

DEXCOM INC
Form 10-Q
August 03, 2010
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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

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
(State or Other Jurisdiction of
Incorporation or Organization)

33-0857544
(I.R.S. Employer
Identification No.)

6340 Sequence Drive

San Diego, California
(Address of Principal Executive offices)

92121
(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 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

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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 Smaller Reporting Company
(Do not check if a smaller

reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 29, 2010, 57,924,436 shares of the Registrant's common stock were outstanding.

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DexCom, Inc.

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Table of Contents**DexCom, Inc.****Consolidated Balance Sheets****(In thousands except par value data)****(Unaudited)**

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,090	\$ 3,577
Short-term marketable securities, available-for-sale	33,991	24,439
Accounts receivable, net	4,661	3,490
Inventory	4,087	2,641
Prepaid and other current assets	1,614	2,773
Total current assets	50,443	36,920
Property and equipment, net	7,775	6,422
Restricted cash	2,164	2,414
Other assets	183	1,192
Total assets	\$ 60,565	\$ 46,948
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,684	\$ 5,745
Accrued payroll and related expenses	4,883	4,406
Current portion of long-term debt	900	900
Current portion of deferred revenue	4,047	7,745
Total current liabilities	15,514	18,796
Other liabilities	750	840
Long-term debt, net of current portion	3,283	45,757
Total liabilities	19,547	65,393
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, 2010 and December 31, 2009, respectively		
Common stock, \$0.001 par value, 100,000 authorized; 58,207 and 57,924 shares issued and outstanding, respectively, at June 30, 2010; and 46,324 and 46,045 shares issued and outstanding, respectively, at December 31, 2009		
	58	46
Additional paid-in capital	364,133	272,730
Accumulated other comprehensive loss	(5)	(13)
Accumulated deficit	(323,168)	(291,208)
Total stockholders equity (deficit)	41,018	(18,445)
Total liabilities and stockholders equity (deficit)	\$ 60,565	\$ 46,948

See accompanying notes

Table of Contents**DexCom Inc.****Consolidated Statements of Operations****(In thousands except per share data)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Product revenue	\$ 9,043	\$ 4,112	\$ 15,807	\$ 6,784
Development grant and other revenue	2,743	2,639	5,524	5,179
Total revenue	11,786	6,751	21,331	11,963
Product cost of sales	6,318	4,627	11,458	8,149
Development and other cost of sales	949	3,172	1,895	5,125
Total cost of sales	7,267	7,799	13,353	13,274
Gross margin (deficit)	4,519	(1,048)	7,978	(1,311)
Operating expenses				
Research and development	5,425	3,455	10,164	6,626
Selling, general and administrative	10,362	8,952	20,156	16,855
Total operating expenses	15,787	12,407	30,320	23,481
Operating loss	(11,268)	(13,455)	(22,342)	(24,792)
Interest income	23	107	53	230
Interest expense	(197)	(1,982)	(1,496)	(3,910)
Loss on debt extinguishment upon conversion of convertible debt	(245)		(8,175)	
Net loss	\$ (11,687)	\$ (15,330)	\$ (31,960)	\$ (28,472)
Basic and diluted net loss per share	\$ (0.20)	\$ (0.33)	\$ (0.59)	\$ (0.67)
Shares used to compute basic and diluted net loss per share	57,554	45,832	54,440	42,718

See accompanying notes

Table of Contents**DexCom, Inc.****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2010	2009
Operating activities		
Net loss	\$ (31,960)	\$ (28,472)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	1,088	1,314
Share-based compensation	5,046	4,082
Non-cash restructuring benefit		(362)
Accretion and amortization related to investments, net	381	525
Accretion related to convertible debt discount	1,008	2,321
Loss on debt extinguishment upon conversion of convertible debt	8,175	
Amortization of debt issuance costs	30	197
Changes in operating assets and liabilities:		
Accounts receivable	(1,171)	(949)
Inventory	(1,446)	1,083
Prepaid and other assets	2,259	(161)
Restricted cash	250	1,062
Accounts payable and accrued liabilities	(91)	(119)
Accrued payroll and related expenses	477	1,043
Deferred revenue	(3,698)	(1,963)
Deferred rent and other liabilities	(90)	(9)
Net cash used in operating activities	(19,742)	(20,408)
Investing activities		
Purchase of available-for-sale marketable securities	(39,655)	(48,405)
Proceeds from the maturity of available-for-sale marketable securities	29,588	17,283
Purchase of property and equipment	(2,441)	(1,704)
Net cash used in investing activities	(12,508)	(32,826)
Financing activities		
Net proceeds from issuance of common stock	35,211	45,888
Repayment of equipment loan	(450)	(1,137)
Net cash provided by financing activities	34,761	44,751
Effect of exchange rate changes on cash and cash equivalents	2	(9)
Increase (decrease) in cash and cash equivalents	2,513	(8,492)
Cash and cash equivalents, beginning of period	3,577	12,700
Cash and cash equivalents, ending of period	\$ 6,090	\$ 4,208
Non-cash investing and financing transactions:		
Conversion of convertible notes to common stock	\$ 43,032	\$

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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. 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. Unless the context requires otherwise, the terms we, us, our, the company, or DexCom refer to DexCom, Inc. and its subsidiary. We received approval from the FDA and commercialized our first product in 2006. In 2007, we received approval and began commercializing our second generation system, the SEVEN[®], and on February 13, 2009, we received approval for our third generation system, the SEVEN PLUS, which is designed for up to seven days of continuous use, and we began commercializing this product in the first quarter of 2009. There are various differences between the SEVEN and the SEVEN PLUS. As compared to the SEVEN, the SEVEN PLUS incorporates additional user interface and algorithm enhancements that are intended to make its glucose monitoring function more accurate and customizable. On November 26, 2008, we received CE Mark (Conformité Européene) approval for the SEVEN, enabling commercialization of the SEVEN system in the European Union and the countries in Asia and Latin America that recognize the CE Mark, and on September 30, 2009, we received CE Mark approval for the SEVEN PLUS. We initiated a limited commercial launch in the European Union in 2008 and 2009. To address the in-hospital patient population, we entered into an exclusive agreement with Edwards Lifesciences LLC, or Edwards, to develop jointly and market a specific product platform for the in-hospital glucose monitoring market, with an initial focus on the development of an intravenous sensor specifically for the critical care market. On October 30, 2009, we received CE Mark approval for our first generation blood-based in-vivo automated glucose monitoring system for use by healthcare providers in the hospital, and are seeking approval for this system from the FDA. In partnership with Edwards, we initiated a limited launch of the blood-based, in-vivo automated glucose monitoring system, which we have branded as the GlucoClear, in Europe in 2009.

Basis of Presentation

We have 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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated