	(9,441)	(8,340)
Net cash used in investing activities	<u>(9,441)</u>	<u>(8,340)</u>
Cash flows from financing activities		
Principal payments of long term loan	(5,454)	—
Net proceeds from convertible note offering	81,532	—
Redemption of long term loan	(22,719)	—
Proceeds from issuance of common stock, net of offering expenses	1,254	113,486
Proceeds from payment of subscription receivable	9	—
Net cash provided by financing activities	<u>54,622</u>	<u>113,486</u>
Net increase (decrease) in cash and cash equivalents	(20,454)	70,982
Cash and cash equivalents, beginning of period	94,588	33,231
Cash and cash equivalents, end of period	<u>\$ 74,134</u>	<u>\$ 104,213</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 1,746	\$ 2,368
Non-cash financing activities		
Conversion of preferred stock to common stock upon initial public offering	\$ —	\$ 119,509

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

INSULET CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business

Insulet Corporation (the "Company") is principally engaged in the development, manufacture, marketing and selling of an insulin infusion system for people with insulin-dependent diabetes. The Company was incorporated in Delaware in 2000 and has its corporate headquarters in Bedford, Massachusetts. Since inception, the Company has devoted substantially all of its efforts to developing, manufacturing, marketing and selling the OmniPod Insulin Management System ("OmniPod"), which consists of the OmniPod disposable insulin infusion device and the handheld, wireless Personal Diabetes Manager ("PDM"). The Company commercially launched the OmniPod Insulin Management System in August 2005 after receiving FDA 510(k) approval in January 2005. The first commercial product was shipped in October 2005. In May 2007, the Company completed an initial public offering of its common stock.

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008, or for any other subsequent interim period.

The condensed consolidated financial statements in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting periods. The most significant estimates used in these financial statements include the valuation of inventories and stock options, the lives of property and equipment, and warranty and doubtful account allowance calculations. Actual results may differ from those estimates.

Principles of Consolidation

The consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of the Company and its wholly-owned subsidiary, Sub-Q Solutions, Inc. All material inter-company balances and transactions have been eliminated in consolidation. To date there has been no activity in Sub-Q Solutions, Inc.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from third-party payors, patients and third-party distributors. In estimating whether accounts receivable can be collected, the Company performs evaluations of customers and continuously monitors collections and payments and estimates an allowance for doubtful accounts based on the aging of the underlying invoices, experience to date and any payor-specific collection issues that have been identified.

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Inventories

Inventories are stated at the lower of cost or market, determined under the first-in, first-out (“FIFO”) method. Prior to June 30, 2008, inventory was recorded at market value as the Company was selling the OmniPods and PDMs at a loss. Since June 30, 2008, the Company’s inventory of finished OmniPods has been presented at cost, as the costs to produce OmniPods are lower than the Company’s selling price. The Company’s inventory of PDMs continue to be stated at the market value as the costs to produce PDMs continue to be greater than the Company’s selling price. Work in process is calculated based upon the stage of completion using estimated labor inputs for each stage in production. Costs for PDMs and OmniPods include raw materials, labor and manufacturing overhead. The Company evaluates inventory valuation on a quarterly basis for excess, obsolete or slow-moving items.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over their useful life or the life of the lease, whichever is shorter. Assets capitalized under capital leases are amortized in accordance with the respective class of owned assets and the amortization is included with depreciation expense. Maintenance and repair costs are expensed as incurred.

Impairment of Property and Equipment

The Company reviews the carrying value of its property and equipment to assess the recoverability of these assets whenever events indicate that impairment may have occurred. As part of this assessment, the Company reviews the future undiscounted operating cash flows expected to be generated by those assets. If impairment is indicated through this review, the carrying amount of the asset would be reduced to its estimated fair value.

Revenue Recognition

The Company generates nearly all of its revenue from sales of its OmniPod Insulin Management System to diabetes patients and third-party distributors who resell the product to diabetes patients. The initial sale to a new customer typically includes OmniPods and a Starter Kit, which is comprised of the PDM, two OmniPods, the OmniPod System User Guide and the OmniPod System Interactive Training CD. Subsequent sales to existing customers typically consist of additional OmniPods.

Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* (“SAB 104”), which requires that persuasive evidence of a sales arrangement exists, delivery of goods occurs through transfer of title and risk and rewards of ownership, the selling price is fixed or determinable and collectibility is reasonably assured. With respect to these criteria:

- The evidence of an arrangement generally consists of a physician order form, a patient information form, and if applicable, third-party insurance approval for sales directly to patients or a purchase order for sales to a third-party distributor.
- Transfer of title and risk and rewards of ownership are passed to the patient or distributor upon their receipt of the products.
- The selling prices for all sales are fixed and agreed with the patient or third-party distributor, and, if applicable, the patient’s third-party insurance provider(s), prior to shipment and are based on established list prices or, in the case of certain third-party insurers, contractually agreed upon prices. Provisions for discounts and rebates to customers are established as a reduction to revenue in the same period the related sales are recorded.

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The Company has considered the requirements of Emerging Issues Task Force 00-21, *Revenue Arrangements with Multiple Deliverables* (“EITF 00-21”), when accounting for the OmniPods and Starter Kits. EITF 00-21 requires the Company to assess whether the different elements qualify for separate accounting. The Company recognizes revenue for the initial shipment to a patient or other third party once all elements have been delivered.

The Company offers a 45-day right of return for its Starter Kits sales, and, in accordance with SFAS No. 48, *Revenue Recognition When the Right of Return Exists*, the Company defers revenue to reflect estimated sales returns in the same period that the related product sales are recorded. Returns are estimated through a comparison of the Company’s historical return data to their related sales. Historical rates of return are adjusted for known or expected changes in the marketplace when appropriate. Historically, sales returns have amounted to approximately 3% of gross product sales.

When doubt exists about reasonable assuredness of collectibility from specific customers, the Company defers revenue from sales of products to those customers until payment is received.

Prior to January 1, 2008, the Company deferred the revenue and related costs of revenue for all initial shipments until the 45-day right of return had lapsed. With the accumulation of approximately 2 years of data for sales and return rates, the Company concluded that it had sufficient historical data on which to base its estimated returns from January 1, 2008. If the Company had continued to defer all initial shipments until the 45-day right of return had expired, deferred revenue as of September 30, 2008 would have been larger by \$1.2 million.

In March 2008, the Company received a cash payment from Abbott Diabetes Care, Inc. (“Abbott”) for an agreement fee in connection with execution of the first amendment to the development and license agreement between the Company and Abbott. The Company recognizes the agreement fee from Abbott over the initial 5-year term of the agreement, and the non-current portion of the agreement fee is included in other long-term liabilities. Under the amended Abbott agreement, beginning July 1, 2008, Abbott agreed to pay an amount to the Company for services performed by Insulet in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to a new customer. The Company recognizes the revenue related to this portion of the Abbott agreement at the time the revenue is recognized on the sale of the PDM to the patient. In the three and nine months ended September 30, 2008, the Company recognized \$1.2 million and \$1.4 million of revenue, respectively, related to the amended Abbott agreement. There was no impact to cost of revenue related to this agreement.

The Company had deferred revenue of \$2.3 million and \$1.4 million as of September 30, 2008 and December 31, 2007, respectively. The deferred revenue recorded as of September 30, 2008 was comprised of product-related revenue as well as the current portion of the agreement fee related to the Abbott agreement.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk primarily consist of cash and cash equivalents. The Company maintains the majority of its cash with one accredited financial institution.

Although revenue is recognized from shipments directly to patients or third-party distributors, the majority of shipments are billed to third-party insurance payors. As of September 30, 2008, the two largest third-party payors accounted for 6% and 5% of gross accounts receivable balances, respectively. As of December 31, 2007, the two largest third-party payors accounted for 8% and 4% of gross accounts receivable balances, respectively.

Income Taxes

The Company files federal and state tax returns. The Company has accumulated significant losses since its inception in 2000. Since the net operating losses may potentially be utilized in future years to reduce taxable income, all of the Company’s tax years remain open to examination by the major taxing jurisdictions to which the Company is subject.

The Company recognizes estimated interest and penalties for uncertain tax positions in income tax expense.

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As of September 30, 2008, the Company had no interest and penalty accrual or expense.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. This pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted SFAS 157 in the first quarter of fiscal year 2008. The adoption of SFAS 157 did not have a material effect on the Company’s financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement 115* (“SFAS 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 in the first quarter of fiscal year 2008. The adoption of SFAS 159 did not have a material effect on the Company’s financial position, results of operations or cash flows.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP FAS 157-2”). FSP FAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. FSP FAS 157-2 is effective for fiscal years beginning after September 1, 2009. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In May 2008, the FASB issued Staff Position Accounting Principles Board 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (“FSP APB 14-1”), which is effective for fiscal years beginning after December 15, 2008. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion should be separated between the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company is currently evaluating the effect of FSP APB 14-1 and it has not yet determined the impact of the standard on its financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“SFAS 162”). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently evaluating the potential effect of implementing this standard.

3. Convertible Notes and Repayment and Termination of Term Loan

In June 2008, the Company sold \$85 million principal amount of 5.375% Convertible Senior Notes due June 15, 2013 (the “5.375% Notes”) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The interest rate on the notes is 5.375% per annum on the principal amount from June 16, 2008, payable semi-annually in arrears in cash on December 15 and June 15 of each year, beginning December 15, 2008. The 5.375% Notes are convertible into the Company’s common stock at an initial conversion rate of 46.8467 shares of common stock per \$1,000 principal amount of the 5.375% Notes, which is equivalent to a conversion price of approximately \$21.35 per share, representing a conversion premium of 34% to the last reported sale price of the Company’s common stock on the NASDAQ Global Market on June 10, 2008, subject to adjustment under certain circumstances, at any time beginning on March 15, 2013 or under certain other circumstances and prior to the close of business on the business day immediately preceding the final maturity date of

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the notes. The 5.375% Notes will be convertible for cash up to their principal amount and shares of the Company's common stock for the remainder of the conversion value in excess of the principal amount. The Company does not have the right to redeem any of the 5.375% Notes prior to maturity. If a fundamental change, as defined in the Indenture for the 5.375% Notes, occurs at any time prior to maturity, holders of the 5.375% Notes may require the Company to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, including any additional interest, to, but excluding, the date of repurchase.

