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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 June 30, 2010

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	**04-3523891**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 ☐ (Do not check if a smaller reporting company)	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 August 4, 2010, the registrant had 40,143,138 shares of common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

INSULET CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	As of June 30, 2010	As of December 31, 2009 (Restated)
	(In thousands, except share and per share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 118,071	$ 127,996
Accounts receivable, net	15,801	14,962
Inventories	10,231	10,086
Prepaid expenses and other current assets	1,499	1,260
Total current assets	145,602	154,304
Property and equipment, net	13,751	15,482
Other assets	2,637	3,072
Total assets	$ 161,990	$ 172,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 9,128	$ 5,870
Accrued expenses	9,814	9,973
Deferred revenue	4,818	3,970
Total current liabilities	23,760	19,813
Long-term debt, net of current portion	92,292	89,136
Other long-term liabilities	1,957	1,999
Total liabilities	118,009	110,948
Stockholders' Equity		
Preferred stock, $.001 par value:		
Authorized: 5,000,000 shares at June 30, 2010 and December 31, 2009. Issued and outstanding: zero shares at June 30, 2010 and December 31, 2009, respectively	—	—
Common stock, $.001 par value:		
Authorized: 100,000,000 shares at June 30, 2010 and December 31, 2009. Issued and outstanding: 40,121,272 and 37,755,254 shares at June 30, 2010 and December 31, 2009, respectively	41	39
Additional paid-in capital	394,835	384,565
Accumulated deficit	(350,895)	(322,694)
Total stockholders' equity	43,981	61,910
Total liabilities and stockholders' equity	$ 161,990	$ 172,858

December 31, 2009 balances have been restated to reflect the correction of the accounting treatment for the modification of the Facility Agreement as described in Note 13.

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

INSULET CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except share and per share data)			
Revenue	$ 22,937	$ 14,617	$ 43,744	$ 27,086
Cost of revenue	13,051	11,448	25,473	21,922
Gross profit	9,886	3,169	18,271	5,164
Operating expenses:				
Research and development	4,583	3,272	8,430	6,476
General and administrative	6,190	5,838	13,149	13,329
Sales and marketing	9,013	10,504	17,322	19,276
Total operating expenses	19,786	19,614	38,901	39,081
Operating loss	(9,900)	(16,445)	(20,630)	(33,917)
Interest income	36	81	60	182
Interest expense	(3,847)	(3,875)	(7,631)	(6,149)
Net interest expense	(3,811)	(3,794)	(7,571)	(5,967)
Net loss	$ (13,711)	$ (20,239)	$ (28,201)	$ (39,884)
Net loss per share basic and diluted	$ (0.36)	$ (0.73)	$ (0.74)	$ (1.43)
Weighted average number of shares used in calculating basic and diluted net loss per share	38,285,628	27,869,159	38,088,041	27,836,869

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

INSULET CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Cash flows from operating activities		
Net loss	$ (28,201)	$(39,884)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	2,696	2,631
Amortization of debt discount	3,624	2,672
Stock compensation expense	2,685	2,231
Provision for bad debts	1,685	1,670
Non cash interest expense	440	319
Impairment of assets	1,021	—
Changes in operating assets and liabilities:		
Accounts receivable	(2,523)	(5,241)
Inventories	(145)	6,461
Prepaid expenses and other current assets	(244)	927
Accounts payable and accrued expenses	3,098	(857)
Other long term liabilities	(42)	(65)
Deferred revenue, short term	848	673
Net cash used in operating activities	(15,058)	(28,463)
Cash flows from investing activities		
Purchases of property and equipment	(1,986)	(756)
Net cash used in investing activities	(1,986)	(756)
Cash flows from financing activities		
Proceeds from issuance of facility agreement, net of financing expenses	—	24,513
Payment of transaction fees related to credit facility amendment	(468)	—
Proceeds from issuance of common stock, net of offering expenses	7,587	405
Net cash provided by financing activities	7,119	24,918
Net decrease in cash and cash equivalents	(9,925)	(4,301)
Cash and cash equivalents, beginning of period	127,996	56,663
Cash and cash equivalents, end of period	$118,071	$ 52,362
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 3,662	$ 2,882
Non-cash financing activities		
Allocation of fair value of warrants from net proceeds from issuance of facility agreement	$ —	$ 6,065

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

INSULET CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of the Business

Insulet Corporation (the "Company") is principally engaged in the development, manufacture and marketing 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 designing, developing, manufacturing and marketing 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 January 2010, the Company entered into a 5 year distribution agreement with Ypsomed Distribution AG, or Ypsomed, to become the exclusive distributor of the OmniPod System in eleven countries. Ypsomed obtained reimbursement approval in both Germany and the United Kingdom in the second quarter of 2010, and accordingly, the Company shipped product for distribution in these countries to Ypsomed. The Company expects that Ypsomed will begin distributing the OmniPod System, subject to approved reimbursement, in several other markets in the second half of 2010 and in the first half of 2011. The Company has not recorded revenue related to the Ypsomed agreement.

The Company has fully adopted the Financial Accounting Standard Board Accounting Standards Codification. The FASB Accounting Standards Codification ("Codification") has become the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). All existing accounting standard documents are superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. However, rules and interpretive releases of the Securities and Exchange Commission ("SEC") issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. All references made to GAAP in the Company's consolidated financial statements now use the new Codification numbering system. The Codification does not change or alter existing GAAP and, therefore, did not have a material impact on its consolidated financial statements.

2. Summary of Significant Accounting Policies

Restatement of Previously Issued Financial Statements

As discussed below and further described in Note 13, the Company restated its financial results in prior periods to reflect the correction of the accounting treatment for the modification of the Facility Agreement.

In September 2009, the Company entered into an amendment to its existing Facility Agreement which was determined at the time to be an early extinguishment of the debt borrowed thereunder. As a result, the Company expensed $7.6 million of non-cash interest related to the write-off of remaining debt discount and related fees such as deferred financing costs on the original loan. Upon subsequent review, the Company determined on July 29, 2010, that the amendment should have been treated as a modification of the original loan as compared to an early extinguishment in its previously issued financial statements. A debt modification recognizes debt discount and related fees relating to the original borrowings over the term of the new borrowing, as well as additional discount on the new borrowing as a non-cash adjustment to interest expense rather than as a non-cash loss on debt extinguishment at the time the original borrowing is amended. Accordingly, the Company has concluded that a correction is required to recognize the amendment as a modification and recognize as non-cash interest expense the debt discount and related fees on the original debt from the date of the amendment in September 2009 through the maturity of the Facility Agreement in September 2012.

The restatement resulted in an increase in other assets of $1.2 million at December 31, 2009, related to the capitalization of issuance costs incurred net of interest expense recognized over the term of the loan and a decrease of long-term debt of $7.8 million related to the debt discount on the warrants and shares issued in connection with the Facility Agreement, net of interest expense recognized. The restatement resulted in an increase in interest expense of $0.6 million in the three months ended March 31, 2010, with an equivalent increase in net interest expense and net loss. The restatement had no effect on any amounts reported in periods prior to the quarter ended September 30, 2009.

Basis of Presentation

The unaudited consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these unaudited consolidated financial statements 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 six month periods ended June 30, 2010, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010, or for any other subsequent

interim period.

The unaudited 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, 2009.

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, accounts receivable, equity instruments, the lives of property and equipment, as well as warranty reserves and allowance for doubtful accounts calculations. Actual results may differ from those estimates.

Principles of Consolidation

The unaudited consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from third-party payors, patients and third-party distributors. The allowance for doubtful accounts is recorded in the period in which the revenue is recorded or at the time potential collection risk is identified. The Company estimates its allowance based on historical experience, assessment of specific risk, discussions with individual customers and various assumptions and estimates that are believed to be reasonable under the circumstances.

Inventories

Inventories are stated at the lower of cost or market, determined under the first-in, first-out ("FIFO") method. Inventory has been recorded at cost as of June 30, 2010 and December 31, 2009. Work in process is calculated based upon a build up in the stage of completion using estimated labor inputs for each stage in production. Costs for PDMs and OmniPods include raw material, labor and manufacturing overhead. The Company periodically reviews inventories for potential impairment based on quantities on hand and expectations of future use.

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.

Warranty

The Company provides a four-year warranty on its PDMs and may replace any OmniPods that do not function in accordance with product specifications. The Company estimates its warranty reserves at the time the product is shipped based on historical experience and the estimated cost to service the claims. Cost to service the claims reflects the current product cost which has been decreasing over time. Because the Company continues to introduce new products and new versions of existing products, the Company also considers the anticipated performance of the product over its warranty period in estimating warranty reserves.

Restructuring Expenses and Impairment of Assets

In connection with its efforts to pursue improved gross margins, leverage operational efficiencies and better pursue opportunities for low-cost supplier sourcing of asset costs, the Company periodically performs an evaluation of its manufacturing processes and 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. This review of manufacturing processes and equipment can result in restructuring activity or an impairment of assets based on current net book value and potential future use of the assets.

The Company's restructuring expenses may also include workforce reduction and related costs for one-time termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement. The Company records these one-time termination benefits upon incurring the liability provided that the employees are notified, the plan is approved by the appropriate level of management, the employees to be terminated and the expected completion date are identified, and the benefits the identified employees will be paid are established. Significant changes to the plan are not expected when the Company records the costs. In recording the workforce reduction and related costs, the Company estimates related costs such as taxes and outplacement

services which may be provided under the plan. If changes in these estimated services occur, the Company may be required to record or reverse restructuring expenses associated with these workforce reduction and related costs.

Asset Valuation

Asset valuation includes assessing the recorded value of certain assets, including accounts receivable, inventory and fixed assets. The Company uses a variety of factors to assess valuation, depending upon the asset. Actual values may differ materially from the Company's estimates. 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. The Company reviews 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. The Company also reviews 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.

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 or third party distributor typically includes OmniPods and a Starter Kit, which includes the PDM, the OmniPod System User Guide and the OmniPod System Interactive Training CD. Subsequent sales to existing customers typically consist of additional OmniPods.

Revenue recognition 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 customer typically upon transfer to the third party carrier.
- 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.

The Company assesses whether 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 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. 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.

