DEXCOM INC
Form 10-Q
August 03, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 000-51222

DEXCOM, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**33-0857544**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6340 Sequence Drive	
San Diego, California	**92121**
(Address of Principal Executive offices)	**(Zip Code)**

Registrant s Telephone Number, including area code: (858) 200-0200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x	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 x

As of July 28, 2009, 45,907,410 shares of the Registrant s common stock were outstanding.

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DexCom, Inc.

Consolidated Balance Sheets

(In thousands except par value data)

(Unaudited)

	June 30, 2009	December 31, 2008 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 4,208	$ 12,700
Short-term marketable securities, available-for-sale	44,666	14,368
Accounts receivable, net	2,067	1,118
Inventory	1,363	2,446
Prepaid and other current assets	1,819	1,426
Total current assets	54,123	32,058
Property and equipment, net	6,495	6,105
Restricted cash	3,208	4,270
Other assets	1,275	1,449
Total assets	$ 65,101	$ 43,882
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,118	$ 4,599
Accrued payroll and related expenses	3,158	2,115
Current portion of long-term debt	1,244	1,931
Current portion of deferred revenue	8,104	6,351
Total current liabilities	16,624	14,996
Long-term portion of deferred revenue	1,953	5,669
Other liabilities	880	889
Long-term debt, net of current portion	43,667	41,796
Total liabilities	63,124	63,350
Commitments and contingencies (Note 4)		
Stockholders equity (deficit):		
Preferred stock, $0.001 par value, 5,000 shares authorized; no shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively		
Common stock, $0.001 par value, 100,000 authorized; 46,187 and 45,907 issued and outstanding at June 30, 2009; 30,103 and 29,824 shares issued and outstanding at December 31, 2008	46	30
Additional paid-in capital	268,024	218,136
Accumulated other comprehensive income	63	50
Accumulated deficit	(266,156)	(237,684)
Total stockholders equity (deficit)	1,977	(19,468)
Total liabilities and stockholders equity (deficit)	$ 65,101	$ 43,882

(1) The Consolidated Balance Sheet at December 31, 2008 has been derived from the audited consolidated financial statements as adjusted for the adoption of FSP APB 14-1.

See accompanying notes

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DexCom Inc.

Consolidated Statements of Operations

(In thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008 (1)	2009	2008 (1)
Product revenue	$ 4,112	$ 1,940	$ 6,784	$ 3,764
Development grant revenue	2,639	42	5,179	80
Total revenue	6,751	1,982	11,963	3,844
Product cost of sales	4,627	3,144	8,149	6,256
Development cost of sales	3,172	249	5,125	379
Total cost of sales	7,799	3,393	13,274	6,635
Gross deficit	(1,048)	(1,411)	(1,311)	(2,791)
Operating expenses				
Research and development	3,455	4,797	6,626	9,640
Selling, general and administrative	8,952	7,247	16,855	13,668
Total operating expenses	12,407	12,044	23,481	23,308
Operating loss	(13,455)	(13,455)	(24,792)	(26,099)
Interest income	107	307	230	872
Interest expense	(1,982)	(1,818)	(3,910)	(3,553)
Net loss	$ (15,330)	$ (14,966)	$ (28,472)	$ (28,780)
Basic and diluted net loss per share	$ (0.33)	$ (0.51)	$ (0.67)	$ (0.98)
Shares used to compute basic and diluted net loss per share	45,832	29,387	42,718	29,308

(1) Adjusted for the required retrospective application of FSP APB 14-1.