If a holder elects to convert its 5.375% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 5.375% Notes, the holder may be entitled to receive an additional number of shares of common stock on the conversion date. These additional shares are intended to compensate the holders for the loss of the time value of the conversion option and are set forth in the Indenture to the 5.375% Notes. In no event will the number of shares issuable upon conversion of a note exceed 62.7746 per \$1,000 principal amount (subject to adjustment as described in the Indenture for the 5.375% Notes).

The Company incurred interest expense of approximately \$1.1 million and \$1.3 million for the three and nine months ended September 30, 2008, respectively, related to the 5.375% Notes. The Company incurred deferred financing costs related to this offering of approximately \$3.5 million, which are recorded in the condensed consolidated balance sheet and are being amortized as a component of interest expense over the five year term of the notes.

The Company received net proceeds of approximately \$81.5 million from this offering. Approximately \$23.2 million of the proceeds from this offering were used to repay and terminate the Company's outstanding term loan and the Company intends to use the remainder for general corporate purposes. On June 16, 2008, the Company repaid the entire outstanding principal balance, plus accrued and unpaid interest, under its existing term loan in the aggregate of approximately \$21.8 million. Additionally, the Company paid a prepayment fee related to the term loan of approximately \$0.4 million, a termination fee related to the term loan of \$0.9 million, and incurred certain other expenses related to the repayment and termination of the term loan. The Company incurred interest expense of approximately \$0 and \$1.5 million for the three and nine months ended September 30, 2008, respectively, and approximately \$0.9 million and \$2.6 million for the three and nine months ended September 30, 2007 respectively, related to the term loan. The term loan was subject to a loan origination fee of \$0.9 million, which was recorded in the condensed consolidated balance sheet and was amortized as a component of interest expense over the term of the loan. The remaining balance of deferred financing costs of approximately \$0.6 million was written off at the repayment and termination date. In connection with this term loan, the Company issued warrants to the lenders to purchase up to 247,252 shares of Series E preferred stock at a purchase price of \$3.64 per share. The warrants automatically converted into warrants to purchase common stock on a 1-for-2.6267 basis at a purchase price of \$9.56 per share at the closing of the Company's initial public offering in May 2007. The Company recorded the \$0.8 million fair value of the warrants as a discount to the term loan. Upon repayment and termination of the term loan, the Company recognized approximately \$0.5 million as interest expense for the unamortized balance of the warrants' fair value. The difference between the amount paid, including the prepayment fee, and the carrying value of the term loan, including the remaining deferred financing costs and unamortized warrants to purchase common stock, was recognized as a \$1.5 million loss from early extinguishment of the term loan.

4. Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period, excluding unvested restricted common shares. Diluted net loss per share is computed using the weighted average number of common shares outstanding and, when dilutive, potential common share equivalents from options and warrants (using the treasury-stock method), and potential common shares from convertible securities (using the if-converted method). Because the Company reported a net loss for the three and nine months ended September 30, 2008 and 2007, all potential common shares have been excluded from the computation of the dilutive net loss per share for all periods presented, as the effect would have been anti-dilutive. Such potentially dilutive common share equivalents consist of the following:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Convertible notes	3,981,970	—	3,981,970	—
Outstanding options	2,887,178	2,866,928	2,887,178	2,866,928
Outstanding warrants	62,752	78,440	62,752	78,440
Total	<u>6,931,900</u>	<u>2,945,368</u>	<u>6,931,900</u>	<u>2,945,368</u>

5. Accounts Receivable

The components of accounts receivable are as follows:

	As of	
	September 30, 2008	December 31, 2007
	(In thousands)	
Trade receivables	\$ 14,217	\$ 5,992
Allowance for doubtful accounts	(2,375)	(1,209)
	<u>\$ 11,842</u>	<u>\$ 4,783</u>

6. Inventories

Inventories consist of the following:

	As of	
	September 30, 2008	December 31, 2007
	(In thousands)	
Raw materials	\$ 5,137	\$ 2,994
Work-in-process	192	1,583
Finished goods	11,138	3,413
	<u>\$ 16,467</u>	<u>\$ 7,990</u>

The Company is currently producing the OmniPod on a partially automated manufacturing line at a facility in China, operated by a subsidiary of Flextronics International Ltd. The Company also produces certain sub-assemblies for the OmniPod as well as maintains packaging operations in its facility in Bedford, Massachusetts. The Company purchases complete OmniPods from Flextronics, pursuant to its agreement with Flextronics entered into on January 3, 2007 and revised on October 4, 2007. The initial term of the agreement is three years from January 3, 2007, with automatic one-year renewals.

Inventories of finished goods were adjusted by \$12,000 and \$625,000 as of September 30, 2008 and December 31, 2007, respectively, to reflect values at the lower of cost or market. As of September 30, 2008 and December 31, 2007, 1% and 43%, respectively, of the reported finished goods inventory was valued below the Company's cost. The Company's production process has a high degree of fixed costs due to the early stage of capacity build-up and market penetration of its products. Prior to June 30, 2008, sales and production volumes were not adequate to result in per-unit costs that were lower than the current market price for the OmniPod. Since June 30, 2008, the Company's inventory of finished OmniPods has been presented at cost, as the costs to produce OmniPods are lower than the Company's selling price. The Company's inventory of PDMs continue to be stated at the market value as the costs to produce PDMs continue to be greater than the Company's selling price.

[Table of Contents](#)**7. Product Warranty Costs**

The Company provides a four-year warranty on its PDMs and replaces any OmniPods that do not function in accordance with product specifications. Warranty expense is estimated and recorded in the period that shipment occurs. The expense is based on the Company's historical experience and the estimated cost to service the claims. A reconciliation of the changes in the Company's product warranty liability follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Balance at the beginning of period	\$ 1,500	\$ 392	\$ 865	\$ 193
Warranty expense	1,103	509	2,873	1,129
Warranty claims settled	(669)	(331)	(1,804)	(752)
Balance at the end of the period	<u>\$ 1,934</u>	<u>\$ 570</u>	<u>\$ 1,934</u>	<u>\$ 570</u>
Composition of balance:				
Short-term	801	276	801	276
Long-term	1,133	294	1,133	294
Total warranty balance	<u>\$ 1,934</u>	<u>\$ 570</u>	<u>\$ 1,934</u>	<u>\$ 570</u>

8. Commitments and Contingencies***Operating Leases***

The Company leases its facilities, which are accounted for as operating leases. The leases generally provide for a base rent plus real estate taxes and certain operating expenses related to the leases.

In February 2008, the Company entered into a non-cancellable lease for additional office space in Bedford, Massachusetts. The lease expires in February 2013, and provides a renewal option of five years and escalating payments over the life of the lease.

In March 2008, the Company extended the lease of its Bedford, Massachusetts headquarters facility containing office, research and development and manufacturing space. Following the extension, the lease expires in September 2014. The lease is non-cancellable and contains a five-year renewal option and escalating payments over the life of the lease.

The Company also leases warehouse facilities in Billerica, Massachusetts. This lease expires in December 2012.

The Company's operating lease agreements contain scheduled rent increases, which are being amortized over the terms of the agreement using the straight-line method, and are included in other long-term liabilities in the accompanying balance sheet. The Company has considered FASB Technical Bulletin 88-1, *Issues Relating to Accounting for Leases*, and FASB Technical Bulletin 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, in accounting for these lease provisions.

Indemnifications

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

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In accordance with its bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company's request in such capacity. There have been no claims to date and the Company has a director and officer insurance policy that enables it to recover a portion of any amounts paid for future claims.

9. Equity

On April 12, 2007, the Company's Board of Directors approved a 1-for-2.6267 reverse stock split of the Company's common stock, which was executed on May 10, 2007. All share and per share amounts of common and preferred stock in the accompanying condensed consolidated financial statements have been restated for all periods to give retroactive effect to the stock split.

In the three and nine months ended September 30, 2008, 44,052 and 518,347 common shares were issued related to exercises of employee stock options, respectively.

Stock-Based Compensation Plans

Activity under the Company's stock option plans:

	Number of Options(#)	Weighted Average Exercise Price(\$)	Aggregate Intrinsic Value(\$)
Balance, December 31, 2007	2,691,973	6.94	
Granted	816,329	16.99	
Exercised	(518,347)	2.29	7,845,200 (1)
Canceled	(102,777)	16.61	
Balance, September 30, 2008	2,887,178	10.27	
Vested, September 30, 2008	1,341,395	4.82	12,276,206 (2)
Vested and expected to vest, September 30, 2008 (3)	2,471,806		

(1) The aggregate intrinsic value was calculated based on the positive difference between the fair market value of the Company's common stock as of the date of exercise and the exercise price of the underlying options.

(2) The aggregate intrinsic value was calculated based on the positive difference between the fair market value of the Company's common stock as of September 30, 2008, and the exercise price of the underlying options.

(3) Represents the number of vested options as of September 30, 2008, plus the number of unvested options expected to vest as of September 30, 2008, based on the unvested options outstanding at September 30, 2008, adjusted for an estimated forfeiture rate of 12%.

In the three and nine months ended September 30, 2008 and 2007, no shares were contingently issued under the employee stock purchase plan ("ESPP"). In the three and nine months ended September 30, 2008, the Company recorded compensation charges of approximately \$10,000 and \$24,000 respectively, of stock-based compensation charges related to the ESPP. For the three and nine months ended September 30, 2007, the Company recognized \$5,000 of compensation charges related to the ESPP.

Employee stock-based compensation expense under SFAS 123R recognized in the three and nine months ended September 30, 2008 was \$1.0 million and \$2.6 million, respectively. For the three and nine months ended September 30, 2007, the Company recognized employee stock-based compensation expense of approximately \$0.4 million and \$0.9 million, respectively.