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 revenue on 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 certain amounts 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 certain customers in the United States and Israel. The Company recognizes the revenue related to this portion of the Abbott agreement at the time it meets the criteria for revenue recognition, typically at the time of sale of the PDM to the patient. In the three and six month periods ended June 30, 2010, the Company recognized revenue related to the amended Abbott agreement of $1.3 million and $2.4 million, respectively. In the three and six month periods ended June 30, 2009, the Company recognized revenue related to the amended Abbott agreement of $1.0 million and $2.1 million, respectively. There was no impact to cost of revenue related to this agreement.

In July 2010, the Company entered into the second amendment to the development and license agreement with Abbott Diabetes Care, Inc. Under the second amendment, Abbott agreed to pay certain amounts 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 customers in certain additional territories.

The Company had deferred revenue of $5.7 million and $5.1 million as of June 30, 2010 and December 31, 2009, respectively. The deferred revenue recorded as of June 30, 2010 was comprised of product-related revenue as well as the non-amortized agreement fee related to the Abbott agreement.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk primarily consist of cash, cash equivalents and accounts receivable. The Company maintains the majority of its cash with two accredited financial institutions. Although revenue is recognized from shipments directly to patients or third-party distributors, the majority of shipments are billed to third-party insurance payors. There were no third-party payors that accounted for more than 10% of gross accounts receivable as of June 30, 2010 or December 31, 2009.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision-maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment. In light of the Company's current product offering, and other considerations, management has determined that the primary form of internal reporting is aligned with the offering of the OmniPod System. Therefore, the Company believes that it operates in one segment. For the three and six month periods ended June 30, 2010, substantially all of the Company's revenue was generated from sales within the United States.

Income Taxes

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 (subject to any applicable limitations), 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. As of June 30, 2010, the Company had no interest and penalty accrual or expense.

3. Facility Agreement and Common Stock Warrants

In March 2009, the Company entered into a Facility Agreement with certain institutional accredited investors, pursuant to which the investors agreed to loan the Company up to $60 million, subject to the terms and conditions set forth in the Facility Agreement. Following the initial disbursement of $27.5 million on March 31, 2009, the Company could, but was not required to, draw down on the facility in $6.5 million increments at any time until November 2010 provided that the Company met certain financial performance milestones. In connection with this financing, the Company paid Deerfield Management Company, L.P., an affiliate of the lead lender, a one-time transaction fee of $1.2 million. Total financing costs, including the transaction fee, were $3.0 million and are being amortized as interest expense over the 42 months of the Facility Agreement.

In connection with the execution of the Facility Agreement, the Company issued to the lenders fully exercisable warrants to purchase an aggregate of 3.75 million shares of common stock of the Company at an exercise price of $3.13 per share. Pursuant to the original terms of the Facility Agreement, the Company would have been required to issue additional warrants to purchase 1.5 million shares upon drawing down the remaining $32.5 million under the facility. The warrants qualified for permanent treatment as equity, and their relative fair value of $6.1 million on the issuance date was recorded as additional paid-in capital and debt discount. The debt discount is being amortized as non-cash interest expense over the term of the loan.

The amounts initially drawn under the Facility Agreement accrued interest at a rate of 9.75% per annum, and the undrawn amounts under the Facility Agreement accrued interest at a rate of 2.75% per annum. Accrued interest is payable quarterly in cash in arrears.

In September 2009, the Company entered into an Amendment to the Facility Agreement whereby the Company repaid the $27.5 million of outstanding debt and promptly drew down the remaining $32.5 million available under the Facility Agreement. The lenders eliminated all future performance milestones associated with the remaining $32.5 million available on the credit facility and reduced the annual interest rate to 8.5%. In connection with the Amendment to the Facility Agreement, the Company entered into a Securities Purchase Agreement with the lenders whereby the Company sold 2,855,659 shares of its common stock to the lenders at $9.63 per share, a $1.9 million discount based on the closing price of the Company's common stock of $10.28 on that date. The Company recorded the $1.9 million as a debt discount which is being amortized as interest expense over the remaining term of the loan. The Company received aggregate proceeds of $27.5 million in connection with the sale of its shares.

All principal amounts outstanding under the Facility Agreement are payable in September 2012. Any amounts drawn under the Facility Agreement may become immediately due and payable upon (i) an "event of default," as defined in the Facility Agreement, in which case the lenders would have the right to require the Company to re-pay 100% of the principal amount of the loan, plus any accrued and unpaid interest thereon, or (ii) the consummation of certain change of control transactions, in which case the lenders would have the right to require the Company to re-pay 106% of the outstanding principal amount of the loan, plus any accrued and unpaid interest thereon. The Facility Agreement also provides for certain prepayment penalties in the event that the Company repays the debt prior to its maturity.

In June 2010, the Company entered into a Second Amendment to its amended Facility Agreement whereby the Company paid a $0.5 million amendment fee in exchange for the reduction of the prepayment penalties and the modification of certain other terms of the Agreement. The fee was recorded as a debt discount and is being amortized as interest expense over the remaining term of the loan.

All references herein to the "Facility Agreement" refer to the Facility Agreement entered into in March 2009 and amended in September 2009 and June 2010.

Because the consummation of certain change in control transactions would result in the payment of a premium of the outstanding principal, the premium feature is a derivative that is required to be bifurcated from the host debt instrument and recorded at fair value at each quarter end. As a prepayment penalty could be paid by the Company in the event that it repays the debt prior to maturity, the prepayment penalty is also considered a derivative. The prepayment penalty does not meet the criteria to be accounted for separately. Any changes in fair value of the premium feature will be recorded as interest expense. The difference between the face value of the outstanding principal on the Facility Agreement and the amount remaining after the bifurcation will be recorded as a discount to be amortized over the term of the Facility Agreement. As of June 30, 2010, the premium feature associated with the Facility Agreement had no value as the Company does not currently expect a change in control transaction to occur. The embedded derivatives related to the Facility Agreement will be reassessed and marked-to-market through earnings on a quarterly basis.

As of June 30, 2010 and December 31, 2009, outstanding debt related to the Facility Agreement of $25.3 million and $24.7 million, respectively, is included in long-term debt in the consolidated balance sheet.

In the three and six months ended June 30, 2010, cash interest related to the Facility Agreement of approximately $0.7 million and $1.4 million, respectively, was recorded. In addition, in the three and six months ended June 30, 2010, non-cash interest of approximately $0.7 million and $1.3 million, respectively, was recorded. Non-cash interest in the three and six months ended June 30, 2010 consists of amortization of the debt discount from the issuance of warrants and transaction fee in March 2009, from the discount on the shares sold in connection with the amendment in September 2009, from the transaction fee in connection with the amendment in June 2010 and amortization of the issuance costs associated with the debt.

In the three and six months ended June 30, 2009, cash interest related to the Facility Agreement of approximately $0.9 million of interest expense was recorded. In addition, in the three and six months ended June 30, 2009, non-cash interest of approximately $0.6 million was recorded. Non-cash interest in the three and six months ended June 30, 2009 consists of amortization of the debt discount from the issuance of warrants and transaction fee in March 2009 and amortization of the issuance costs associated with the debt.

In March 2009, in connection with the execution of the Facility Agreement, the Company issued to the lenders fully exercisable warrants to purchase an aggregate of 3.75 million shares of common stock of the Company at an exercise price of $3.13 per share. Pursuant to the original terms of the Facility Agreement, the Company would have been required to issue additional warrants to purchase 1.5 million shares upon drawing down the remaining $32.5 million under the facility. In connection with the Amendment to the Facility Agreement in September 2009, the lenders agreed to forego the remaining 1.5 million additional warrants that would have been issued upon these future draws. The warrants issued in connection with the Facility Agreement qualify for permanent classification as equity and their relative fair value of $6.1 million on the issuance date was recorded as additional paid in capital and debt discount. The debt discount is being amortized as non-cash interest expense over the term of the loan. In June 2010, the lenders exercised warrants to acquire 2,125,000 shares of the Company's common stock at an exercise price of $3.13 in cash. The Company received cash totaling $6.7 million as a result of this exercise.

As of June 30, 2010, warrants to acquire 1,625,000 shares of the Company's common stock issued under the Facility Agreement remain unexercised, expire on March 13, 2015 and contain certain limitations that prevent the holder from acquiring shares upon exercise of a warrant that would result in the number of shares beneficially owned by it to exceed 9.98% of the total number of shares of the Company's common stock then issued and outstanding.

In addition, upon certain change of control transactions, or upon certain "events of default" (as defined in the warrant agreement), the holder has the right to net exercise the warrants for an amount of shares of the Company's common stock equal to the Black-Scholes value of the shares issuable under the warrants divided by 95% of the closing price of the common stock on the day immediately prior to the consummation of such change of control or event of default, as applicable. In certain circumstances where a warrant or portion of a warrant is not net exercised in connection with a change of control or event of default, the holder will be paid an amount in cash equal to the Black-Scholes value of such portion of the warrant not treated as a net exercise.

4. Convertible Notes

In June 2008, the Company sold $85.0 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 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 recorded a debt discount of $26.9 million to equity to reflect the value of its nonconvertible debt borrowing rate of 14.5% per annum. This debt discount is being amortized as interest expense over the 5 year term of the 5.375% Notes.

The Company incurred deferred financing costs related to this offering of approximately $3.5 million, of which $1.1 million has been reclassified as an offset to the value of the amount allocated to equity. The remainder is recorded as other assets in the consolidated balance sheet and is being amortized as a component of interest expense over the five year term of the 5.375% Notes. The Company incurred interest expense related to the 5.375% Notes of approximately $2.5 million and $5.0 million for the three and six months ended June 30, 2010, respectively. Of the $2.5 million recorded in the three months ended June 30, 2010, approximately $1.4 million relates to amortization of the debt discount and deferred financing costs and $1.1 million relates to cash interest. Of the $5.0 million recorded in the six months ended June 30, 2010, approximately $2.7 million relates to amortization of the debt discount and deferred financing costs and $2.3 million relates to cash interest. For the three and six months ended June 30, 2009, the Company incurred interest expense related to the 5.375% Notes of approximately $2.2 million and $4.4 million, respectively. Of the $2.2 million recorded in the three months ended June 30, 2009, approximately $1.1 million relates to amortization of the debt discount and deferred financing costs and $1.1 million relates to cash interest. Of the $4.4 million recorded in the six months ended June 30, 2009, approximately $2.2 million relates to amortization of the debt discount and deferred financing costs and $2.2 million relates to cash interest.