See accompanying notes

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DexCom, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2009	**2008 (1)**
Operating activities		
Net loss	$ (28,472)	$ (28,780)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	1,314	1,558
Share-based compensation	4,082	3,920
Non-cash restructuring benefit	(362)	
Accretion and amortization related to investments, net	525	(47)
Accretion related to convertible debt discount	2,321	1,938
Amortization of debt issuance costs	197	70
Changes in operating assets and liabilities:		
Accounts receivable	(949)	(353)
Inventory	1,083	(1,632)
Prepaid and other assets	(161)	(56)
Restricted cash	1,062	(4,494)
Accounts payable and accrued liabilities	(119)	(812)
Accrued payroll and related expenses	1,043	(106)
Deferred revenue	(1,963)	421
Deferred rent and other liabilities	(9)	13
Net cash used in operating activities	(20,408)	(28,360)
Investing activities		
Purchase of available-for-sale marketable securities	(48,405)	(32,942)
Proceeds from the maturity of available-for-sale marketable securities	17,283	41,202
Purchase of property and equipment	(1,704)	(1,452)
Net cash provided by/(used in) investing activities	(32,826)	6,808
Financing activities		
Net proceeds from issuance of common stock	45,888	1,312
Proceeds from equipment loan		2,657
Repayment of equipment loan	(1,137)	(569)
Net cash provided by financing activities	44,751	3,400
Effect of exchange rate changes on cash and cash equivalents	(9)	
Decrease in cash and cash equivalents	(8,492)	(18,152)
Cash and cash equivalents, beginning of period	12,700	23,115
Cash and cash equivalents, ending of period	$ 4,208	$ 4,963
Non-cash investing and financing transactions:		
Common shares received as settlement for a call spread option	$	$ 869

(1) Adjusted for the required retrospective application of FSP APB 14-1.

See accompanying notes

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DexCom, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Business

DexCom, Inc. (the Company) is a medical device company focused on the design, development and commercialization of continuous glucose monitoring systems for ambulatory use by people with diabetes and by healthcare providers in the hospital for the treatment of both diabetic and non-diabetic patients. On March 24, 2006, the Company received approval from the FDA for its STS designed for up to three days of continuous use. On May 31, 2007, the Company received approval from the FDA for its second generation continuous glucose monitoring system, the SEVEN, designed for up to seven days of continuous use, and the Company began commercializing this product in the third quarter of 2007. On February 13, 2009, the Company received approval from the FDA for its third generation continuous glucose monitoring system, the SEVEN PLUS, also approved for up to seven days of continuous use, and the Company began commercializing this product during the first quarter of 2009, and discontinued U.S. sales of the SEVEN system in the first quarter of 2009. In 2008, the Company established a wholly owned subsidiary in Sweden to begin international expansion.

Basis of Presentation

The Company has prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation (except for the changes in estimates described below), have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and related notes thereto for the year ended December 31, 2008 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 5, 2009. In accordance with the recently issued Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events* (SFAS 165), the Company evaluated subsequent events after the balance sheet date of June 30, 2009 through August 3, 2009, the date of issuance of the consolidated financial statements.

The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Significant estimates include excess or obsolete inventories, warranty accruals, employee bonus, clinical study expenses, trade show expenses, allowances for returned product, allowance for bad debt, and share-based compensation expense. Excess and obsolete inventories are estimated by identifying the amount of on hand and on order materials compared to expected future sales, taking into account clinical trial and development usage along with new product introductions. Employee bonus estimates are based, in part, on the 2009 bonus plan s authorized target bonus amounts of up to 50%, 40%, 35% and 25% of base salary for the Company s Chief Executive Officer, Chief Administrative Officer, its Senior Vice Presidents, and the remainder of its non-sales management employees, respectively, to be awarded from the bonus pool based on the weighted average achievement of certain objectives. The amount of any bonus under the 2009 plan will be predicated on achieving targeted revenue goals and performance milestones. In general, 70% of any bonus paid under the 2009 plan is based on achieving certain annual product revenue goals and 30% is based on achieving certain performance milestones. Clinical trial expenses are accrued based on estimates of progress under related contracts and include initial set up costs as well as ongoing monitoring over multiple sites in the U.S. and abroad. An allowance for refunds for returned products is determined by analyzing the timing and amounts of past refund activity.