10. Impairment of Property and Equipment

The Company evaluates financial and operational impact of possible improvements of its manufacturing processes. The evaluation of new processes involves assessment of vendors, product cost and product quality, among other things, and there is no assurance that process improvements are implemented. During the three months ended September 30, 2007, the Company completed the evaluation of an upgrade of its manufacturing processes, and as a result, the Company performed a review of certain production equipment. The review resulted in a non-cash charge of \$1.0 million for the write-down of certain impaired assets. The impaired assets, which had no future use, consist of manufacturing equipment. The impairment charges were recorded following determination of the fair value of cash flows resulting from use of the affected assets, and the carrying value of the assets has been reduced to reflect their fair value. There were no impairment charges recorded in the three or nine months ended September 30, 2008.

11. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company provided a valuation allowance for the full amount of its net deferred tax asset for all periods because realization of any future tax benefit cannot be determined as more likely than not, as the Company does not expect income in the near-term.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the accompanying notes to those financial statements included in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to: risks associated with our dependence on the OmniPod System; our ability to achieve and maintain market acceptance of the OmniPod System; potential manufacturing problems, including damage, destruction or loss of any of our automated assembly units or difficulties in implementing our automated manufacturing strategy; our ability to anticipate and effectively manage risks associated with doing business internationally, particularly in China; potential problems with sole source or other third-party suppliers on which we are dependent; our ability to obtain favorable reimbursement from third-party payors for the OmniPod System and potential adverse changes in reimbursement rates or policies relating to the OmniPod; potential adverse effects resulting from competition; technological innovations adversely affecting our business; potential termination of our license to incorporate a blood glucose meter into the OmniPod System; our ability to protect our intellectual property and other proprietary rights; conflicts with the intellectual property of third parties; adverse regulatory or legal actions relating to the OmniPod System; the potential violation of federal or state laws prohibiting "kickbacks" and false and fraudulent claims or adverse effects of challenges to or investigations into our practices under these laws; product liability lawsuits that may be brought against us; unfavorable results of clinical studies relating to the OmniPod System or the products of our competitors; potential future publication of articles or announcement of positions by physician associations or other organizations that are unfavorable to our products; our ability to attract and retain key personnel; our ability to manage our growth; risks associated with potential future acquisitions; our ability to raise additional funds in the future; our ability to maintain compliance with the restrictions and related to our indebtedness; our ability to successfully maintain effective internal controls; and other risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission on March 20, 2008, as updated by Part II, Item 1A., "Risk Factors" of this Quarterly Report on Form 10-Q. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements.

Overview

We are a medical device company that develops, manufactures, markets and sells an innovative, discreet and easy-to-use insulin infusion system for people with insulin-dependent diabetes. Our proprietary OmniPod Insulin Management System, which consists of our disposable OmniPod insulin infusion device and our handheld, wireless Personal Diabetes Manager, is the only commercially-available insulin infusion system of its kind.

The U.S. Food and Drug Administration, or FDA, approved the OmniPod System in January 2005 and we began commercial sale of the OmniPod System in the United States in October 2005. We have progressively expanded our marketing and sales efforts from an initial focus in the Eastern United States, to having full availability of the OmniPod System in the entire United States. We focus our sales towards key diabetes practitioners, academic centers and clinics specializing in the treatment of diabetic patients.

We believe a key contributing factor to the overall attractiveness of the OmniPod System is the disposable OmniPod insulin infusion device. Each OmniPod is worn for up to three days before it is replaced, so in order to manufacture sufficient volumes of the OmniPod and achieve a low per unit production cost, we have designed the OmniPod to be manufactured through a highly automated process.

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To achieve profitability, we are seeking to reduce the per unit production cost for the OmniPod through installation of automated manufacturing equipment, collaboration with contract manufacturers and reduction of cost of supplies of raw materials and sub-assemblies.

We are currently producing the OmniPod on a partially automated manufacturing line at a facility in China, operated by a subsidiary of Flextronics International Ltd. We also produce certain sub-assemblies for the OmniPod as well as maintain packaging operations in our facility in Bedford, Massachusetts. We have automated certain steps in the manufacturing process which were being performed manually in the past, allowing us to increase our manufacturing capacity and decrease our per-unit cost of goods sold, thereby beginning to generate gross profits.

We purchase complete OmniPods from Flextronics, pursuant to our agreement with Flextronics entered into on January 3, 2007 and revised on October 4, 2007. We began to purchase complete OmniPods from Flextronics during the three months ended June 30, 2008. Under the agreement, Flextronics has agreed to supply us, as a non-exclusive supplier, with OmniPods at agreed upon prices per unit pursuant to a rolling 12-month forecast that we provide to Flextronics. The initial term of the agreement is three years from January 3, 2007, with automatic one-year renewals. The agreement may be terminated at any time by either party upon prior written notice given no less than a specified number of days prior to the date of termination. The notice period is intended to provide the parties with sufficient time to make alternative arrangements in the event of termination.

Our OmniPod manufacturing capacity as of September 30, 2008 was in excess of 200,000 OmniPods per month. By increasing production volumes of the OmniPod, we will be able to reduce our per-unit raw material costs and improve absorption of manufacturing overhead costs. This is important to allow us to achieve profitability.

Our sales and marketing effort is focused on generating demand and acceptance of the OmniPod System among healthcare professionals, people with insulin-dependent diabetes, third-party payors and third-party distributors. Our marketing strategy is to build awareness for the benefits of the OmniPod System through a wide range of education programs, patient demonstration programs, support materials and events at the national, regional and local levels. In addition, we are using third-party distributors to improve our access to managed care and government reimbursement programs, expand our commercial presence and provide access to additional potential patients.

During the nine months ended September 30, 2008, we made the OmniPod System available in all 50 states, the District of Columbia and Puerto Rico. We also increased our direct-to-consumer promotion and advertising activities. Among other activities, we began television advertising, and we intend to maintain, improve and refine our marketing efforts.

As a medical device company, reimbursement from third-party payors is an important element of our success. If patients are not adequately reimbursed for the costs of using the OmniPod System, it will be much more difficult for us to penetrate the market. We continue to negotiate contracts establishing reimbursement for the OmniPod System with national and regional third-party payors, and we believe that substantially all of the units sold have been reimbursed by third-party payors, subject to applicable deductible and co-payment amounts. As we expand our sales and marketing coverage area and increase our manufacturing capacity, we will need to maintain and expand available reimbursement for the OmniPod System.

Since our inception in 2000, we have incurred losses every quarter. In the three and nine months ended September 30, 2008, we incurred net losses of \$20.8 million and \$64.5 million, respectively. As of September 30, 2008, we had an accumulated deficit of \$220.1 million. We have financed our operations through the private placement of equity securities, public offerings of our common stock as well as a private placement of our convertible debt. As of September 30, 2008, we had \$85 million of convertible debt outstanding. Since inception, we have received aggregate net proceeds of \$327.0 million from the issuance of redeemable convertible preferred stock, common stock and convertible debt.

Our long-term financial objective is to achieve and sustain profitable growth. Our efforts for the remainder of 2008 will be focused primarily on reducing our per-unit production costs. Achieving these objectives is expected to require additional investments in manufacturing and additional hiring of sales and administrative personnel with the goal of increasing our market penetration. We believe that we will continue to incur net losses in the near term in

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order to achieve these objectives, although we believe that the accomplishment of these combined efforts will have a positive impact on our financial condition in the future.

Convertible Notes and Repayment and Termination of Term Loan

In June 2008, we sold \$85 million principal amount of 5.375% Convertible Senior Notes due June 15, 2013 (the "5.375% Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The interest rate on the notes is 5.375% per annum on the principal amount from June 16, 2008, payable semi-annually in arrears in cash on December 15 and June 15 of each year, beginning December 15, 2008. The 5.375% Notes are convertible into the Company's common stock at an initial conversion rate of 46.8467 shares of common stock per \$1,000 principal amount of the 5.375% Notes, which is equivalent to a conversion price of approximately \$21.35 per share, representing a conversion premium of 34% to the last reported sale price of our common stock on the NASDAQ Global Market on June 10, 2008, subject to adjustment under certain circumstances, at any time beginning on March 15, 2013 or under certain other circumstances and prior to the close of business on the business day immediately preceding the final maturity date of the notes. The 5.375% Notes will be convertible for cash up to their principal amount and shares of our common stock for the remainder of the conversion value in excess of the principal amount. We do not have the right to redeem any of the 5.375% Notes prior to maturity. If a fundamental change, as defined in the Indenture for the 5.375% Notes, occurs at any time prior to maturity, holders of the 5.375% Notes may require us to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, including any additional interest, to, but excluding, the date of repurchase.

If a holder elects to convert its 5.375% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 5.375% Notes, the holder may be entitled to receive an additional number of shares of common stock on the conversion date. These additional shares are intended to compensate the holders for the loss of the time value of the conversion option, and are set forth in the Indenture for the 5.375% Notes. In no event will the shares issuable upon conversion of a note exceed 62.7746 per \$1,000 principal amount (subject to adjustment as described in the Indenture for the 5.375% Notes).

We incurred interest expense of approximately \$1.1 million and \$1.3 million for the three and nine months ended September 30, 2008, respectively, related to the 5.375% Notes. We incurred deferred financing costs related to this offering of approximately \$3.5 million, which are recorded in the condensed consolidated balance sheet and are being amortized as a component of interest expense over the five year term of the notes.