As of June 30, 2010, the outstanding amounts related to the 5.375% Notes of $67.0 million are included in long-term debt in the consolidated balance sheet and reflect the debt discount of $18.0 million. As of December 31, 2009, the outstanding amounts related to the 5.375% Notes of $64.5 million are included in long-term debt and reflect the debt discount of $20.5 million. The debt discount includes the equity allocation of $25.8 million (which represents $26.9 million less the $1.1 million of allocated financing costs) offset by the accretion of the debt discount through interest expense from the issuance date over the 5 year term of the notes. The Company recorded $1.2 million and $2.5 million of interest expense related to the debt discount in the three and six months ended June 30, 2010, respectively. The Company recorded $1.1 million and $2.2 million of interest expense related to the debt discount in the three and six months ended June 30, 2009, respectively. As of June 30, 2010, the 5.375% Notes have a remaining term of 3 years.

The Company received net proceeds of approximately $81.5 million from this offering. Approximately $23.2 million of the proceeds from this offering was used to repay and terminate the Company's then-existing term loan, including outstanding principal and accrued and unpaid interest of $21.8 million, a prepayment fee related to the term loan of approximately $0.4 million and a termination fee of $0.9 million. The Company is using the remainder for general corporate purposes. 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. As of June 30, 2010, warrants to purchase 62,752 shares of common stock remain outstanding and exercisable at a price of $9.56 per share.

5. Restructuring Expenses and Impairments of Assets

As of June 30, 2009, the Company's accrued expenses for restructuring was $0.3 million for final payments of severance. These amounts were paid in full in 2009. The Company had no accrued expenses for restructuring at June 30, 2010 or December 31, 2009.

The following is a summary of restructuring activity for the three and six months ended June 30, 2009.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	Workforce and related	Workforce and related
Balance at the beginning of period	$ 401	$ 612
Restructuring expense	—	—
Payments	(139)	(350)
Balance at the end of the period	$ 262	$ 262

During the three months ended June 30, 2010, the Company performed an evaluation of its Construction in Process related to its manufacturing equipment for its next generation OmniPod. As a result of this evaluation as well as the additional information obtained in connection with the completion of the Company's pilot manufacturing line for its next generation OmniPod, the Company determined that approximately $1.0 million of previously capitalized costs relating to the project no longer meet the capitalization criteria. Accordingly, the Company expensed these costs as research and development expense in the three months ended June 30, 2010.

6. Net Loss Per Share

Basic net loss per share is computed by dividing net loss 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 six months ended June 30, 2010 and 2009, all potential common shares have been excluded from the computation of the diluted 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:

	Three and Six Months Ended June 30,	
	2010	2009
Convertible notes	3,981,969	3,981,969
Unvested restricted common shares	396,331	3,108
Outstanding options	3,524,285	3,547,547
Outstanding warrants	1,687,752	3,812,752
Total	9,590,337	11,345,376

7. Accounts Receivable

The components of accounts receivable are as follows:

	As of	
	June 30, 2010	December 31, 2009
	(In thousands)	
Trade receivables	$ 22,328	$ 22,152
Allowance for doubtful accounts	(6,527)	(7,190)
	$ 15,801	$ 14,962

8. Inventories

Inventories consist of the following:

	As of	
	June 30, 2010	December 31, 2009
	(In thousands)	
Raw materials	$ 1,523	$ 1,657
Work-in-process	1,630	496
Finished goods	7,078	7,933
	$ 10,231	$ 10,086

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 and maintains packaging operations in its facility in Bedford, Massachusetts. The Company purchases complete OmniPods from Flextronics.

9. 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
Balance at the beginning of period	$ 1,748	$ 2,672	$ 1,820	$ 2,268
Warranty expense	649	793	969	1,936
Warranty claims settled	(457)	(856)	(849)	(1,595)
Balance at the end of the period	$ 1,940	$ 2,609	$ 1,940	$ 2,609
Composition of balance:				
Short-term	849	1,040	849	1,040
Long-term	1,091	1,569	1,091	1,569
Total warranty balance	$ 1,940	$ 2,609	$ 1,940	$ 2,609

10. 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-cancelable lease for additional office space in Bedford, Massachusetts. The lease expires in September 2010 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 research and development and manufacturing space. Following the extension, the lease expires in September 2014. The lease is non-cancelable 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 liabilities in the accompanying consolidated balance sheet.

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.

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.

11. Equity

In October 2009, in a public offering, the Company issued and sold 6,900,000 shares of its common stock at a price to the public of $10.25 per share. In connection with the offering, the Company received total gross proceeds of $70.7 million, or approximately $66.1 million in net proceeds after deducting underwriting discounts and offering expenses.

In June 2010, the lenders in the Company's Facility Agreement exercised warrants to purchase 2,125,000 shares of the Company's common stock in exchange for $6.7 million. The Company had originally granted warrants to purchase 3,750,000 shares of its common stock at $3.13 per share in connection with the Facility Agreement.

Restricted Stock Units

In the six months ended June 30, 2010, the Company awarded 394,999 restricted stock units to certain employees. The restricted stock units were granted under the Company's 2007 Stock Option and Incentive Plan (the "2007 Plan") and vest annually over three years from the grant date. The restricted stock units granted have a weighted average fair value of $15.01 based on the closing price of the Company's common stock on the date of grant. The restricted stock units were valued at approximately $5.9 million at their grant dates, and the Company is recognizing the compensation expense over the three year vesting period. Approximately $0.3 million and $0.4 million of stock-based compensation expense related to the vesting of restricted stock units was recognized in the three and six months ended June 30, 2010, respectively, and approximately $5.5 million of the fair value of the restricted stock units remained unrecognized as of June 30, 2010. Under the terms of the award, the Company will issue shares of common stock on each of the vesting dates. None of the restricted stock units awarded to employees vested during the three and six months ended June 30, 2010.

The following table summarizes the status of the Company's restricted stock units:

	Number of Shares	Weighted Average Fair Value
Balance, December 31, 2009	—	$ —
Granted	394,999	15.01
Vested	—	—
Forfeited	—	—
Balance, June 30, 2010	394,999	$ 15.01

Restricted Common Stock

During the year ended December 31, 2008, the Company awarded 4,000 shares of restricted common stock to a non-employee in exchange for $0.001 per share. The shares of restricted common stock were granted under the 2007 Plan and vest over two years. The shares of restricted common stock granted had a weighted average fair value of $8.04 based on the closing price of the Company's common stock on the date of grant. The Company is recognizing the total compensation expense of $32,000 over the two year vesting period.

The following table summarizes the status of the Company's restricted common stock:

	Number of Shares	Weighted Average Fair Value
Balance, December 31, 2009	2,220	$ 8.04
Granted	—	—
Vested	(888)	8.04
Forfeited	—	—
Balance, June 30, 2010	1,332	$ 8.04

Stock Options

The following summarizes the activity under the Company's stock option plans:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2009	3,542,590	$ 8.36	
Granted	291,500	14.91	
Exercised	(242,986)	4.08	$ 2,621(1)
Canceled	(66,819)	14.36	
Balance, June 30, 2010	3,524,285	$ 9.09	$ 22,577
Vested, June 30, 2010	1,897,476	$ 8.18	$ 13,966(2)
Vested and expected to vest, June 30, 2010 (3)	2,935,000		$ 19,488

(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 June 30, 2010, and the exercise price of the underlying options.

(3) Represents the number of vested options as of June 30, 2010, plus the number of unvested options expected to vest as of June 30, 2010, based on the unvested options outstanding as of June 30, 2010, adjusted for the estimated forfeiture rate of 16%.

At the time of grant, options granted under the Company's 2000 Stock Option and Incentive Plan (the "2000 Plan") are typically immediately exercisable, but subject to restrictions. Therefore, under the 2000 Plan, the number of options exercisable is greater than the number of options vested until all options are fully vested.

As of June 30, 2010 and 2009, 7,618 and 22,367 shares were contingently issued under the employee stock purchase plan ("ESPP"), respectively. In the three and six months ended June 30, 2010 and 2009, the Company recorded no significant stock-based compensation charges related to the ESPP.

Employee stock-based compensation expense recognized in the three and six months ended June 30, 2010 was $1.3 million and $2.7 million, respectively. Employee stock-based compensation expense recognized in the three and six months ended June 30, 2009 was $1.0 million and $2.2 million, respectively. The employee stock-based compensation expense relates to all stock awards granted.

12. 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.

13. Restatement of Previously Issued Financial Statements

Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2010, the Company and its audit committee concluded that it should restate its consolidated balance sheet at December 31, 2009, and its consolidated statements of operations and cash flows, for the quarter ended March 31, 2010 to correct the following error:

In September 2009, the Company entered into an amendment to its existing Facility Agreement which was determined at the time to be an early extinguishment of the debt borrowed thereunder. As a result, the Company expensed $7.6 million of non-cash interest related to the write-off of remaining debt discount and related fees such as deferred financing costs on the original loan. Upon subsequent review the Company determined on July 29, 2010, that the amendment should have been treated as a modification of the original loan as compared to an early extinguishment in its previously issued financial statements. A debt modification recognizes debt discount and related fees relating to the original borrowings over the term of the new borrowing, as well as additional discount on the new borrowing, as a non-cash adjustment to interest expense rather than as a non-cash loss on debt extinguishment at the time the original borrowing is amended. Accordingly, the Company has concluded that a correction was required to recognize the amendment as a modification and recognize as non-cash interest expense the debt discount and related fees on the original debt from the date of the amendment in September 2009 through the maturity of the Facility Agreement in September 2012.

The following tables summarize the effect of the restatement by major financial statement line item for the relevant periods (in thousands). The restatement resulted in an increase in other assets of $1.2 million at December 31, 2009 related to the capitalization of issuance costs incurred net of interest expense recognized over the term of the loan and an decrease of long-term debt of $7.8 million related to the debt discount on the warrants and shares issued in connection with the Facility Agreement, net of interest expense recognized. The restatement resulted in an increase in interest expense of $0.6 million in the three months ended March 31, 2010 with an equivalent increase in net interest expense and net loss. The restatement had no effect on any additional amounts reported in periods prior to the quarter ended September 30, 2009.