Share-Based Compensation

The Company recorded $2.0 million and $2.0 million in share-based compensation expense during the three months ended June 30, 2009 and 2008, respectively, and $4.1 million and $3.9 million during the six months ended June 30, 2009 and 2008, respectively. At June 30, 2009, unrecognized estimated compensation costs related to non-vested stock options totaled $16.7 million and is expected to be recognized through 2013. The Company utilizes the Black-Scholes option-pricing model as the method of valuation for share-based awards granted.

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Revenue Recognition

The Company sells its durable systems and disposable units through a direct sales force in the United States and through distribution arrangements in the United States and in portions of Europe. Components are individually priced and can be purchased separately or together. The Company receives payment directly from patients who use its products, as well as from distributors and third party payors. The SEVEN PLUS durable system includes a reusable transmitter, a receiver, a power cord, data management software and a USB cable. Disposable sensors for use with the durable system are sold separately in packages of four. The initial SEVEN PLUS durable system price is not dependent upon the purchase of any amount of disposable sensors. The Company discontinued sales of its SEVEN durable system in the United States in the first quarter of 2009, although it continues to sell disposable sensors for use with both the SEVEN and SEVEN PLUS durable systems.

Revenue on product sales is recognized upon shipment, which is when title and the risk of loss have been transferred to the customer and there are no other post shipment obligations. With respect to customers who directly pay for products, the products are generally paid for at the time of shipment using a customer s credit card and do not include customer acceptance provisions. The Company recognizes revenue from contracted insurance payors based on the contracted rate. For non-contracted insurance payors, the Company obtains prior authorization from the payor and recognizes revenue based on the estimated collectible amount and historical experience. The Company also receives a prescription or statement of medical necessity and, for insurance reimbursement customers, an assignment of benefits prior to shipment.

After approval of the Company s third generation continuous glucose monitoring system, the SEVEN PLUS, on February 13, 2009, the Company started taking orders for an upgrade kit to upgrade existing customers. For systems sold during the first quarter of 2009 that included an upgrade right, a portion of the sales price is allocated to the undelivered upgrade and deferred based on the fair value of the upgrade kit. This deferred revenue will be recognized when the upgrade kit has been delivered or the program expires. As of June 30, 2009, deferred product revenue for this program totaled approximately $16,000.

The Company provides a 30-day money back guarantee program whereby customers who purchase a durable system and a package of four disposable sensors may return the durable system for any reason within thirty days of purchase and receive a full refund of their purchase price. This program also applies to the purchase of the SEVEN PLUS. The Company accrues for estimated returns and/or refunds by reducing revenues and establishing a liability account at the time of shipment based on historical experience.

During 2008 and 2009, the Company entered into distribution agreements with RGH Enterprises, Inc., or Edgepark , and other distributors that allow the distributors to sell the Company s durable systems and disposable units. Revenue on product sales to distributors is recognized at the time of shipment, which is when title and risk of loss have been transferred to the distributor and there are no other post-shipment obligations. Revenue is recognized based on contracted prices and invoices are either paid by check following the issuance of a purchase order or letter of credit, or they are paid by wire at the time of placing the order. Terms of distributor orders are FOB shipping point (FCA shipping point for international orders). Distributors do not have rights of return per their distribution agreement outside of the Company s standard warranty. The Company accrues for estimated returns, refunds and rebates by reducing revenues and establishing a liability account at the time of shipment based on historical experience. The distributors typically have a limited time frame to notify DexCom of any missing, damaged, defective or non-conforming products. For any such products, the Company shall either, at its option, replace the portion of defective or non-conforming product at no additional cost to the distributor or cancel the order and refund any portion of the price paid to the Company at that time for the sale in question.

The Company shipped product directly to distributors customers and recognized $1.0 million and $1.7 million in revenue for the three and six months ended June 30, 2009. With respect to distributors that stock inventory of the Company s product and fulfill orders from their inventory, the Company shipped product to the distributors and recognized $222,000 and $337,000 in revenue from these arrangements for the three and six months ended June 30, 2009. The Company monitors shipments and on-hand inventory levels to these distributors, and at June 30, 2009 these distributors had limited amounts of the Company s product in their ending inventory.

The Company has coll