We received net proceeds of approximately \$81.5 million from this offering. Approximately \$23.2 million of the net proceeds from this offering were used to repay and terminate our outstanding term loan and we intend to use the remainder for general corporate purposes. On June 16, 2008, we repaid the entire outstanding principal balance, plus accrued and unpaid interest, under our existing term loan in the aggregate of approximately \$21.8 million. Additionally, we paid a prepayment fee related to the term loan of approximately \$0.4 million, a termination fee related to the term loan of \$0.9 million, and incurred certain other expenses related to the repayment and termination of the term loan. We incurred interest expense of approximately \$0 and \$1.5 million for the three and nine months ended September 30, 2008, respectively, and approximately \$0.9 million and \$2.6 million for the three and nine months ended September 30, 2007, respectively, related to the term loan. The term loan was subject to a loan origination fee of \$0.9 million, which was recorded in the condensed consolidated balance sheet and was amortized as a component of interest expense over the term of the loan. The remaining balance of deferred financing costs of approximately \$0.6 million was written off at the repayment and termination date. In connection with this term loan, we issued warrants to the lenders to purchase up to 247,252 shares of Series E preferred stock at a purchase price of \$3.64 per share. The warrants automatically converted into warrants to purchase common stock on a 1-for-2.6267 basis at a purchase price of \$9.56 per share at the closing of our initial public offering in May 2007. We recorded the \$0.8 million fair value of the warrants as a discount to the term loan. Upon repayment and termination of the term loan, we recognized approximately \$0.5 million as interest expense for the unamortized balance of the warrants' fair value. The difference between the amount paid, including the prepayment fee, and the carrying value of the term loan, including the remaining deferred financing costs and unamortized warrants to purchase common stock, was recognized as a \$1.5 million loss from early extinguishment of the term loan.

Financial Operations Overview

Revenue. Revenue is recognized in accordance with Securities and Exchange Staff Accounting Bulletin No. 104 (“SAB 104”) and Statement of Financial Accounting Standards No. 48, *Revenue Recognition when the Right of Return Exists* (“SFAS 48”). We derive nearly all of our revenue from the sale of the OmniPod System directly to patients and third-party distributors who resell the product to diabetes patients. The OmniPod System is comprised of two devices: the OmniPod, a disposable insulin infusion device that the patient wears for up to three days and then replaces; and the Personal Diabetes Manager (“PDM”), a handheld device much like a personal digital assistant that wirelessly programs the OmniPod with insulin delivery instructions, assists the patient with diabetes management and incorporates a blood glucose meter. Revenue is derived from the sale to new customers or third-party distributors of OmniPods and Starter Kits, which include the PDM, two OmniPods, the OmniPod System User Guide and OmniPod System Interactive Training CD, and from the subsequent sales of additional OmniPods to existing customers. Customers generally order a three-month supply of OmniPods. For the three and nine months ended September 30, 2008 and for preceding periods, materially all of our revenue was derived from sales within the United States.

In March 2008, we received a cash payment from Abbott Diabetes Care, Inc. (“Abbott”) for an agreement fee in connection with execution of the first amendment to the development and license agreement with Abbott. We are recognizing the payment as revenue over the 5 year term of the agreement. Under the amended Abbott agreement, beginning July 1, 2008, Abbott agreed to pay us an amount for services performed by us in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to a new customer. We recognize the revenue related to this portion of the Abbott agreement at the time the revenue is recognized on the sale of the PDM to the patient. In the three and nine months ended September 30, 2008, we recognized \$1.2 million and \$1.4 million of revenue, respectively, related to the amended Abbott agreement. There was no impact to cost of revenue related to this agreement.

Prior to January 1, 2008, we deferred recognition of revenue from the OmniPods and Starter Kit shipped as part of a customer’s initial shipment for 45 days during which time the items could be returned and completely refunded. Effective for shipments made after December 31, 2007, we have deferred revenue based on estimated returns, assessment of collectibility and the transfer or risk and title. If we had continued to defer all initial shipments until the 45-day right of return had expired, deferred revenue as of September 30, 2008 would have been larger by approximately \$1.2 million. As of September 30, 2008, the balance of deferred revenue was \$2.3 million, which includes the current portion of deferred revenue related to the agreement fee received under the first amendment to our development agreement with Abbott.

Cost of revenue. Cost of revenue consists primarily of raw materials, labor, warranty and overhead costs related to the OmniPod System. Cost of revenue also includes depreciation, distribution, freight and packaging costs. For the remainder of 2008, we expect the cost of revenue to decrease as a percentage of revenue due to expected reductions in per-unit raw materials costs associated with volume purchase discounts and increases in our OmniPod manufacturing capacity as the supply of complete OmniPods and subassemblies from Flextronics increases. The increase in our OmniPod manufacturing capacity is expected to reduce the per-unit cost of manufacturing the OmniPods by allowing us to spread our fixed and semi-fixed overhead costs over a greater number of units. However, if sales volumes do not continue to increase, then the average cost of revenue per OmniPod may not decrease and we may continue to incur gross losses.

Research and development. Research and development expenses consist primarily of personnel costs within our product development, regulatory and clinical functions, as well as the costs of market studies and product development projects. We expense all research and development costs as incurred. For the remainder of 2008, we expect overall research and development spending to remain significant and at a level comparable with previous periods in order to support our current research and development efforts, which are focused primarily on increased functionality, design for ease of use and reduction of production cost, as well as developing a new OmniPod System that incorporates continuous glucose monitoring technology.

Sales and marketing. Sales and marketing expenses consist primarily of personnel costs within our sales, marketing, reimbursement support, customer support and training functions, sales commissions paid to our sales representatives and costs associated with participation in medical conferences, physician symposia and promotional

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activities, including distribution of units used in our demonstration kit programs. In 2008, we expect sales and marketing expenses to continue to increase significantly compared to 2007, as we hired additional sales and marketing personnel, are incurring additional sales commission expense related to sales growth and are expanding our sales and marketing efforts, which include the implementation of broader direct-to-consumer marketing programs and the continuation of our Patient Demonstration Kit Program.

General and administrative. General and administrative expenses consist primarily of salaries and other related costs for personnel serving the executive, finance, information technology and human resource functions, as well as legal fees, accounting fees, insurance costs and costs related to our facilities. We expect general and administrative expenses to continue to increase compared to 2007 as we add personnel and increase our use of external services in support of our commercial expansion.

Results of Operations

The following table presents certain statement of operations information for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2008	2007	% Change	2008	2007	% Change
	(In thousands) (Unaudited)					
Revenue	\$ 10,110	\$ 3,791	167%	\$ 24,198	\$ 9,011	169%
Cost of revenue	10,197	7,583	34%	29,980	19,054	57%
Gross loss	(87)	(3,792)	98%	(5,782)	(10,043)	42%
Operating expenses:						
Research and development	3,263	2,231	46%	9,569	7,221	33%
General and administrative	6,308	3,388	86%	16,900	8,845	91%
Sales and marketing	10,176	4,144	146%	29,735	10,652	179%
Impairment of assets	—	1,027		—	1,027	
Total operating expenses	19,747	10,790	83%	56,204	27,745	103%
Operating loss	(19,834)	(14,582)	36%	(61,986)	(37,788)	64%
Other income (expense), net	(918)	943	197%	(2,522)	(83)	2939%
Net loss	<u>\$(20,752)</u>	<u>\$(13,639)</u>	52%	<u>\$(64,508)</u>	<u>\$(37,871)</u>	70%

Comparison of the Three and Nine Months Ended September 30, 2008 and 2007

Revenue

Our total revenue was \$10.1 million and \$24.2 million for the three and nine months ended September 30, 2008, respectively, compared to \$3.8 million and \$9.0 million for the same periods in 2007. The increase in revenue is primarily due to an increased number of patients using the OmniPod. In addition, the increase in patients resulted in additional revenue related to the Abbott agreement of \$1.2 million and \$1.4 million in the three and nine months ended September 30, 2008, respectively. Furthermore, due to a change in our estimate of deferred revenue, revenue for the three and nine months ended September 30, 2008 was impacted favorably by \$0.1 million and \$1.2 million, respectively. As we continue our sales and marketing efforts, and add more patients that use the OmniPod System, we expect our revenue to increase.

Cost of Revenue

Cost of revenue was \$10.2 million and \$30.0 million for the three and nine months ended September 30, 2008, respectively, compared to \$7.6 million and \$19.1 million for the same periods in 2007. The increase is due to increased sales volume offset by efficiencies resulting from increased manufacturing capacity. Cost of revenue includes adjustment of inventory to lower of cost or market and indirect costs. The per-unit cost to manufacture the

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OmniPod decreased in the three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007, resulting in improvement of our gross margin. The decrease is a result of increased production volumes, which improved the absorption of manufacturing overhead costs, increased automation in our manufacturing process, increased purchases of subassemblies with a lower cost from Flextronics, and supplies of complete OmniPods from Flextronics.

Research and Development

Research and development expenses increased \$1.0 million, or 46%, to \$3.3 million for the three months ended September 30, 2008 compared to \$2.2 million for the same period in 2007. Research and development expenses increased \$2.3 million, or 33%, to \$9.6 million for the nine months ended September 30, 2008, compared to \$7.2 million for the same period in 2007. For the three months ended September 30, 2008, the increase in research and development expenses was primarily attributable to an increase of \$0.8 million in employee related expenses, \$0.1 million for tools and supplies and \$0.2 million for other expenses. For the nine months ended September 30, 2008, the increase in research and development expenses was primarily attributable to an increase of \$0.9 million in consulting services related to our ongoing development projects, \$1.9 million increase in employee related expenses, \$0.3 million for tools and supplies, partly offset by a reduction of \$0.2 million in prototype expenses.

General and Administrative

General and administrative expenses increased \$2.9 million, or 86%, to \$6.3 million for the three months ended September 30, 2008, compared to \$3.4 million for the same period in 2007. General and administrative expenses increased \$8.1 million, or 91%, to \$16.9 million for the nine months ended September 30, 2008, compared to \$8.8 million for the same period in 2007. For the three months ended September 30, 2008, the increase in general and administrative expenses was primarily due to an increase of \$0.2 million in employee compensation and benefit costs associated with the hiring of additional employees, \$0.2 million in distribution expenses, \$0.6 million related to increased allowances and write-offs for doubtful trade accounts receivables, \$0.7 million in consulting and legal expenses, \$0.2 million in depreciation expense and \$0.1 million in insurance expenses. For the nine months ended September 30, 2008, the increase in general and administrative expenses was primarily due to an increase of \$2.1 million in employee compensation and benefit costs associated with the hiring of additional employees, \$1.2 million related to increased allowances and write-offs for doubtful trade accounts receivables, \$1.1 million in consulting and legal expenses, \$0.7 million in distribution expenses, \$0.4 million in insurance expenses, \$0.5 million in depreciation expense and \$0.2 million in travel expenses. .