Consolidated Balance Sheet

	December 31, 2009	
	As Previously Reported	As Restated
Other assets	$ 1,862	$ 3,072
Total assets	171,648	172,858
Long-term debt, net of current portion	96,979	89,136
Total liabilities	118,791	110,948
Additional paid-in capital	382,709	384,565
Accumulated deficit	(329,891)	(322,694)
Total stockholders' equity	52,857	61,910
Total liabilities and stockholders' equity	171,648	172,858

Consolidated Statement of Operations

	Three Months Ended March 31, 2010	
	As Previously Reported	As Restated
Interest expense	$ (3,149)	$ (3,785)
Net interest expense	(3,125)	(3,761)
Net loss	(13,855)	(14,491)
Net loss per share basic and diluted	(0.37)	(0.38)

Consolidated Statement of Cash Flows

	Three Months Ended March 31, 2010	
	As Previously Reported	As Restated
Net loss	$ (13,855)	$ (14,491)
Amortization of debt discount	1,238	1,789
Non cash interest expense	132	217

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 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: our historical operating losses; our dependence on the OmniPod System; our ability to achieve and maintain market acceptance of the OmniPod System; our ability to increase customer orders and manufacturing volume; adverse changes in general economic conditions; our ability to raise additional funds in the future; our ability to anticipate and effectively manage risks associated with doing business internationally, particularly in China; our dependence on third-party suppliers; 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 affects 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; our ability to attract and retain key personnel; our ability to manage our growth; our ability to maintain compliance with the restrictions and related to our indebtedness; our ability to successfully maintain effective internal controls; the volatility of the price of our common stock; and other risks and uncertainties described in our Annual Report on Form 10-K for the

year ended December 31, 2009, which was filed with the Securities and Exchange Commission on March 9, 2010 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.

Restatement of Previously Issued Financial Statements

Financial data when presented throughout the MD&A includes the effect of the restatement of certain prior period amounts, as described in Note 13 to our consolidated financial statements. The restatement resulted in an increase in other assets of $1.2 million at December 31, 2009 related to the capitalization of issuance costs incurred net of interest expense recognized over the term of the loan and a decrease of long-term debt of $7.8 million related to the debt discount on the warrants and shares issued in connection with the Facility Agreement, net of interest expense recognized. The restatement resulted in an increase in interest expense of $0.6 million in the three months ended March 31, 2010 with an equivalent increase in net interest expense and net loss. The restatement had no effect on any amounts reported in periods prior to the quarter ended September 30, 2009.

Consolidated Balance Sheet

	December 31, 2009	
	As Previously Reported	As Restated
Other assets	$ 1,862	$ 3,072
Total assets	171,648	172,858
Long-term debt, net of current portion	96,979	89,136
Total liabilities	118,791	110,948
Additional paid-in capital	382,709	384,565
Accumulated deficit	(329,891)	(322,694)
Total stockholders' equity	52,857	61,910
Total liabilities and stockholders' equity	171,648	172,858

Consolidated Statement of Operations

	Three Months Ended March 31, 2010	
	As Previously Reported	As Restated
Interest expense	$ (3,149)	$ (3,785)
Net interest expense	(3,125)	(3,761)
Net loss	(13,855)	(14,491)
Net loss per share basic and diluted	(0.37)	(0.38)

Consolidated Statement of Cash Flows

	Three Months Ended March 31, 2010	
	As Previously Reported	As Restated
Net loss	$ (13,855)	$ (14,491)
Amortization of debt discount	1,238	1,789
Non cash interest expense	132	217

Overview

We are a medical device company that develops, manufactures and markets an insulin infusion system for people with insulin-dependent diabetes. Our proprietary OmniPod Insulin Management System consists of our disposable OmniPod insulin infusion device and our handheld, wireless Personal Diabetes Manager.

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 availability of the OmniPod System in the entire United States through internal sales and distribution channels as well as third-party distributors. In January 2010, we entered into a five-year exclusive distribution agreement with Ypsomed Distribution AG, or Ypsomed, which intends to distribute and sell our OmniPod System in eleven countries, subject to approved reimbursement. We focus our sales towards key diabetes practitioners, academic centers and clinics specializing in the treatment of diabetes patients, as well as individual diabetes patients.

We currently produce the OmniPod on a partially automated manufacturing line at a facility in China operated by a subsidiary of Flextronics International Ltd. We purchase complete OmniPods pursuant to our agreement with Flextronics. 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 was 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 specified number of days is intended to provide the parties with sufficient time to make alternative arrangements in the event of termination. By purchasing OmniPods manufactured by Flextronics in China, we have been able to substantially increase production volumes for the OmniPod and reduce our per unit production cost.

To achieve profitability, we continue to seek to increase manufacturing volume and reduce the per unit production cost for the OmniPod by collaborating with contract manufacturers and reducing the cost of raw materials and sub-assemblies. By increasing production volumes of the OmniPod, we have been able to reduce our per-unit raw material costs and improve absorption of manufacturing overhead costs. This, as well as the continued collaboration with contract manufacturers to reduce the cost of supplies of raw materials and sub-assemblies are important as we strive to achieve profitability. We believe our manufacturing capacity is sufficient to meet our expected 2010 demand for OmniPods.

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, social networking, patient demonstration programs, support materials, media advertisements and events at the national, regional and local levels. 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. In addition, we entered into a distribution agreement with Ypsomed to become the exclusive distributor of the OmniPod System in eleven countries. Ypsomed obtained reimbursement approval in both Germany and the United Kingdom in the second quarter of 2010 and accordingly, we shipped product for distribution in these countries to Ypsomed. We expect that Ypsomed will begin distributing the OmniPod System, subject to approved reimbursement, in several other markets in the second half of 2010 and in the first half of 2011. We expect Ypsomed to work with the appropriate agencies to establish an appropriate distribution and reimbursement process in the remainder of these countries.

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. As we expand our sales and marketing focus, increase our manufacturing capacity and expand to international markets, we will need to maintain and expand available reimbursement for the OmniPod System.

Our continued growth is dependent on our ability to generate interest in our products through sales and marketing activities. We are also dependent on our ability to effectively and correctly evaluate the extent of patients' reimbursement coverage under applicable reimbursement programs in order to convert customer inquiries into shipments and revenue.

Since our inception in 2000, we have incurred losses every quarter. In the three and six months ended June 30, 2010, we incurred net losses of $13.7 million and $28.2 million, respectively. As of June 30, 2010, we had an accumulated deficit of $350.9 million. We have financed our operations through the private placement of debt and equity securities, public offerings of our common stock, a private placement of our convertible debt and borrowings under certain debt agreements. In October 2009, we issued and sold 6,900,000 shares of our common stock at a price to the public of $10.25 per share. In connection with the offering, we received total gross proceeds of $70.7 million, or approximately $66.1 million in net proceeds after deducting underwriting discounts and offering expenses. As of June 30, 2010, we had $85.0 million of convertible debt outstanding and $32.5 million of outstanding debt relating to a Facility Agreement entered into March 13, 2009 and amended on September 25, 2009 and June 17, 2010.

Our long-term financial objective is to achieve and sustain profitable growth. Our efforts for the remainder of 2010 will be focused primarily on finalizing our next generation OmniPod, continuing to reduce our per-unit production costs, expanding sales to international markets and reducing our spending on manufacturing overhead and operating expenses as a percentage of revenue. The

introduction of our next generation OmniPod and the continued expansion of our manufacturing capacity will help us to achieve lower material costs due to design modification on the new version, volume purchase discounts and improved absorption of manufacturing overhead costs, reducing our cost of revenue as a percentage of revenue. Achieving these objectives is expected to require additional investments in certain personnel and initiatives to allow for us to increase our market penetration in the United States market and enter certain international markets. We believe that we will continue to incur net losses in the near term in order to achieve these objectives. However, we believe that the accomplishment of our near term objectives will have a positive impact on our financial condition in the future.

Facility Agreement and Common Stock Warrants

In March 2009, we entered into a Facility Agreement with certain institutional accredited investors, pursuant to which the investors agreed to loan us up to $60 million, subject to the terms and conditions set forth in the Facility Agreement. Following the initial disbursement of $27.5 million on March 31, 2009, we could, but were not required to, draw down on the facility in $6.5 million increments at any time until November 2010 provided that we met certain financial performance milestones. In connection with this financing, we paid Deerfield Management Company, L.P., an affiliate of the lead lender, a one-time transaction fee of $1.2 million. Total financing costs, including the transaction fee, were $3.0 million and are being amortized as interest expense over the 42 month term of the Facility Agreement.

In connection with the execution of the Facility Agreement, we issued to the lenders fully exercisable warrants to purchase an aggregate of 3.75 million shares of our common stock at an exercise price of $3.13 per share. Pursuant to the original terms of the Facility Agreement, we would have been required to issue additional warrants to purchase 1.5 million shares upon drawing down the remaining $32.5 million under the facility. The warrants qualified for permanent treatment as equity, and their relative fair value of $6.1 million on the issuance date was recorded as additional paid-in capital and debt discount. The debt discount is being amortized as interest expense over the term of the loan.

The amounts initially drawn under the Facility Agreement accrued interest at a rate of 9.75% per annum, and the undrawn amounts under the Facility Agreement accrued interest at a rate of 2.75% per annum. Accrued interest is payable quarterly in cash in arrears.

In September 2009, we entered into an Amendment to the Facility Agreement whereby we repaid the $27.5 million of outstanding debt and promptly drew down the remaining $32.5 million available under the Facility Agreement. The lender eliminated all future performance milestones associated with the remaining $32.5 million available on the credit facility and reduced the annual interest rate on any borrowed funds to 8.5%. In connection with the Amendment to the Facility Agreement, we entered into a Securities Purchase Agreement with the lenders whereby we sold 2,855,659 shares of our common stock to the lenders at $9.63 per share, a $1.9 million discount based on the closing price of our common stock of $10.28 on that date. We recorded the $1.9 million as a debt discount which is being amortized as interest expense over the remaining term of the loan. We received aggregate proceeds of $27.5 million in connection with the sale of our shares.

All principal amounts outstanding under the Facility Agreement are payable in September 2012. Any amounts drawn under the Facility Agreement may become immediately due and payable upon (i) an "event of default," as defined in the Facility Agreement, in which case the lenders would have the right to require us to re-pay 100% of the principal amount of the loan, plus any accrued and unpaid interest thereon, or (ii) the consummation of certain change of control transactions, in which case the lenders would have the right to require us to re-pay 106% of the outstanding principal amount of the loan, plus any accrued and unpaid interest thereon. The amended Facility Agreement also provides for certain prepayment penalties in the event that we repay the debt prior to its maturity.

In June 2010, we entered into a Second Amendment to the Facility Agreement whereby we paid a $0.5 million amendment fee to the lenders in exchange for the reduction of the prepayment penalties we must pay in certain events as well as the modification of certain other terms in the Facility Agreement. The fee was recorded as a debt discount and is being amortized to interest expense over the remaining term of the loan.

