PARTNERRE LTD
Form S-3ASR
April 27, 2006

As filed with the Securities and Exchange Commission on April 26, 2006

Registration No. 333-______

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PartnerRe Ltd.	PartnerRe Finance II Inc.	PartnerRe Capital Trust II PartnerRe Capital Trust III
(Exact name of registrant as specified in its charter)	(Exact name of registrant as specified in its charter)	(Exact name of registrant as specified in its charter)

Bermuda	**Not Applicable**	**Delaware**	**02-0540831**	**Delaware**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

96 Pitts Bay Road Pembroke HM 08 Bermuda (441) 292-0888	**c/o PartnerRe U.S. Corporation One Greenwich Plaza Greenwich, CT 06830-6352 (203) 485-4200**	**c/o PartnerRe One Gre Greenwich, (203)**
(Address, including zip code, and telephone number, including area code, of registrant□s principal executive offices)	(Address, including zip code, and telephone number, including area code, of registrant□s principal executive offices)	(Address, including zip including area code, of r o

c/o Scott D. Moore
PartnerRe U.S. Corporation
One Greenwich Plaza
Greenwich, CT 06830-6352
(203) 485-4200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Albert A. Benchimol
Executive Vice President & Chief Financial Officer
96 Pitts Bay Road
Pembroke HM 08
(441) 292-0888

Richard J. Sandler, Esq.
Ethan T. James, Esq.
Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017
(212) 450-4000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o__________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o__________

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Securities and Exchange Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per unit	Proposed ma aggregate offe
			$
Common Shares (6)			
Preferred Shares (7)			
Depositary Shares (8)			
Debt Securities (9)			
Warrants to Purchase Common or Preferred Shares			
Warrants to Purchase Debt Securities			
Purchase Contracts			
Units (10)			
Debt Securities of PartnerRe Finance II Inc. (11)			
Guarantee of Debt Securities of PartnerRe Finance II Inc. (12)			

Preferred Securities of PartnerRe Capital Trust II			
Preferred Securities of PartnerRe Capital Trust III			
Guarantee of Preferred Securities of Capital Trust II and certain backup undertakings (13)			
Guarantee of Preferred Securities of Capital Trust III and certain backup undertakings (13)			
Total	(3)	(3)	(2)(

(1) These offered securities may be sold separately, together or as units with other offered securities.

(2) Such indeterminate number or amount of common shares, preferred shares, depositary shares, debt securities, warrants, share purchase contracts and share purchase units of PartnerRe, debt securities of PartnerRe Finance II, preferred securities of Capital Trust II and preferred securities of Capital Trust III as may from time to time be issued at indeterminate prices, in U.S. Dollars or the equivalent thereof denominated in foreign currencies or units of two or more foreign currencies or composite currencies.

(3) Not applicable pursuant to Form S-3 General Instruction II (E).

(4) Deferred in reliance upon Rule 456(b) and Rule 457(r).

(5) A registration fee of $74,151 was previously paid in connection with the Registration Statement on Form S-3 (No. 333-124713) filed by the Registrants on May 6, 2005 of which $49,467 remains unutilized. Pursuant to Rule 457(p) under the Securities Act, the unutilized filing fee of $49,467 previously paid may be applied to the filing fee payable pursuant to this Registration Statement.

(6) Also includes such presently indeterminate number of common shares as may be issued by PartnerRe (a) upon conversion of or exchange for any debt securities or preferred shares that provide for conversion or exchange into common shares, (b) upon exercise of warrants to purchase common shares or (c) pursuant to share purchase contracts.

(7) Also includes such presently indeterminate number of preferred shares as may be issued by PartnerRe (a) upon conversion of or exchange for any debt securities that provide for conversion or exchange into preferred shares, (b) upon exercise of warrants to purchase preferred shares or (c) pursuant to share purchase contracts.

(8) To be represented by depositary receipts representing an interest in all or a specified portion of a common share or preferred share.

(9) Subject to Note (2), such indeterminate principal amount of debt securities (which may be senior or subordinated).

(10) There are being registered hereby such indeterminate number of Units as may be issued at indeterminate prices. Units may consist of any combination of the securities being registered hereby.

(11) Subject to Note (2), such indeterminate principal amount of debt securities (which may be senior, subordinated or junior subordinated debt securities issued to a Capital Trust).

(12) No separate consideration will be received for the guarantees of the debt securities issued by PartnerRe Finance II.

(13) No separate consideration will be received for the guarantees of the preferred securities issued by Capital Trust II or Capital Trust III. The guarantees include the rights of holders of the preferred securities under the guarantees and certain backup undertakings, comprised of obligations of PartnerRe as guarantor of the junior subordinated debt securities under a junior subordinated indenture, any supplemental indentures thereto and any related guarantee agreement and under the applicable trust agreement to provide certain indemnities in respect of, and be responsible for certain costs, expenses, debts and liabilities of Capital Trust II and/or Capital Trust III, as described in the Registration Statement. All obligations under the applicable trust agreement, including the indemnity obligation, are included in the back-up undertakings.

PROSPECTUS

PartnerRe Ltd.

Common Shares, Preferred Shares, Debt Securities, Depositary Shares, Warrants to Purchase Common Shares, Warrants to Purchase Preferred Shares, Warrants to Purchase Debt Securities, Share Purchase Contracts, Share Purchase Units and Units

PartnerRe Finance II Inc.

Debt Securities
Fully and Unconditionally Guaranteed by

PartnerRe Ltd.