Sales and Marketing

Sales and marketing expenses increased \$6.0 million, or 146%, to \$10.2 million for the three months ended September 30, 2008, compared to \$4.1 million for the same period in 2007. Sales and marketing expenses increased \$19.1 million, or 179%, to \$29.7 million for the nine months ended September 30, 2008, compared to \$10.7 million for the same period in 2007. For the three months ended September 30, 2008, the increase in sales and marketing expenses was primarily due to an increase of \$3.2 million in employee compensation and benefit costs resulting from the hiring of additional employees in our sales and marketing areas, \$0.8 million related to Patient Demonstration Kits, \$0.7 million in travel and trade show expenses used to support our selling efforts, \$0.9 million in outside consulting services, which include our external trainers, and \$0.4 million in other expenses. For the nine months ended September 30, 2008, the increase in sales and marketing expenses was primarily due to an increase of \$8.9 million in employee compensation and benefit costs resulting from the hiring of additional employees in our sales and marketing areas, \$3.5 million related to Patient Demonstration Kits, \$2.3 million in travel and trade show expenses used to support our selling efforts, \$2.2 million in outside consulting services, which include our external trainers, and \$1.2 million in printing costs.

Asset Impairment

From time to time, we evaluate financial and operational impact of possible improvements of our manufacturing processes. The evaluation of new processes involves assessment of vendors, product cost and product quality, among other things, and there is no assurance that process improvements are implemented. During

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the three months ended September 30, 2007, we completed the evaluation of an upgrade of our manufacturing processes, and as a result we performed a review of certain production equipment. The review resulted in a non-cash charge of \$1.0 million for the write-down of certain impaired assets. The impaired assets, which had no future use, consist of manufacturing equipment. The impairment charges were recorded following determination of the fair value of cash flows resulting from use of the affected assets, and the carrying value of the assets has been reduced to reflect their fair value. There were no impairment charges recorded in the three or nine months ended September 30, 2008.

Other Income (Expense)

Interest income was \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2008, respectively, compared to \$1.4 million and \$2.4 million for the same periods in 2007. For the three months ended September 30, 2008, the decrease was caused primarily by lower cash balances and interest rates. For the nine months ended September 30, 2008, the impact of higher average cash balances was offset by lower interest rates. Interest income was earned from cash deposits and short-term interest bearing instruments. Interest expense was \$1.4 million and \$4.1 million for the three and nine months ended September 30, 2008, respectively, compared to \$0.5 million and \$2.4 million for the same periods in 2007. For the three months ended September 30, 2008, the increased expenses were primarily caused by \$1.1 million related to interest on the 5.375% Notes. For the nine months ended September 30, 2008, the increase was caused by \$1.3 million related to interest on the 5.375% Notes, \$1.5 million related to the repayment and termination of our term loan, partly offset by lower interest payments on our term loan due to lower principal balances and interest rates.

Liquidity and Capital Resources

We commenced operations in 2000 and to date we have financed our operations primarily through private placement of common and preferred stock, secured indebtedness, public offerings of our common stock and issuance of convertible debt. As of September 30, 2008, we had \$85.0 million of convertible debt outstanding. Since inception, we have received net proceeds of \$327.0 million from the issuance of redeemable convertible preferred stock, common stock and convertible debt. As of September 30, 2008, we had \$74.1 million in cash and cash equivalents. We believe that our current cash and cash equivalents, including the net proceeds from our initial and secondary public offerings and offering of convertible debt, together with the cash expected to be generated from product sales, will be sufficient to meet our projected operating and debt service requirements for at least the next twelve months.

Resources

In June 2008, we sold \$85 million principal amount of 5.375% Convertible Senior Notes due June 15, 2013 (the "5.375% Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The interest rate on the notes is 5.375% per annum on the principal amount from June 16, 2008, payable semi-annually in arrears in cash on December 15 and June 15 of each year, beginning December 15, 2008. The 5.375% Notes are convertible into our common stock at an initial conversion rate of 46.8467 shares of common stock per \$1,000 principal amount of the 5.375% Notes, which is equivalent to a conversion price of approximately \$21.35 per share, representing a conversion premium of 34% to the last reported sale price of our common stock on the NASDAQ Global Market on June 10, 2008, per \$1,000 principal amount of the 5.375% Notes, subject to adjustment under certain circumstances, at any time beginning on March 15, 2013 or under certain other circumstances and prior to the close of business on the business day immediately preceding the final maturity date of the notes. The 5.375% Notes will be convertible for cash up to their principal amount and shares of our common stock for the remainder of the conversion value in excess of the principal amount. We do not have the right to redeem any of the 5.375% Notes prior to maturity. If a fundamental change, as defined in the Indenture for the 5.375% Notes, occurs at any time prior to maturity, holders of the 5.375% Notes may require us to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, including any additional interest, to, but excluding, the date of repurchase.

We received net proceeds of approximately \$81.5 million from this offering. On June 16, 2008, we used a portion of the net proceeds to repay the entire outstanding principal balance, plus accrued and unpaid interest, under

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our existing term loan in the aggregate of approximately \$21.8 million in its entirety. Additionally, we paid a prepayment fee related to the term loan of approximately \$0.4 million, a termination fee related to the term loan of \$0.9 million, and incurred certain other expenses related to the repayment and termination of the term loan.

See “—Overview—Convertible Notes and Repayment and Termination of Term Loan” above for more information about the private placement of our convertible notes and the repayment and termination of our term loan.

Operating Activities

The following table sets forth the amounts of cash used in operating activities and net loss for each of the periods indicated:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Cash used in operating activities	\$ (65,635)	\$ (34,164)
Net loss	\$ (64,508)	\$ (37,871)

For each of the periods above, the increase in net cash used in operating activities was attributable primarily to the growth of our operations after adjustment for non-cash charges, such as depreciation, amortization and stock-based compensation expense as well as changes to working capital. Significant uses of cash from operations include increases in accounts receivable and inventory and other current assets. The increase in accounts receivable is primarily attributable to our increased sales, and to some extent increased aging of receivable balances. Accounts receivables are shown net of increased allowances for doubtful debt in the consolidated balance sheets. The increase in inventory balance is caused by the recent increase of our production volume made possible by increased capacity. Cash used in operating activities is partly offset by increases in accounts payable, accrued expenses and deferred revenue.

Investing Activities

The following table sets forth the amounts of cash used in investing activities and cash provided by financing activities for each of the periods indicated:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Cash used in investing activities	\$ (9,441)	\$ (8,340)
Cash provided by financing activities	\$ 54,622	\$ 113,486

Cash used in investing activities in both periods was primarily for the purchase of fixed assets for use in the development and manufacturing of the OmniPod System.

Lease Obligations

We lease our facilities, which are accounted for as operating leases. The lease of our facilities in Bedford and Billerica, Massachusetts, generally provides for a base rent plus real estate taxes and certain operating expenses related to the lease. All operating leases contain renewal options and escalating payments over the life of the lease. As of September 30, 2008, we had an outstanding letter of credit which totaled \$0.2 million to cover our security deposits for lease obligations. This letter of credit will expire on October 30, 2009.

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Capital Expenditures

During the remainder of 2008, we will be expending funds in connection with, among other things, our efforts to expand our automated manufacturing process and increase our production capacity, and expand our sales and marketing activities. We expect total capital expenditure purchases in the full year 2008 to be at least \$10 million in connection with our efforts to expand our automated manufacturing process and increase our manufacturing capacity.

Off-Balance Sheet Arrangements

As of September 30, 2008, we did not have any off-balance sheet financing arrangements.

Critical Accounting Policies and Estimates

Our financial statements are based on the selection and application of generally accepted accounting principles, which require us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our financial statements. We believe that the policies set forth below may involve a higher degree of judgment and complexity in their application than our other accounting policies and represent the critical accounting policies and estimates used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results.

Revenue Recognition

We generate nearly all of our revenue from sales of our OmniPod Insulin Management System to diabetes patients or third-party distributors who resell the product to diabetes patients. The initial sale to a new customer or a third-party distributor typically includes OmniPods and a Starter Kit, which include the PDM, two OmniPods, the OmniPod System User Guide and the OmniPod System Interactive Training CD. Subsequent sales to existing customers typically consist of additional OmniPods.

Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ("SAB 104"), which requires that persuasive evidence of a sales arrangement exists, delivery of goods occurs through transfer of title and risk and rewards of ownership, the selling price is fixed or determinable and collectibility is reasonably assured. With respect to these criteria:

- The evidence of an arrangement generally consists of a physician order form, a patient information form, and if applicable, third-party insurance approval for sales directly to patients or a purchase order for sales to a third-party distributor.
- Transfer of title and risk and rewards of ownership are passed to the patient or third-party distributor upon their receipt of the products.
- The selling prices for all sales are fixed and agreed with the patient or third-party distributor, and, if applicable, the patient's third-party insurance provider(s) prior to shipment and are based on established list prices or, in the case of certain third-party insurers, contractually agreed upon prices. Provisions for discounts and rebates to customers are established as a reduction to revenue in the same period the related sales are recorded.

We have considered the requirements of Emerging Issues Task Force 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"), when accounting for the OmniPods and Starter Kits. EITF 00-21 requires us to assess whether the different elements qualify for separate accounting. We recognize revenue for the initial shipment to a patient or other third party once all elements have been delivered.

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We offer a 45-day right of return for its Starter Kits sales, and in accordance with SFAS No. 48, *Revenue Recognition When the Right of Return Exists*, we defer revenue to reflect estimated sales returns in the same period that the related product sales are recorded. Returns are estimated through a comparison of historical return data to their related sales. Historical rates of return are adjusted for known or expected changes in the marketplace when appropriate. Historically, sales returns have amounted to approximately 3% of gross product sales.

When doubt exists about reasonable assuredness of collectibility from specific customers, we defer revenue from sales of products to those customers until payment is received.