All references herein to the "Facility Agreement" refer to the Facility Agreement entered into in March 2009 and amended in September 2009 and June 2010.

Because the consummation of certain change of control transactions would result in the payment of a premium of the outstanding principal, the premium feature is a derivative that is required to be bifurcated from the host debt instrument and recorded at fair value at each quarter end. As a prepayment penalty could be paid by us in the event that we repay the debt prior to maturity, the prepayment penalty is also considered a derivative. The prepayment penalty does not meet the criteria to be accounted for separately. Any changes in fair value of the premium feature will be recorded as interest expense. The difference between the face value of the outstanding principal on the Facility Agreement and the amount remaining after the bifurcation will be recorded as a discount to be amortized over the term of the Facility Agreement. As of June 30, 2010, the premium feature associated with the Facility Agreement had no value as we do not currently expect a change in control transaction to occur. The embedded derivatives related to the Facility Agreement will be reassessed and marked-to-market through earnings on a quarterly basis.

As of June 30, 2010 and December 31, 2009, outstanding debt related to the Facility Agreement of $25.3 million and $24.7 million, respectively, was included in long-term debt in the consolidated balance sheet, respectively.

In the three and six months ended June 30, 2010, cash interest related to the Facility Agreement of approximately $0.7 million and $1.4 million, respectively, was recorded. In addition, in the three and six months ended June 30, 2010, non-cash interest of approximately $0.7 million and $1.3 million, respectively, was recorded. Non-cash interest in the three and six months ended June 30, 2010 consists of amortization of the debt discount from the issuance of warrants and transaction fee in March 2009, from the discount on the shares sold in connection with the amendment in September 2009, from the transaction fee in connection with the amendment in June 2010 and amortization of the issuance costs associated with the debt.

In the three and six months ended June 30, 2009, cash interest related to the Facility Agreement of approximately $0.9 million was recorded. In addition, in the three and six months ended June 30, 2009, non-cash interest of approximately $0.6 million was recorded. Non-cash interest in the three and six months ended June 30, 2009 consists of amortization of the debt discount from the issuance of warrants and transaction fee in March 2009 and amortization of the issuance costs associated with the debt.

In March 2009, in connection with the execution of the Facility Agreement, we issued to the lenders fully exercisable warrants to purchase an aggregate of 3.75 million shares of common stock at an exercise price of $3.13 per share. Pursuant to the original terms of the Facility Agreement, we would have been required to issue additional warrants to purchase 1.5 million shares upon drawing down the remaining $32.5 million under the facility. In connection with the Amendment to the Facility Agreement in September 2009, the lenders agreed to forego the remaining 1.5 million additional warrants that would have been issued upon future draws. The warrants issued in connection with the Facility Agreement qualify for permanent classification as equity and their relative fair value of $6.1 million on issuance date was recorded as additional paid in capital and debt discount. In June 2010, the lenders exercised warrants to acquire 2,125,000 shares of our common stock at an exercise price of $3.13 in cash. We received cash totaling $6.7 million as a result of this exercise.

As of June 30, 2010, warrants to acquire 1,625,000 shares of our common stock issued under the Facility Agreement remain unexercised, expire on March 13, 2015 and contain certain limitations that prevent the holder from acquiring shares upon exercise of a warrant that would result in the number of shares beneficially owned by it to exceed 9.98% of the total number of shares of our common stock then issued and outstanding.

In addition, upon certain change of control transactions, or upon certain “events of default” (as defined in the warrant agreement), the holder has the right to net exercise the warrants for an amount of shares of our common stock equal to the Black-Scholes value of the shares issuable under the warrants divided by 95% of the closing price of the common stock on the day immediately prior to the consummation of such change of control or event of default, as applicable. In certain circumstances where a warrant or portion of a warrant is not net exercised in connection with a change of control or event of default, the holder will be paid an amount in cash equal to the Black-Scholes value of such portion of the warrant not treated as a net exercise.

Convertible Notes

In June 2008, we sold $85.0 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. 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, 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, 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 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).

We recorded a debt discount of $26.9 million to equity to reflect the value of our nonconvertible debt borrowing rate of 14.5% per annum. This debt discount is being amortized as interest expense over the 5 year life of the 5.375% Notes.

We incurred deferred financing costs related to this offering of approximately $3.5 million, of which $1.1 million has been reclassified as an offset to the value of the amount allocated to equity. The remainder is recorded as other assets in the consolidated balance sheet and is being amortized as a component of interest expense over the five year term of the 5.375% Notes. We incurred interest expense related to the 5.375% Notes of approximately $2.5 million and $5.0 million for the three and six months ended June 30, 2010, respectively. Of the $2.5 million recorded in the three months ended June 30, 2010, approximately $1.4 million relates to

amortization of the debt discount and deferred financing costs and $1.1 million relates to cash interest. Of the $5.0 million recorded in the six months ended June 30, 2010, approximately $2.7 million relates to amortization of the debt discount and deferred financing costs and $2.3 million relates to cash interest. For the three and six months ended June 30, 2009,we incurred interest expense related to the 5.375% Notes of approximately $2.2 million and $4.4 million, respectively. Of the $2.2 million recorded in the three months ended June 30, 2009, approximately $1.1 million relates to amortization of the debt discount and deferred financing cost and $1.1 million relates to cash interest. Of the $4.4 million recorded in the six months ended June 30, 2009, approximately $2.2 million relates to amortization of the debt discount and deferred financing cost and $2.2 million relates to cash interest.

As of June 30, 2010, the outstanding amounts related to the 5.375% Notes of $67.0 million are included in long-term debt in the consolidated balance sheet and reflect the debt discount of $18.0 million. As of December 31, 2009, the outstanding amounts related to the 5.375% Notes of $64.5 million are included in long-term debt and reflect the debt discount of $20.5 million. The debt discount includes the equity allocation of $25.8 million (which represents $26.9 million less the $1.1 million of allocated financing costs) offset by the accretion of the debt discount through interest expense from the issuance date over the 5 year term of the notes. We recorded $1.2 million and $2.5 million of interest expense related to the debt discount in the three and six months ended June 30, 2010, respectively. We recorded $1.1 million and $2.2 million of interest expense related to the debt discount in the three and six months ended June 30, 2009, respectively. As of June 30, 2010, the 5.375% Notes have a remaining term of 3 years.

We 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 our then-existing term loan, including outstanding principal and accrued and unpaid interest of $21.8 million, a prepayment fee related to the term loan of approximately $0.4 million and a termination fee related to the term loan of $0.9 million. We are using the remainder for general corporate purposes. 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. At June 30, 2010, warrants to purchase 62,752 shares of common stock remain outstanding and exercisable at a price of $9.56 per share.

Financial Operations Overview

Revenue. 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, the OmniPod System User Guide and our 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. In January 2010, we entered into an exclusive distribution agreement with Ypsomed which intends to distribute and sell the OmniPod System, subject to approved reimbursement, in eleven countries. Ypsomed obtained reimbursement approval in both Germany and the United Kingdom in the second quarter of 2010, and accordingly, we shipped product for distribution in these countries to Ypsomed. We expect that Ypsomed will begin distributing the OmniPod System, subject to approved reimbursement, in several other markets in the second half of 2010 and in the first half of 2011. We have not recorded revenue related to the Ypsomed agreement. For the three months ended June 30, 2010, 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 certain amounts for services performed by us in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to certain customers in the United States and Israel. We recognize the revenue related to this portion of the Abbott agreement at the time we meet the criteria for revenue recognition, typically at the time of the sale of the PDM to a new patient. In the three and six months ended June 30, 2010 we recognized revenue related to the amended Abbott agreement of $1.3 million and $2.4 million, respectively. In the three and six months ended June 30, 2009 we recognized revenue related to the amended Abbott agreement of $1.0 million and $2.1 million, respectively. There was no impact to cost of revenue related to this agreement.

In July 2010, we entered into the second amendment to the development and license agreement with Abbott. Under the second amendment, Abbott agreed to pay certain amounts to us for services we performed in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to customers in certain additional territories.

As of June 30, 2010 and December 31, 2009, we had deferred revenue of $5.7 million and $5.1 million, respectively, which includes product-related revenue as well as the unrecognized portion of the agreement fee related to the Abbott agreement. For the year ending December 31, 2010, we expect our revenue to continue to increase as we continue to gain new customers in the United States and expand to Germany, the United Kingdom, and certain other international markets.

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, freight and packaging costs. The increase in our OmniPod production volume, as well as our ability to gain cost savings on our bill of materials, is expected to reduce the per-unit cost of manufacturing the OmniPods

by allowing us to reduce our direct costs and spread our fixed and semi-fixed overhead costs over a greater number of units.

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. In the first half of 2010, we incurred higher levels of spending on our research and development efforts, which are focused primarily on increased functionality, improved design for patient convenience, ease of use, and reduction of production costs, as well as developing a new OmniPod System that incorporates continuous glucose monitoring technology. We expect this level of spending will continue in the second half of this year.

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, bad debt expenses, shipping, handling and facilities-related costs. For the remainder of 2010, we expect general and administrative expenses to decrease slightly from current levels as we continue to drive efficiencies in our administrative functions.

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 activities, including distribution of units used in our demonstration kit programs. For the remainder of 2010, we expect sales and marketing expenses to increase compared to current levels as we expand our sales and marketing efforts to meet our business needs and international expansion.

Results of Operations

The following table presents certain statement of operations information for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
	(in thousands)					
Revenue	$ 22,937	$ 14,617	57%	$ 43,744	$ 27,086	62%
Cost of revenue	13,051	11,448	14%	25,473	21,922	16%
Gross profit	9,886	3,169	212%	18,271	5,164	254%
Operating expenses:						
Research and development	4,583	3,272	40%	8,430	6,476	30%
General and administrative	6,190	5,838	6%	13,149	13,329	1%
Sales and marketing	9,013	10,504	14%	17,322	19,276	10%
Total operating expenses	19,786	19,614	1%	38,901	39,081	0%
Operating loss	(9,900)	(16,445)	40%	(20,630)	(33,917)	39%
Other expense, net	(3,811)	(3,794)	0%	(7,571)	(5,967)	27%
Net loss	$(13,711)	$(20,239)	32%	$(28,201)	$(39,884)	29%

Comparison of the Three and Six Months Ended June 30, 2010 and 2009

Revenue

Our total revenue was $22.9 million and $43.7 million for the three and six months ended June 30, 2010, compared to $14.6 million and $27.1 million for the same periods in 2009. The increase in revenue is primarily due to an increased number of patients using the OmniPod System and an increase in sales to distributors. We expect our revenue to continue to increase as we continue to add new patients, both in the United States and internationally, and generate a higher volume of reorders based on our expanding patient base. In addition, we expect to continue to recognize additional revenue related to the Abbott agreement.