Prior to January 1, 2008, we deferred the revenue and related costs of revenue for all initial shipments until the 45-day right of return had lapsed. With the accumulation of approximately 2 years of data for sales and return rates, we concluded that we had sufficient historical data on which to base our estimated returns from January 1, 2008. If we had continued to defer all initial shipments until the 45-day right of return had expired, deferred revenue as of September 30, 2008 would have been larger by \$1.2 million

In March 2008, we received a cash payment from Abbott Diabetes Care, Inc. ("Abbott") for an agreement fee in connection with execution of the first amendment to the development and license agreement between us and Abbott. We recognize the agreement fee received from Abbott over the 5-year term of the agreement, and the non-current portion of the agreement fee is included in other long-term liabilities. Under the amended Abbott agreement, beginning July 1, 2008, Abbott agreed to pay us an amount for services performed by us in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to a new customer. We recognize the revenue related to this portion of the Abbott agreement at the time the revenue is recognized on the sale of the PDM to the patient. In the three and nine months ended September 30, 2008, we recognized \$1.2 million and \$1.4 million of revenue, respectively, related to the amended Abbott agreement. There was no impact to cost of revenue related to this agreement.

Asset Valuation

Asset valuation includes assessing the recorded value of certain assets, including accounts receivable, inventory and fixed assets. We use a variety of factors to assess valuation, depending upon the asset. Actual results may differ materially from our estimates. Fixed property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over their useful life or the life of the lease, whichever is shorter. We review long-lived assets, including property and equipment and intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. We also review assets under construction to ensure certainty of their future installation and integration into the manufacturing process. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. We consider various valuation factors, principally discounted cash flows, to assess the fair values of long-lived assets.

Income Taxes

We file federal and state tax returns. We have accumulated significant losses since its inception in 2000. Since the net operating losses may potentially be utilized in future years to reduce taxable income, all of our tax years remain open to examination by the major taxing jurisdictions to which we are subject.

We recognize estimated interest and penalties for uncertain tax positions in income tax expense. As of September 30, 2008, we had no interest and penalty accrual or expense.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from third-party payors, patients and third-party distributors.

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In estimating whether accounts receivable can be collected, we perform evaluations of customers and continuously monitors collections and payments and estimates an allowance for doubtful accounts based on the aging of the underlying invoices, experience to date and any payor-specific collection issues that have been identified.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. This pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We adopted SFAS 157 in the first quarter of 2008. The adoption of SFAS-157 did not have a material effect on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement 115* (“SFAS 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 became effective for fiscal years that began after November 15, 2007. We adopted SFAS 159 in the first quarter of 2008. The adoption of SFAS-159 did not have a material effect on our financial position, results of operations or cash flows.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP FAS 157-2”). FSP FAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. FSP FAS 157-2 is effective for fiscal years beginning after September 1, 2009. The adoption of FSP FAS 157-2 is not expected to have a material impact on our financial position, results of operations or cash flows.

In May 2008, the FASB issued Staff Position Accounting Principles Board 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (“FSP APB 14-1”), which is effective for fiscal years beginning after December 15, 2008. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion should be separated between the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. We are currently evaluating the effect of FSP APB 14-1 and have not yet determined the impact of the standard on our financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“SFAS 162”). This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We are currently evaluating the potential effect of implementing this standard.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We do not use derivative financial instruments in our investment portfolio and have no foreign exchange contracts. Our financial instruments consist of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and long-term obligations. We consider investments that, when purchased, have a remaining maturity of 90 days or less to be cash equivalents. The primary objectives of our investment strategy are to preserve principal, maintain proper liquidity to meet operating needs and maximize yields. To minimize our exposure to an adverse shift in interest rates, we invest mainly in cash equivalents and short-term investments and maintain an average maturity of six months or less. We do not believe that a 10% change in interest rates would have a material impact on the fair value of our investment portfolio or our interest income.

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As of September 30, 2008, we had outstanding debt recorded at \$85.0 million related to our 5.375% Notes. As the interest rate on the 5.375% Notes is fixed, changes in interest rates do not affect the value of our debt.

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

As of September 30, 2008, management conducted an evaluation of the effectiveness of the design and operation 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) under the supervision and with the participation of our chief executive officer and chief financial officer. In designing and evaluating our disclosure controls and procedures, we and our management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that they believe that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. These risks are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Other than set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

We may not be able to generate sufficient cash to service all of our indebtedness, including our 5.375% Convertible Senior Notes due June 15, 2013, and may be forced to take other actions to satisfy our obligations under our indebtedness or we may experience a financial failure.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the \$85 million in indebtedness incurred in connection with the sale in June 2008 of 5.375% Convertible Senior Notes due June 15, 2013. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness, including the notes. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our future debt agreements. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or obtain sufficient proceeds from those dispositions to meet our debt service and other obligations then due.

We need to expand our distribution network to maintain and grow our business and revenues. If we fail to expand and maintain an effective sales force or successfully develop our relationship with distributors, our business, prospects and brand may be materially and adversely affected.

We currently promote, market and sell substantially all of our OmniPod Systems through our own direct sales force. As part of our growth plan, we intend to increase the number of distributors we utilize to distribute our OmniPod System. We cannot assure you that we will be able to successfully develop our relationships with third-party distributors. If we fail to do so, our sales could fail to grow or could even decline, and our ability to grow our business could be adversely affected. Distributors that are in the business of selling other medical products may not devote a sufficient level of resources and support required to generate awareness of our products and grow or maintain product sales. If our distributors are unwilling or unable to market and sell our products, or if they do not perform to our expectations, we could experience delayed or reduced market acceptance and sales of our products.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 14, 2007, our registration statements on Form S-1 (Registration Nos. 333-140694 and 333-142952), as amended, were declared effective for our initial public offering, pursuant to which we offered and sold 8,365,000 shares of common stock and received net proceeds of approximately \$113.4 million, after deducting underwriting discounts and offering commissions of approximately \$8.8 million and other offering costs of approximately \$3.3 million. None of the underwriting discounts and commissions or offering expenses were

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incurred or paid to directors or officers of ours or their associates or to persons owning 10% or more of our common stock or to any affiliates of ours. All of the shares of common stock issued pursuant to the registration statements were sold at a price to the public of \$15.00 per share. The managing underwriters were J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Thomas Weisel Partners LLC and Leerink Swann & Co., Inc.

As of September 30, 2008, we have used approximately \$108 million of the net proceeds we received from the offering for working capital and other general corporate purposes, including financing our growth, the expansion of our OmniPod production capacity, the continued expansion of our sales and marketing activities and the funding of our research and development efforts. Pending such usage, we have invested the net proceeds in short-term, interest-bearing investment-grade securities. There has been no material change in the planned use of proceeds from our initial public offering as described in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b).

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Document
10.1	Amended and Restated 2007 Stock Option and Incentive Plan
31.1	Certification of Duane DeSisto, President and Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Carsten Boess, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Duane DeSisto, President and Chief Executive Officer, and Carsten Boess, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INSULET CORPORATION
(Registrant)

Date: November 13, 2008

/s/ Duane DeSisto

Duane DeSisto
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2008

/s/ Carsten Boess

Carsten Boess
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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INSULET CORPORATION
AMENDED AND RESTATED
2007 STOCK OPTION AND INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Insulet Corporation Amended and Restated 2007 Stock Option and Incentive Plan (the “Plan”). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and other key persons (including consultants and prospective employees) of Insulet Corporation (the “Company”) and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company’s welfare will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company’s behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

“*Act*” means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

“*Administrator*” means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Directors who are independent.

“*Award*” or “*Awards*,” except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Deferred Stock Awards, Restricted Stock Awards, Unrestricted Stock Awards, Cash-based Awards, Performance Share Awards and Dividend Equivalent Rights.

“*Award Agreement*” means a written or electronic agreement setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Agreement is subject to the terms and conditions of the Plan.

“*Board*” means the Board of Directors of the Company.

“*Cash-based Award*” means an Award entitling the recipient to receive a cash-denominated payment.

“*Code*” means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

“*Covered Employee*” means an employee who is a “Covered Employee” within the meaning of Section 162(m) of the Code.

“Deferred Stock Award” means an Award of phantom stock units to a grantee.

“Dividend Equivalent Right” means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

“Excepted Award” means (i) any Restricted Stock Award, Deferred Stock Award or Performance Share Award with a vesting period that does not meet the limitations relating to the Minimum Vesting Period set forth in Section 7(d), 8(a) or 11(a), as applicable, (ii) any Unrestricted Stock Award and (iii) any Award with respect to which the Administrator has accelerated, waived or lapsed the vesting restrictions in a manner not otherwise permitted in an Award that does not constitute an Excepted Award.

“Effective Date” means the date on which the Plan is approved by stockholders as set forth in Section 20.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

“Fair Market Value” of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is listed on the NASDAQ Global Market or another national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations, provided further, however, that if the date for which Fair Market Value is determined is the first day when trading prices for the Stock are reported on a national securities exchange, the Fair Market Value shall be the “Price to the Public” (or equivalent) set forth on the cover page for the final prospectus relating to the Company’s Initial Public Offering.

“Full Value Award” means Deferred Stock Awards, Restricted Stock Awards, Unrestricted Stock Awards and Performance Share Awards.

“Incentive Stock Option” means any Stock Option designated and qualified as an “incentive stock option” as defined in Section 422 of the Code.

“Initial Public Offering” means the consummation of the first fully underwritten, firm commitment public offering pursuant to an effective registration statement under the Act covering the offer and sale by the Company of its equity securities, or such other event as a result of or following which the Stock shall be publicly held.

“Minimum Vesting Period” means, for an Award, the time period beginning on the date of grant of such Award and ending on (i) in the case of Awards with conditions or restrictions relating to the attainment of performance goals, the date that is one (1) year after the date of grant of such Award, or (ii) in the case of all other Awards, the date that is three (3) years after the date of grant of such Award.

“Non-Employee Director” means a member of the Board who is not also an employee of the Company or any Subsidiary.

“Non-Qualified Stock Option” means any Stock Option that is not an Incentive Stock Option.

“Option” or *“Stock Option”* means any option to purchase shares of Stock granted pursuant to Section 5.

“Performance-based Award” means any Restricted Stock Award, Deferred Stock Award, Performance Share Award or Cash-based Award granted to a Covered Employee that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code and the regulations promulgated thereunder.