Cost of Revenue

Cost of revenue was $13.1 million and $25.5 million for the three and six months ended June 30, 2010, compared to $11.4 million and $21.9 million for the same period in 2009. The increase in cost of revenue is primarily due to the significantly increased sales volume. This increase was partially offset by a decrease in per-unit costs to manufacture the OmniPod in the three and six months ended June 30, 2010, as compared to the same periods in 2009. The decrease in our per-unit cost was a result of cost savings on raw materials, volume discounts from our suppliers and increased production volumes. We experienced continuing improvement of our gross margin as a result of the increase in revenue as well as the decrease in the per-unit cost to manufacture the OmniPod for the three and six months ended June 30, 2010 compared to the same periods in 2009.

Research and Development

Research and development expenses increased $1.3 million, or 40%, to $4.6 million for the three months ended June 30, 2010 compared to $3.3 million for the same period in 2009. Research and development expenses increased $2.0 million, or 30%, to $8.4 million for the six months ended June 30, 2010 compared to $6.5 million for the same period in 2009. For the three months ended June 30, 2010, the increase in research and development expenses was attributable to an increase of $1.0 million related to the expensing of costs previously capitalized for the development of our next generation OmniPod, $0.5 million in outside services and $0.1 million in supplies and consumables. These increases were offset by a decrease in employee related expenses including stock-based compensation of $0.3 million. For the six months ended June 30, 2010, the increase in research and development expenses was primarily attributable to an increase of $1.0 million related to the expensing of costs previously capitalized for the development of our next generation OmniPod, $1.3 million in outside services and $0.4 million in supplies and consumables. The increased costs were offset by a $0.7 million decrease in employee related expenses including stock-based compensation.

General and Administrative

General and administrative expenses increased $0.4 million, or 6%, to $6.2 million for the three months ended June 30, 2010, compared to $5.8 million for the same period in 2009. General and administrative expenses decreased $0.2 million, or 1%, to $13.1 million for the six months ended June 30, 2010, compared to $13.3 million for the same period in 2009. For the three months ended June 30, 2010, the increase in general and administrative expenses was primarily due to an increase of $0.2 million in outside services and a $0.2 million increase in allowances and write-offs of trade accounts receivable. These increases were offset by a decrease of $0.1 million in employee compensation and benefit costs, including stock-based compensation. For the six months ended June 30, 2010, the decrease in general and administrative expenses was attributable to a decrease in supplies and consumables of $0.2 million and a decrease in depreciation expense of $0.1 million. The decreases were offset by an increase of $0.1 million in employee related expenses including stock-based compensation.

Sales and Marketing

Sales and marketing expenses decreased $1.5 million, or 14%, to $9.0 million for the three months ended June 30, 2010, compared to $10.5 million for the same period in 2009. Sales and marketing expenses decreased $2.0 million, or 10%, to $17.3 million for the six months ended June 30, 2010, compared to $19.3 million for the same period in 2009. For the three months ended June 30, 2010, the decrease in sales and marketing expenses was primarily due to a decrease of $0.9 million in samples and Patient Demonstration Kits, a decrease of $0.6 million in outside services and a decrease of $0.3 million in travel related expenses. These decreases were partially offset by a $0.3 million increase in employee related expenses including stock-based compensation. For the six months ended June 30, 2010, the decrease in sales and marketing was primarily due to a decrease of $1.3 million in samples and Patient Demonstration Kits, a decrease of $0.5 million in outside services and a decrease of $0.4 million in travel related expenses. The decreases were offset by an increase of $0.3 million in employee related expenses including stock-based compensation.

Other Income (Expense)

Net interest expense was $3.8 million for both the three months ended June 30, 2010 and June 30, 2009. Net interest expense was $7.6 million for the six months ended June 30, 2010, compared to $6.0 million for the same period in 2009. For the three months ended June 30, 2010, the slight increase in net interest expense was primarily due to the additional non-cash interest associated with the Amendment to the Facility Agreement in September 2009 and June 2010. For the six months ended June 30, 2010, the increase in net interest expense was primarily due to amortization of the debt discount related to our 5.375% Notes and additional non-cash interest associated with the amendments to the Facility Agreement in September 2009 and June 2010.

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 June 30, 2010, we had $118.1 million in cash and cash equivalents. We believe that our current cash and cash equivalents, 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.

Equity

In October 2009, in a public offering, we issued and sold 6,900,000 shares of our common stock at a price to the public of $10.25 per share. In connection with this offering, we received total gross proceeds of $70.7 million, or approximately $66.1 million in net proceeds after deducting underwriter discounts and offering expenses.

Facility Agreement

In March 2009, we entered into a Facility Agreement with certain institutional accredited investors, pursuant to which the investors agreed to loan us up to $60 million, subject to the terms and conditions set forth in the Facility Agreement. Following the initial disbursement of $27.5 million on March 31, 2009, we could, but were not required to, draw down on the facility in $6.5 million

increments at any time until November 2010 provided that we met certain financial performance milestones. In connection with this financing, we paid Deerfield Management Company, L.P., an affiliate of the lead lender, a one-time transaction fee of $1.2 million. Total financing costs, including the transaction fee, as of June 30, 2009 were $3.0 million. The amounts initially drawn under the Facility Agreement accrued interest at a rate of 9.75% per annum, and the undrawn amounts under the Facility Agreement accrued interest at a rate of 2.75% per annum. Accrued interest is payable quarterly in cash in arrears.

In September 2009, we entered into an Amendment to the Facility Agreement whereby we repaid the $27.5 million of outstanding debt and promptly drew down the remaining $32.5 million available under the Facility Agreement. The lender eliminated all future performance-related milestones associated with the remaining $32.5 million available on the credit facility and reduced the annual interest rate to 8.5%. In connection with the Amendment to the Facility Agreement, we entered into a Securities Purchase Agreement with the lenders whereby we sold 2,855,659 shares of our common stock to the lenders at $9.63 per share, a $1.9 million discount based on the closing price of our common stock of $10.28 on that date. We recorded the $1.9 million as a debt discount which is being amortized to interest expense over the remaining term of the loan. We received aggregate proceeds of $27.5 million in connection with the sale of our shares. All principal amounts outstanding under the Facility Agreement are payable in September 2012.

In June 2010, we entered into a Second Amendment to the Facility Agreement whereby we paid a $0.5 million amendment fee in exchange for the reduction of the prepayment penalties as well as the modification of certain other terms of the Agreement. The fee was recorded as a debt discount and is being amortized as interest expense over the remaining term of the loan.

Common Stock Warrants

In March 2009, in connection with the execution of the Facility Agreement, we issued to the lenders fully exercisable warrants to purchase an aggregate of 3.75 million shares of common stock at an exercise price of $3.13 per share. The warrants qualified for permanent treatment as equity, and their relative fair value of $6.1 million on the issuance date was recorded as additional paid-in capital and debt discount. The debt discount is being amortized as interest expense over the term of the loan. Pursuant to the Facility Agreement, we would have been required to issue additional warrants to purchase 1.5 million shares upon drawing down the remaining $32.5 million under the facility. In connection with the Amendment of the Facility Agreement in September 2009, the lenders agreed to forego the remaining 1.5 million additional warrants that would have been issued upon future draws. In June 2010, the lenders exercised warrants to acquire 2,125,000 shares of our common stock at an exercise price of $3.13 per share. We received cash totaling $6.7 million as a result of this exercise. As of June 30, 2010, warrants issued under the Facility Agreement to acquire 1,625,000 shares of our common stock remain unexercised.

Convertible Notes

In June 2008, we sold $85.0 million principal amount of 5.375% 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. 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. We used a portion of the net proceeds to repay the entire outstanding principal balance, plus accrued and unpaid interest, under our then-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.

Operating Activities

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

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Cash used in operating activities	$ (15,058)	$ (28,463)
Net loss	$ (28,201)	$ (39,884)

For each of the periods above, the 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 of the debt discount and stock-based compensation expense as well as changes to working capital. During the six months ended June 30, 2010, we recorded a non-cash charge to operations of approximately $1.0 million related to our review of costs incurred on capital projects in process that we determined are no longer appropriate to capitalize. Significant uses of cash from operations include an increase in accounts receivable, offset by increases in accounts payable and accrued expenses and deferred revenue. The increase in accounts receivable is primarily attributable to our increased sales. Accounts receivables are shown net of allowances for doubtful accounts in the consolidated balance sheets. The increase in accounts payable and accrued expenses are primarily attributed to timing on payments to our contract manufacturers.

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:

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Cash used in investing activities	$ (1,986)	$ (756)
Cash provided by financing activities	$ 7,119	$ 24,918

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. Our cash used in investing activities has increased significantly in the six months ended June 30, 2010, compared to the six months ended June 30, 2009, as we increased spending on equipment to be used to manufacture our next generation of the OmniPod. Capital expenditures are expected to continue to increase in 2010 compared to 2009. Cash provided by financing activities in the six months ended June 30, 2010 mainly consisted of the net proceeds from the issuance of common stock in connection with the exercise of warrants to purchase 2,125,000 shares of common stock and employee stock options. Cash provided by financing activities in the six months ended June 30, 2009 was mainly related to the net proceeds from the Facility Agreement entered into in March 2009.

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 term of the lease. As of June 30, 2010, we had an outstanding letter of credit which totaled $0.2 million to cover our security deposits for lease obligations.

Off-Balance Sheet Arrangements

As of June 30, 2010, 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 and 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 includes the PDM, the OmniPod System User Guide and our OmniPod System Interactive Training CD. Subsequent sales to existing customers typically consist of additional OmniPods.

Revenue recognition 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 customer typically upon transfer to the third party carrier.
- 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 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.

We offer a 45-day right of return for our Starter Kits sales, and 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.

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 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 us certain amounts for services performed by us in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to certain customers. We recognize the revenue related to this portion of the Abbott agreement at the time we meet the criteria for revenue recognition, typically at the time of sale of the PDM to the patient. In the three and six month periods ended June 30, 2010, we recognized revenue related to the amended Abbott agreement of $1.3 million and $2.4 million, respectively. In the three and six month periods ended June 30, 2009, we recognized revenue related to the amended Abbott agreement of $1.0 million and $2.1 million, respectively. There was no impact to cost of revenue related to this agreement.

We had deferred revenue of $5.7 million and $5.1 million as of June 30, 2010 and December 31, 2009, respectively. The deferred revenue recorded as of June 30, 2010 was comprised of product-related revenue as well as the non-amortized agreement fee related to the Abbott agreement.

Restructuring Expense and Impairment of Assets

In connection with our efforts to pursue improved gross margins, leverage operational efficiencies and better pursue opportunities for low-cost supplier sourcing of asset costs, we periodically perform an evaluation of our manufacturing processes and review the carrying value of our property and equipment to assess the recoverability of these assets whenever events indicate that impairment may have occurred. As part of this assessment, we review 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. This review of manufacturing processes and equipment can result in restructuring activity or an impairment of assets based on current net book value and potential future use of the assets.

Our restructuring expenses may also include workforce reduction and related costs for one-time termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement. We record these one-time termination benefits upon incurring the liability provided that the employees are notified, the plan is approved by the appropriate level of management, the employees to be terminated and the expected completion date are identified and the benefits the identified employees

will be paid are established. Significant changes to the plan are not expected when we record the costs. In recording the workforce reduction and related costs, we estimate related costs such as taxes and outplacement services which may be provided under the plan. If changes in these estimated services occur, we may be required to record or reverse restructuring expenses associated with these workforce reduction and related costs.

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. 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.

Income Taxes

We file federal and state tax returns. We have accumulated significant losses since our inception in 2000. Since the net operating losses may potentially be utilized in future years to reduce taxable income (subject to any applicable limitations), 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 June 30, 2010, 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. The allowance for doubtful accounts is recorded in the period in which the revenue is recorded or at the time potential collection risk is identified. We estimate our allowance based on historical experience, assessment of specific risk, discussions with individual customers and various assumptions and estimates that we believe to be reasonable under the circumstances.

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, 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. 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.

As of June 30, 2010, we had outstanding debt recorded on our consolidated balance sheet of $67.0 million related to our 5.375% Notes and $25.3 million related to our Facility Agreement. As the interest rates on the 5.375% Notes and the Facility Agreement are fixed, changes in interest rates do not affect the value of our debt.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of June 30, 2010, our 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 of our disclosure controls and procedures as of June 30, 2010, our chief executive officer and chief financial officer concluded that they believe that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level. Subsequently, we became aware of a material weakness in our internal control over financial reporting; namely, that we did not maintain effective internal controls over the accuracy of our accounting for the modification of debt. Specifically, the material weakness related to our consideration of the Debt Modifications and Extinguishments Subtopic of the FASB Accounting Standards Codification and its application in performing the calculation of the present value of the cash flows in determining whether the new debt instrument is substantially different than the old debt instrument.

Solely as a result of this material weakness, our management has concluded that our disclosure controls and procedures were not effective as of June 30, 2010.

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 June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In August 2010, the Company implemented a change to its internal control over financial reporting regarding the procedures used by the Company in evaluating an amendment to an existing debt agreement to determine if the amendment qualifies as a modification or an early extinguishment of debt. This change included improving the Company's consideration of the Debt Modifications and Extinguishments Subtopic of the FASB Accounting Standards Codification. Specifically, the Company implemented a procedure to ensure that in the event of future modifications to its debt instruments that it considers the various elements that could impact the calculations of the cash flows in determining whether the new debt instrument is substantially different than the old debt instrument including the effect of debt discounts and prepayment features as contemplated by ASC 470-50 *Debt — Modifications and Extinguishments*. In addition, the Company has initiated revisions to its internal training program to ensure that the appropriate finance personnel have been specifically trained on this new internal control.

Other than described above, there have been no changes in our internal control over financial reporting that occurred subsequent to June 30, 2010 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, 2009, 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 as 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, 2009 and as updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Document
10.1*	Amendment No. 2 to Development and License Agreement, dated as of June 30, 2010, by and between Abbott Diabetes Care, Inc., formerly known as TheraSense, Inc., and Insulet Corporation.
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 Brian Roberts, 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 Brian Roberts, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Portions of this exhibit have been redacted pursuant to a request for confidential treatment submitted to the Securities Exchange Commission.

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: August 9, 2010

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

Date: August 9, 2010

/s/ Brian Roberts
Brian Roberts
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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* Portions of this exhibit have been redacted pursuant to a request for confidential treatment submitted to the Securities Exchange Commission.

EXHIBIT 10.1

AMENDMENT NO. 2 TO DEVELOPMENT AND LICENSE AGREEMENT

This Amendment No. 2 (the "Amendment") dated June 30, 2010 ("Amendment No. 2 Effective Date") is entered into by and between Abbott Diabetes Care Inc., formerly known as TheraSense, Inc., ("ADC") and Insulet Corporation ("Insulet") to amend the Development and License Agreement entered into between TheraSense, Inc. ("Therasense") and Insulet, effective as of January 23, 2002 and as amended on March 3, 2008 (together with this Amendment No. 2 hereinafter referred to collectively as the "Agreement"). Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Agreement.

WHEREAS, pursuant to that Amendment No. 1 to Development and License Agreement dated March 3, 2008, ADC and Insulet amended their original Development and License Agreement to provide for an exclusive relationship in the United States and Israel pursuant to which Insulet would not market, promote, offer for sale, sell or distribute a Product with any DBGM other than an ADC DBGM; and

WHEREAS, in connection with that same Amendment No. 1 the parties agreed on certain commercial terms and conditions pursuant to which ADC would compensate Insulet for certain services performed by Insulet for New Customers and Upgrade Customers in the United States and Israel; and

WHEREAS, ADC and Insulet now desire to further amend the Agreement to enable Insulet to, directly or indirectly, market and sell, on a non-exclusive basis in the Expansion Territory, the Product (which as of the Amendment No. 2 Effective Date is marketed and sold by Insulet as the OmniPod Insulin Management System) with a Remote Controller that includes an ADC DBGM (which as of the Amendment No. 2 Effective Date is (i) made up of the FreeStyle Glucose Engine and the FreeStyle Test Strip Port, and (ii) uses the FreeStyle Test Strip or the FreeStyle Lite Test Strip to measure blood glucose values); and

WHEREAS, ADC and Insulet have also decided that they wish for Insulet to provide certain services for New Customers in the Expansion Territory, on such commercial terms and conditions as the parties deem appropriate in the Expansion Territory in consideration of the nature of the services and the markets and conditions in which they will be provided; and

WHEREAS, ADC and Insulet desire to incorporate into the Agreement certain of the terms of that letter agreement dated May 27, 2010, and agreed and acknowledged on June 8, 2010 ("Letter Agreement") regarding the provision by ADC to Insulet of certain no-charge meters for Insulet to provide to its end-user customers in the United States; and

WHEREAS, ADC and Insulet desire to update certain other provisions of the Agreement including the requirements and commitments with respect to labeling and branding of the Product;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained in this Amendment and in the Agreement, and expressly incorporating the foregoing recitals, ADC and Insulet hereby agree as follows:

1. The definition of "FreeStyle Meter" in the Recitals of the Agreement is amended as follows:

   "FreeStyle Meter" means that certain discrete blood glucose monitoring device owned and developed by ADC which (i) is made up of certain circuitry to measure glucose based on coulometric glucose measurement technology (the "FreeStyle Glucose Engine") and the FreeStyle Test Strip Port, (ii) uses a FreeStyle Test Strip or FreeStyle Lite Test Strip to measure blood glucose values and (iii) is commercialized by ADC under the tradename "FreeStyle Blood Glucose Monitor" and/or such other tradename as ADC may determine. For avoidance of doubt, the definition of a FreeStyle Meter does not include the FreeStyle Lite Blood Glucose Monitor.

2. The definition of "Test Strips" in the Recitals of the Agreement is amended as follows:

   "Test Strips" means those certain blood glucose test strips commercialized by ADC as the FreeStyle Test Strip and/or the FreeStyle Lite Test Strip.

3. The definition of "New Customer" at Section 1.35 is amended and restated as follows:

   "New Customer" is an end-user customer (i) who has not previously purchased or received a Remote Controller with an ADC DBGM, or (ii) who purchases or receives a Remote Controller that includes an ADC DBGM having connectivity to an ADC continuous glucose monitoring system.

4. The definition of Territory at Section 1.25 is amended and restated as follows:

   "Territory" means the United States of America, Canada and Israel.

5. The following new definition is hereby added at Section 1.37:

   "Expansion Territory" means Germany, France, UK, Netherlands, Switzerland, Belgium, Finland, Norway, and Sweden. Except as otherwise set forth herein, the Expansion Territory shall be considered a part of the Territory.

6. The following new definition is hereby added at Section 1.38:

   "Expansion Territory Customer Service Event" means [***].

7. Section 2.7(a) is amended and restated in its entirety as follows:

(a) Insulet represents and warrants that is has all regulatory approvals necessary for, or has submitted for regulatory approval for, the sale by it of the Product with ADC DBGM in the United States, Israel and Germany. Insulet shall be solely responsible for satisfying all regulatory requirements (including without limitation the obtaining and maintaining of all regulatory approvals) necessary for the sale by it of the Product with ADC DBGM in the Territory, including the conduct of all necessary clinical trials; provided that, upon request by Insulet, ADC shall provide to Insulet or the appropriate regulatory authorities, at ADC's expense, and pursuant to such commercially reasonable timelines as agreed to by both Parties, such information, data, materials and product samples in its possession as reasonably necessary to obtain such approvals; and, provided further, that (i) in the event ADC determines in its reasonable discretion that any information or documentation to be provided pursuant to this Section 2.7(a) contains information of a sensitive nature, ADC shall have the right to provide any such information or documentation in confidence directly to the applicable Regulatory Authorities provided it notifies Insulet of such submission, and (ii) ADC shall have no obligation to provide any information or documentation beyond that which has already been provided by ADC to the applicable regulatory authorities. Insulet shall keep ADC reasonably informed with respect to any regulatory filings and clinical trials that Insulet has conducted or is conducting regarding the Product and at a minimum shall provide ADC with written notice of all filings for regulatory approvals commensurate with Insulet's submission of such filings.