“Performance Criteria” means the criteria that the Administrator selects for purposes of establishing the Performance Goal or Performance Goals for an individual for a Performance Cycle. The Performance Criteria (which shall be applicable to the organizational level specified by the Administrator, including, but not limited to, the Company or a unit, division, group, or Subsidiary of the Company) that will be used to establish Performance Goals are limited to the following: earnings before interest, taxes, depreciation and amortization, net income (loss) (either before or after interest, taxes, depreciation and/or amortization), changes in the market price of the Stock, economic value-added, sales or revenue, acquisitions or strategic transactions, establishing contractual relationships, operating income (loss), cash flow (including, but not limited to, operating cash flow and free cash flow), return on capital, assets, equity, or investment, stockholder returns, return on sales, gross or net profit levels, productivity, expense, margins, operating efficiency (including budgeted spending limits), customer satisfaction, working capital, earnings (loss) per share of Stock, sales or market shares and number of customers (including obtaining and/or supporting a number of customers), any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group and/or for financial measures may be based on numbers calculated in accordance with U.S. financially accepted accounting principles or on an as adjusted basis.

“Performance Cycle” means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a grantee’s right to and the payment of a Restricted Stock Award, Deferred Stock Award, Performance Share Award or Cash-based Award. Each period shall not be less than 12 months.

“Performance Goals” means, for a Performance Cycle, the specific goals established in writing by the Administrator for a Performance Cycle based upon the Performance Criteria.

“Performance Share Award” means an Award entitling the recipient to acquire shares of Stock upon the attainment of specified Performance Goals.

“Restricted Stock Award” means an Award entitling the recipient to acquire, at such purchase price (which may be zero) as determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant.

“*Sale Event*” shall mean (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation in which the outstanding shares of Stock are converted into or exchanged for securities of the successor entity and the holders of the Company’s outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the successor entity immediately upon completion of such transaction, or (iii) the sale of all of the Stock of the Company to an unrelated person or entity.

“*Sale Price*” means the value as determined by the Administrator of the consideration payable, or otherwise to be received by stockholders, per share of Stock pursuant to a Sale Event.

“*Section 409A*” means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

“*Stock*” means the Common Stock, par value \$.001 per share, of the Company, subject to adjustments pursuant to Section 3.

“*Stock Appreciation Right*” means an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

“*Subsidiary*” means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent interest, either directly or indirectly.

“*Ten Percent Owner*” means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

“*Unrestricted Stock Award*” means an Award of shares of Stock free of any restrictions.

SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEEES AND DETERMINE AWARDS

(a) Administration of Plan. The Plan shall be administered by the Administrator, provided that any Awards granted to Non-Employee Directors under the Plan (other than awards granted as part of a retainer, including annual or other grants made pursuant to a standard director compensation policy or arrangement) shall be administered by the Compensation Committee of the Board or a similar committee comprised of not less than two Non-Employee Directors who are independent; provided further that any grants of such Awards may be made subject to the approval of the Board to the extent deemed advisable for legal or regulatory reasons.

(b) Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

- (i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Deferred Stock Awards, Unrestricted Stock Awards, Cash-based Awards, Performance Share Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend at any time the period in which Stock Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

Notwithstanding the foregoing, the Administrator may only accelerate, waive or lapse the vesting restrictions on any Award (other than a Cash-based Award that is paid in cash or an Excepted Award) granted under the Plan upon (i) the Award recipient's death, disability or retirement or (ii) a change of control of the Company; provided that the foregoing will not limit the power and authority of the Administrator:

(A) to provide for, in any Award Agreement, the automatic acceleration, waiver or lapse of the vesting restrictions applicable to that Award upon the termination of the Award recipient's employment or other service relationship with the Company or any of its Subsidiaries; or

(B) to accelerate, waive or lapse the restrictions on any Restricted Stock Award, Deferred Stock Award or Performance Share Award after the Minimum Vesting Period applicable to such Award has expired; or

(C) to enter into an employment agreement or other severance agreement or program outside of the Plan that provides for the automatic acceleration, waiver or lapse of any vesting restrictions applicable to an Award upon the termination of that Award recipient's employment or other service relationship with the Company, provided that such agreement or program is not entered into in connection with such termination.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) Delegation of Authority to Grant Options. Subject to applicable law, the Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards, to officers and employees who are (i) not subject to the reporting and other provisions of Section 16 of the Exchange Act and (ii) not Covered Employees; provided that such delegation may only relate to Awards other than Options to the extent that the Chief Executive Officer is also a director of the Company (in which case such delegation shall constitute the delegation to a committee of the Board comprised of one director). Any such delegation by the Administrator shall include a limitation as to the amount of Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price, if applicable, and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award, the provisions applicable in the event employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

(e) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

(f) Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the

Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) Stock Issuable.

(i) General. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 1,135,000 shares, plus, for a period of five years, on each January 1, beginning in 2008 and ending in 2012, an additional number of shares equal to the lesser of (A) 3% of the outstanding number of shares of Stock on the immediately preceding December 31 and (B) 725,000 shares of Stock, subject in all cases to adjustment as provided in Section 3(b); provided that the number of shares that may be issued in the form of Incentive Stock Options shall not exceed 1,135,000 shares, plus on each January 1, beginning in 2008 and ending in 2012, an additional number of shares equal to the lesser of (A) 3% of the outstanding number of shares of Stock on the immediately preceding December 31 and (B) 725,000 shares of Stock, subject in all cases to adjustment as provided in Section 3(b). For purposes of this limitation, the shares of Stock underlying any Awards that are forfeited, canceled, held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 1,145,000 shares of Stock may be granted to any one individual grantee during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company. Notwithstanding the foregoing, the aggregate number of shares of Stock subject to Excepted Awards may not exceed 10% of the aggregate number of shares of Stock authorized under the Plan.

(ii) Effect of Awards. The grant of any Full Value Award shall be deemed, for purposes of determining the number of shares available for issuance under Section 3(a)(i), to be an Award for 1.5 shares of Stock for each such share actually subject to such Full Value Award. The grant of any Award that is not a Full Value Award shall be deemed, for purposes of determining the number of shares available for issuance under Section 3(a)(i), as an Award for one share of Stock for each such share actually subject to the Award.

(b) Changes in Stock. Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the

Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-based Award, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (v) the price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(c) Mergers and Other Transactions. Except as the Administrator may otherwise specify with respect to particular Awards in the relevant Award documentation, in the case of and subject to the consummation of a Sale Event, all Options and Stock Appreciation Rights that are not exercisable immediately prior to the effective time of the Sale Event shall become fully exercisable as of the effective time of the Sale Event, all other Awards with time-based vesting, conditions or restrictions shall become fully vested and nonforfeitable as of the effective time of the Sale Event and all Awards with conditions and restrictions relating to the attainment of performance goals may become vested and nonforfeitable in connection with a Sale Event in the Administrator's discretion, unless, in any case, the parties to the Sale Event agree that Awards will be assumed or continued by the successor entity.

Upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate, unless provision is made in connection with the Sale Event in the sole discretion of the parties thereto for the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree (after taking into account any acceleration hereunder). In the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a cash payment to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable (after taking into account any acceleration hereunder) at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights; or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights held by such grantee.

(d) Substitute Awards. The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees, directors or other key persons of another corporation in connection with the merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitation set forth in Section 3(a).

SECTION 4. ELIGIBILITY

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and key persons (including consultants and prospective employees) of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

SECTION 5. STOCK OPTIONS

Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

(a) Terms and Conditions of Stock Options. The Administrator in its discretion may grant Stock Options to eligible employees, Non-Employee Directors and key persons of the Company or any Subsidiary. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

(i) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date.

(ii) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.

(iii) Exercisability: Rights of a Stockholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. To the extent permitted by Section 2(b), the Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award Agreement:

(A) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(B) Through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the optionee on the open market or that are beneficially owned by the optionee and are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date. To the extent required to avoid variable accounting treatment under FAS 123R or other applicable accounting rules, such surrendered shares shall have been owned by the optionee for at least six months; or

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award Agreement or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of shares attested to. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(v) Annual Limit on Incentive Stock Options. To the extent required for “incentive stock option” treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. STOCK APPRECIATION RIGHTS

(a) Exercise Price of Stock Appreciation Rights. The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant (or more than the Stock Option exercise price per share, if the Stock Appreciation Right was granted in tandem with a Stock Option).

(b) Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator in tandem with, or independently of, any Stock Option granted pursuant to Section 5 of the Plan. In the case of a Stock Appreciation Right granted in tandem with a Non-Qualified Stock Option, such Stock Appreciation Right may be granted either at or after the time of the grant of such Option. In the case of a Stock Appreciation Right granted in tandem with an Incentive Stock Option, such Stock Appreciation Right may be granted only at the time of the grant of the Option.

A Stock Appreciation Right or applicable portion thereof granted in tandem with a Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Option.

(c) Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator, subject to the following:

(i) Stock Appreciation Rights granted in tandem with Options shall be exercisable at such time or times and to the extent that the related Stock Options shall be exercisable.

(ii) Upon exercise of a Stock Appreciation Right, the applicable portion of any related Option shall be surrendered.

SECTION 7. RESTRICTED STOCK AWARDS

(a) Nature of Restricted Stock Awards. The Administrator shall determine the restrictions and conditions applicable to each Restricted Stock Award at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Stock Award is contingent on the grantee executing the Restricted Stock Award Agreement. The terms and conditions of each such Award Agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b) Rights as a Stockholder. Upon execution of the Restricted Stock Award Agreement and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the Restricted Stock Award Agreement. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Stock shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Stock are vested as provided in Section 7(d) below, and (ii) certificated Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

(c) Restrictions. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Agreement. Except as may otherwise be provided by the Administrator either in the Award Agreement or, subject to Section 18 below, in writing after the Award Agreement is issued, if any, if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Stock that has not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of unvested Restricted Stock that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d) Vesting of Restricted Stock. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." The vesting period for a Restricted Stock Award, other than an Excepted Award, must be at least equal to the Minimum Vesting Period applicable to such Award; provided that (i) such Award may become vested incrementally over the Minimum Vesting Period, (ii) this limitation shall not apply to Awards made to Non-Employee Directors that are made as a part of a retainer, including annual or other grants made pursuant to a standard director compensation policy or arrangement, and (iii) such vesting may be accelerated to the extent permitted by Section 2(b). Except as may otherwise be provided by the Administrator either in the Award Agreement or, subject to Section 18 below, in writing after the Award Agreement is issued, a grantee's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the grantee's termination of employment (or other service relationship) with the Company and its Subsidiaries and such shares shall be subject to the provisions of Section 7(c) above.

SECTION 8. DEFERRED STOCK AWARDS

(a) Nature of Deferred Stock Awards. The Administrator shall determine the restrictions and conditions applicable to each Deferred Stock Award at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Deferred Stock Award is contingent on the grantee executing the Deferred Stock Award Agreement. The terms and conditions of each such Award Agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. At the end of the deferral period, the Deferred Stock Award, to the extent vested, shall be settled in the form of shares of Stock. The vesting period for a Deferred Stock Award, other than an Excepted Award, must be at least equal to the Minimum Vesting Period applicable to such Award; provided that (i) such Award may become vested incrementally over the Minimum Vesting Period, (ii) this limitation shall not apply to Awards made to Non-Employee Directors that are made as a part of a retainer, including annual or other grants made pursuant to a standard director compensation policy or arrangement, and (iii) such vesting may be accelerated to the extent permitted by Section 2(b).

(b) Election to Receive Deferred Stock Awards in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of a Deferred Stock Award. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of phantom stock units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate.

(c) Rights as a Stockholder. A grantee shall have the rights as a stockholder only as to shares of Stock acquired by the grantee upon settlement of a Deferred Stock Award; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the phantom stock units underlying his Deferred Stock Award, subject to such terms and conditions as the Administrator may determine.

(d) Termination. Except as may otherwise be provided by the Administrator either in the Award Agreement or, subject to Section 18 below, in writing after the Award Agreement is issued, a grantee's right in all Deferred Stock Awards that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. UNRESTRICTED STOCK AWARDS

Grant or Sale of Unrestricted Stock. The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an

Unrestricted Stock Award under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

SECTION 10. CASH-BASED AWARDS

(a) Grant of Cash-based Awards. The Administrator may, in its sole discretion, grant Cash-based Awards to any grantee in such number or amount and upon such terms, and subject to such conditions, as the Administrator shall determine at the time of grant. The Administrator shall determine the maximum duration of the Cash-based Award, the amount of cash to which the Cash-based Award pertains, the conditions upon which the Cash-based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-based Award shall be made in accordance with the terms of the Award and may be made in cash or in shares of Stock, as the Administrator determines.

SECTION 11. PERFORMANCE SHARE AWARDS

(a) Nature of Performance Share Awards. The Administrator may, in its sole discretion, grant Performance Share Awards independent of, or in connection with, the granting of any other Award under the Plan. The Administrator shall determine whether and to whom Performance Share Awards shall be granted, the Performance Goals, the periods during which performance is to be measured, and such other limitations and conditions as the Administrator shall determine. The vesting period for a Performance Share Award, other than an Excepted Award, must be at least equal to the Minimum Vesting Period applicable to such Award; provided that (i) such Award may become vested incrementally over the Minimum Vesting Period, (ii) this limitation shall not apply to Awards made to Non-Employee Directors that are made as a part of a retainer, including annual or other grants made pursuant to a standard director compensation policy or arrangement, and (iii) such vesting may be accelerated to the extent permitted by Section 2(b).

(b) Rights as a Stockholder. A grantee receiving a Performance Share Award shall have the rights of a stockholder only as to shares actually received by the grantee under the Plan and not with respect to shares subject to the Award but not actually received by the grantee. A grantee shall be entitled to receive shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the Performance Share Award agreement (or in a performance plan adopted by the Administrator).

(c) Termination. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 18 below, in writing after the Award agreement is issued, a grantee's rights in all Performance Share Awards shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 12. PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES

(a) Performance-based Awards. Any employee or other key person providing services to the Company and who is selected by the Administrator may be granted one or more

Performance-based Awards in the form of a Restricted Stock Award, Deferred Stock Award, Performance Share Award or Cash-based Award payable upon the attainment of Performance Goals that are established by the Administrator and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Administrator. The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The vesting period for each Performance-based Award, other than an Excepted Award, in the form of a Restricted Stock Award, Deferred Stock Award or Performance Share Award must be at least equal to the Minimum Vesting Period applicable to such Award; provided that (i) such Award may become vested incrementally over the Minimum Vesting Period, (ii) this limitation shall not apply to Awards made to Non-Employee Directors that are made as a part of a retainer, including annual or other grants made pursuant to a standard director compensation policy or arrangement, and (iii) such vesting may be accelerated to the extent permitted by Section 2(b). The Administrator, in its discretion, may adjust or modify the calculation of Performance Goals for such Performance Cycle in order to prevent the dilution or enlargement of the rights of an individual (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development, (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or (iii) in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions provided however, that the Administrator may not exercise such discretion in a manner that would increase the Performance-based Award granted to a Covered Employee. Each Performance-based Award shall comply with the provisions set forth below.

(b) Grant of Performance-based Awards. With respect to each Performance-based Award granted to a Covered Employee, the Administrator shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the Performance Criteria for such grant, and the Performance Goals with respect to each Performance Criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The Performance Criteria established by the Administrator may be (but need not be) different for each Performance Cycle and different Performance Goals may be applicable to Performance-based Awards to different Covered Employees.

(c) Payment of Performance-based Awards. Following the completion of a Performance Cycle, the Administrator shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-based Awards earned for the Performance Cycle. The Administrator shall then determine the actual size of each Covered Employee's Performance-based Award, and, in doing so, may reduce or eliminate the amount of the Performance-based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

(d) Maximum Award Payable. The maximum Performance-based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 1,145,000 shares (subject to adjustment as provided in Section 3(b) hereof) or \$3,000,000 in the case of a Performance-based Award that is a Cash-based Award.

SECTION 13. DIVIDEND EQUIVALENT RIGHTS

(a) Dividend Equivalent Rights. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of a Deferred Stock Award, Restricted Stock Award or Performance Share Award or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Agreement. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of a Deferred Stock Award, Restricted Stock Award or Performance Share Award may provide that such Dividend Equivalent Right shall be settled upon settlement, or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. A Dividend Equivalent Right granted as a component of a Deferred Stock Award, Restricted Stock Award or Performance Share Award may also contain terms and conditions different from such other Award.

(b) Interest Equivalents. Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide in the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

(c) Termination. Except as may otherwise be provided by the Administrator either in the Award Agreement or, subject to Section 18 below, in writing after the Award Agreement is issued, a grantee's rights in all Dividend Equivalent Rights or interest equivalents granted as a component of a Deferred Stock Award, Restricted Stock Award or Performance Share Award that has not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 14. TRANSFERABILITY OF AWARDS

(a) Transferability. Except as provided in Section 14(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b) Administrator Action. Notwithstanding Section 14(a), the Administrator, in its discretion, may provide either in the Award Agreement regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Awards (other than any Incentive Stock Options or Deferred Stock Awards) to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award.

(c) Family Member. For purposes of Section 14(b), “family member” shall mean a grantee’s child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee’s household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(d) Designation of Beneficiary. Each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee’s death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee’s estate.

SECTION 15. TAX WITHHOLDING

(a) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company’s obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) Payment in Stock. Subject to approval by the Administrator, a grantee may elect to have the Company’s minimum required tax withholding obligation satisfied, in whole or in part, by authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

SECTION 16. SECTION 409A AWARDS.

To the extent that any Award is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A (a “409A Award”), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a “separation from service” (within the meaning of Section 409A) to a grantee who is then considered a “specified employee” (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee’s separation from service, or (ii) the grantee’s death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 17. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

- (a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or
- (b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee’s right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 18. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder’s consent. Except as provided in Section 3(b) or 3(c), in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect repricing through cancellation and re-grants. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 18 shall limit the Administrator’s authority to take any action permitted pursuant to Section 3(c).

SECTION 19. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights

greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 20. GENERAL PROVISIONS

(a) No Distribution. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

(b) Delivery of Stock Certificates. Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel (to the extent the Board deems such advice necessary or advisable), that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. All Stock certificates delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that an individual make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) Stockholder Rights. Until Stock is deemed delivered in accordance with Section 20(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

(d) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not

confer upon any employee any right to continued employment with the Company or any Subsidiary.

(e) Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to such Company's insider trading policy and procedures, as in effect from time to time.

(f) Forfeiture of Awards under Sarbanes-Oxley Act. If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, then any grantee who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 shall reimburse the Company for the amount of any Award received by such individual under the Plan during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission, as the case may be, of the financial document embodying such financial reporting requirement.

SECTION 21. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon approval by the holders of a majority of the votes cast at a meeting of stockholders at which a quorum is present or pursuant to written consent. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 22. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE PLAN APPROVED BY BOARD OF DIRECTORS: April 12, 2007

DATE PLAN APPROVED BY STOCKHOLDERS: April 27, 2007

DATE SHARE INCREASE APPROVED BY BOARD: March 27, 2008

DATE SHARE INCREASE APPROVED BY SHAREHOLDERS: May 8, 2008

DATE AMENDED AND RESTATED PLAN APPROVED BY BOARD: August 7, 2008

CERTIFICATION

I, Duane DeSisto, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Insulet Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 34-47986];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Duane DeSisto

Duane DeSisto
President and Chief Executive Officer

November 13, 2008

CERTIFICATION

I, Carsten Boess, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Insulet Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release No. 34-47986];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual filing) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Carsten Boess

Carsten Boess
Chief Financial Officer

November 13, 2008

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Insulet Corporation, a Delaware corporation (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2008, as filed with the Securities and Exchange Commission (the "Report") that, to his knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Duane DeSisto

Name: Duane DeSisto

Title: President and Chief Executive Officer

Date: November 13, 2008

/s/ Carsten Boess

Name: Carsten Boess

Title: Chief Financial Officer

Date: November 13, 2008

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.