8. Section 2.11(a) is amended and restated in its entirety as follows:

(a) If ADC introduces to the market in the Territory a FreeStyle Meter that incorporates any modification, enhancement or improvement to the FreeStyle Glucose Engine or FreeStyle Test Strip Port in the FreeStyle Meter (hereinafter referred to as an "Improvement"), then, if ADC has the right to do so, ADC shall make such Improvement available to Insulet, and such Improvement shall be deemed to be part of the Technical Information for all purposes of this Agreement. ADC shall undertake commercially reasonable efforts to secure the right to make Improvements available to Insulet. For the avoidance of doubt, an Improvement does not include any new features or new functionality which ADC may bring to market for the FreeStyle Meter.

9. Section 2.11(b) is amended and restated in its entirety as follows:

(b) Insulet shall not, without prior consultation with ADC, modify the Product with ADC DBGM.

10. Section 6.3(a) is amended and restated as follows:

(a) Insulet will ensure that:

(i) by [***] the Product with ADC DBGM marketed and sold in the United States, Canada and Israel will contain the ADC "FreeStyle" trademark on the front bezel of the Remote Controller in a size and configuration as agreed in writing between ADC and Insulet, such size and configuration at a minimum requiring that the mark be clearly legible, prominent and visible, and in no event [***]; and

(ii) prior to any commercialization in the Expansion Territory, the Product with ADC DBGM marketed and sold in the Expansion Territory will contain the ADC "FreeStyle" trademark on the Remote Controller in such appearance and placement as finally determined by Insulet; provided that (1) the size of the mark shall be such that it is clearly legible and in no event [***], and (2) to the extent possible, [***].

11. Section 6.4(f) of Agreement is deleted in its entirety.

12. New Section 6.7 is added as follows:

6.7 Notice of Commercialization in Expansion Territories. Insulet will notify ADC in writing of its intent to begin marketing and selling the Product with ADC DBGM in each country in the Expansion Territory at least [***] prior to any such planned launch; provided that Insulet may launch [***].

13. New Section 6.8 is added as follows:

6.8 [***] Meters for New Customers

(a) At Insulet's request, and solely for inclusion as a sample with Insulet's OmniPod Insulin Management System system starter kit for the Product with ADC DBGM for New Customers, ADC will supply Insulet [***], up to the amount of the Kit Forecast (defined below), with kits containing an ADC meter system and a vial of up to [***] test strips (the "Kits"); provided, that Insulet shall provide ADC with a [***] rolling forecast of its Kit requirements for New Customers, on a country by country basis, at least [***] in advance of any month in which such Kits are required (the "Kit Forecast"), which Kit Forecast shall be subject to ADC's approval and acceptance in its sole discretion. ADC may terminate its obligation to provide Kits at any time upon [***] prior written notice to Insulet. ADC and Insulet agree that the Letter Agreement, and for the avoidance of doubt the letters dated March 3, 2005 and September 19, 2005 referenced therein, are hereby terminated and of no further force and effect.

(b) Insulet represents, warrants and covenants as follows:

i. Insulet will not provide any Kits other than to a New Customer (or to a third party only for distribution to a New Customer) as part of an OmniPod Insulin Management System starter kit for the Product with ADC DBGM; and

ii. Insulet will provide Kits at no charge and will not bill any third party for such Kits.

(c) Insulet and ADC each agree to comply with laws applicable to their respective operations and the transactions contemplated hereby, including but not limited to the Federal Social Security Act and applicable regulations thereunder related to the Federal Medicare and Medicaid Programs.

(d) EXCEPT FOR THE LIMITED WARRANTIES PROVIDED IN KIT LABELING OR INSERTS, ADC GRANTS NO OTHER WARRANTIES OR CONDITIONS, EXPRESS OR IMPLIED, BY STATUTE, IN ANY COMMUNICATION WITH INSULET OR ITS CUSTOMERS OR END-USERS, OR OTHERWISE, REGARDING THE KITS. ADC SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTIES OF FITNESS FOR PARTICULAR PURPOSE, MERCHANTABILITY, AND NONINFRINGEMENT, ADC DOES NOT WARRANT THAT OPERATION OF THE KITS WILL BE INTERRUPTED OR ERROR-FREE. ADC NEITHER ASSUMES NOR AUTHORIZES ANY OTHER PERSON TO ASSUME ANY OTHER LIABILITIES ARISING OUT OF OR IN CONNECTION WITH THE SALE OR USE OF ANY KIT. ANY OTHER REPRESENTATIONS OR WARRANTIES MADE BY ANY PERSON OR ENTITY, INCLUDING EMPLOYEES OR REPRESENTATIVES OF ADC, THAT ARE INCONSISTENT HEREWITH WILL BE DISREGARDED AND WILL NOT BE BINDING UPON ADC. ADC WILL HAVE NO LIABILITY FOR INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES RELATING TO THE SALE OR USE OF ANY OF THE KITS AND ADC'S LIABILITY THEREFOR WILL BE LIMITED TO [***].

14. For the avoidance of doubt, discontinuance of the FreeStyle Test Strips, or notice of discontinuance of the FreeStyle Test Strips pursuant to Section 6.4(e)(iii), does not entitle either Party to terminate the Agreement;

15. For the avoidance of doubt, Section 8.1 of the Agreement shall not apply to sales of the Product in the Expansion Territory and Insulet may offer versions of the Product with a DBGM other than ADC DBGM, or no DBGM, in the Expansion Territory.

16. For the avoidance of doubt, Section 9.3 of the Agreement shall apply [***] and it is hereby agreed between ADC and Insulet that [***].

17. New Section 9.4 is added as follows:

9.4 Customer Service Event Payments — Expansion Territory. For each Expansion Territory Customer Service Event during the term, ADC will pay Insulet on a calendar quarterly basis: [***].

For avoidance of doubt, Insulet will assign to each New Customer a unique patient identification number ("PIN") that will be used to identify such customer in all reports submitted by Insulet. Insulet will (A) not change the PIN for any such New Customer during the term of this Agreement, and (B) ensure that in the event of an audit as provided in Section 10.2, such PIN will enable ADC or its designated auditors to verify the information provided by Insulet to ADC on the reports submitted pursuant to this Section 9.4. [***].

18. New Section 9.5 is added as follows:

9.5 Customer Service Event Payments (United States, Canada and Israel) Upon Expiration of Initial Term. Commencing on the first day following expiration of the Initial Term and continuing through the expiration of the term, for each Customer Service Event in the United States, Canada and Israel (except for Upgrade Customers), ADC will pay Insulet on a calendar quarterly basis: [***].

For avoidance of doubt, Insulet will assign to each New Customer a PIN that will be used to identify such customer in all reports submitted by Insulet. Insulet will (A) not change the PIN for any such New Customer during the term of this Agreement, and (B) ensure that in the event of an audit as provided in Section 10.3, such PIN will enable ADC or its designated auditors to verify the information provided by Insulet to ADC on the reports submitted pursuant to this Section 9.5. [***].

19. For the avoidance of doubt, Section 10.1 shall apply only to audits of [***].

20. New Section 10.2 is added as follows:

10.2 Audit of Expansion Territory Customer Service Events. Insulet will maintain a record system through which ADC can determine [***]. Insulet will make such information available for inspection by ADC's designated independent auditors [***] during the term, and for [***] thereafter, on such dates as reasonably agreed between the Parties but no later than [***] following ADC's request. Such information shall be made available during regular business hours. Except as set forth below, ADC shall be solely responsible for the costs of any such audit. If ADC's designated independent auditors discover that Insulet has reported [***] in excess of those calculated by the audit, Insulet will refund to ADC the excess amounts paid by ADC within [***] of issuance of the audit report. If ADC's designated independent auditors discover that any end-user customer data submitted by Insulet pursuant to Section 9.4 was inaccurate, Insulet will refund to ADC all amounts paid by ADC for any such end-user customer for which inaccurate data was provided within [***] of issuance of the audit report. If ADC's designated independent auditors discover that Insulet has reported [***] in excess of [***] of those calculated by the audit, and/or that inaccurate data was provided for more

than [***] of end-user customers during the period for which reports were audited, Insulet will, in addition to refunding to ADC the amounts set forth above, reimburse ADC for the reasonable and documented costs of the audit yielding such results within [***] of issuance of the audit report.

21. New Section 10.3 is added as follows:

10.3 Audit of Customer Service Events (United States, Canada and Israel) After Initial Term. Insulet will maintain a record system through which ADC can determine [***]. Insulet will make such information available for inspection by ADC's designated independent auditors [***] during the term, and for [***] thereafter, on such dates as reasonably agreed between the Parties but no later than [***] following ADC's request. Such information shall be made available during regular business hours. Except as set forth below, ADC shall be solely responsible for the costs of any such audit. If ADC's designated independent auditors discover that Insulet has reported [***] in excess of those calculated by the audit, Insulet will refund to ADC the excess amounts paid by ADC, within [***] of issuance of the audit report. If ADC's designated independent auditors discover that any end-user customer data submitted by Insulet pursuant to Section 9.5 was inaccurate, Insulet will refund to ADC all amounts paid by ADC for any such end-user customer for which inaccurate data was provided within [***] of issuance of the audit report. If ADC's designated independent auditors discover that Insulet has reported [***] in excess of [***] of those calculated by the audit, and/or that inaccurate data was provided for more than [***] of end-user customers during the period for which reports were audited, Insulet will, in addition to refunding to ADC the amounts set forth above, reimburse ADC for the reasonable and documented costs of the audit yielding such results within [***] of issuance of the audit report.

22. Except as specifically modified or amended hereby, the Agreement shall remain in full force and effect, and as so modified or amended, is hereby approved. No provision of this Amendment may be modified or amended except expressly in a writing signed by both parties.

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IN WITNESS WHEREOF, the parties have caused this Amendment to be signed by a duly authorized representative effective as of the date set forth above.

Insulet Corporation	Abbott Diabetes Care Inc.
By: /s/ Duane DeSisto	By: /s/ Robert Ford
Name: Duane DeSisto	Name: Robert Ford
Title: CEO	Title: Vice President

Exhibit 31.1

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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

August 9, 2010

Exhibit 31.2

CERTIFICATION

I, Brian Roberts, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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/ Brian Roberts
Brian Roberts
Chief Financial Officer

August 9, 2010

Exhibit 32.1

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 June 30, 2010, 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: August 9, 2010

/s/ Brian Roberts
Name: Brian Roberts
Title: Chief Financial Officer
Date: August 9, 2010