PartnerRe Capital Trust II
PartnerRe Capital Trust III

Preferred Securities
Fully and Unconditionally Guaranteed to the Extent Provided in this Prospectus
by
PartnerRe Ltd.

We, PartnerRe Finance II, PartnerRe Capital Trust II and/or PartnerRe Capital Trust III may offer and sell from time to time:

- common shares;
- preferred shares;
- depositary shares representing preferred shares or common shares;
- warrants to purchase common shares, preferred shares or debt securities;
- senior or subordinated debt securities;
- senior, subordinated or junior subordinated debt securities of PartnerRe Finance II which we will guarantee;
- preferred securities of Capital Trust II and/or Capital Trust III which we will guarantee; and
- share purchase contracts, share purchase units and units.

This prospectus may not be used to confirm sales of any securities unless accompanied by a prospectus supplement.

These securities may be sold to or through underwriters and also to other purchasers or through agents. The names of any underwriters or agents, the offering prices and any applicable commission or discount will be stated in an accompanying prospectus supplement.

Our common shares are traded on the New York Stock Exchange under the symbol "PRE."

Investing in our securities involves certain risks. See "Risk Factors" on page 3 and in our annual report on Form 10-K for the year ended December 31, 2005 filed on March 2, 2006.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is ___________, 2006.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS OR ANY SUPPLEMENT AND IN ANY FREE WRITING PROSPECTUS WE FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND ANY INFORMATION ABOUT THE TERMS OF OFFERED SECURITIES WE OR THE UNDERWRITERS CONVEY TO YOU. NEITHER WE, PARTNERRE FINANCE II INC., PARTNERRE CAPITAL TRUST II NOR PARTNERRE CAPITAL TRUST III HAS AUTHORIZED ANYONE ELSE TO PROVIDE YOU WITH ADDITIONAL OR DIFFERENT INFORMATION. IF ANYONE PROVIDED YOU WITH ADDITIONAL OR DIFFERENT INFORMATION, YOU SHOULD NOT RELY ON IT. WE, PARTNERRE FINANCE II INC., PARTNERRE CAPITAL TRUST II AND PARTNERRE CAPITAL TRUST III ARE OFFERING THESE SECURITIES ONLY IN STATES WHERE THE OFFER IS PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION IN THIS PROSPECTUS OR ANY SUPPLEMENT AND ANY FREE WRITING PROSPECTUS WE FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE DOCUMENTS INCORPORATED BY REFERENCE IS ACCURATE AS OF ANY DATE OTHER THAN THEIR RESPECTIVE DATES. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THOSE DATES.

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Except as expressly provided in an underwriting agreement, no offered securities may be offered or sold in Bermuda (although offers may be made to persons in Bermuda from outside Bermuda) and offers may only be accepted from persons resident in Bermuda, for Bermuda exchange control purposes, where such offers have been delivered outside of Bermuda. Persons resident in Bermuda, for Bermuda exchange control purposes, may require the prior approval of the Bermuda Monetary Authority in order to acquire any offered securities.

In this prospectus, references to "dollar" and "$" are to United States currency, and the terms "United States" and "U.S." mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we, PartnerRe Finance and the Capital Trusts have filed with the Commission using a “shelf” registration process, relating to the common shares, preferred shares, depositary shares, debt securities, debt securities guarantees, warrants, share purchase contracts, share purchase units, preferred securities and preferred securities guarantees described in this prospectus. This means:

- we, PartnerRe Finance and the Capital Trusts, as the case may be, will provide a prospectus supplement each time these securities are offered pursuant to this prospectus; and

- the prospectus supplement will provide specific information about the terms of that offering and also may add to or update information contained in this prospectus.

This prospectus provides you with a general description of the securities we, PartnerRe Finance or a Capital Trust may offer. This prospectus does not contain all of the information set forth in the registration statement as permitted by the rules and regulations of the Commission. For additional information regarding us, PartnerRe Finance, the Capital Trusts and the offered securities, please refer to the registration statement. To the extent that information in any prospectus supplement is inconsistent with information contained in this prospectus, the information in such prospectus supplement shall govern. You should read both this prospectus and any prospectus supplement together with additional information described under the heading “Where You Can Find More Information.”

All references to “we,” “us,” “our” or “PartnerRe” refer to PartnerRe Ltd.

PARTNERRE LTD.

Overview

We are a leading global reinsurer, providing multi-line reinsurance to insurance companies. Risks reinsured include but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering/energy, marine, special risks, other lines, and life/annuity and health. We also offer alternative risk products that include weather and credit protection to financial, industrial and service companies.

We are a Bermuda company with principal executive offices located at 96 Pitts Bay Road, Pembroke HM 08, Bermuda. Our telephone number is (441) 292-0888.

For further information regarding PartnerRe, including financial information, you should refer to our recent filings with the Commission.

PARTNERRE FINANCE II INC.

PartnerRe Finance II Inc. (“PartnerRe Finance”) is a Delaware corporation, with its principal executive offices located at c/o PartnerRe U.S. Corporation, One Greenwich Plaza, Greenwich, Connecticut 06830-6352. PartnerRe Finance’s telephone number is (203) 485-4200. PartnerRe Finance is an indirect, wholly-owned subsidiary of PartnerRe that was created solely for the purpose of issuing from time to time senior and subordinated debt securities and issuing junior subordinated debt securities to a capital trust.

THE CAPITAL TRUSTS

PartnerRe Capital Trust II, and PartnerRe Capital Trust III are statutory business trusts each created under Delaware law pursuant to a trust agreement executed by PartnerRe Finance, as depositor of each Capital Trust, and the Capital Trustees for such Capital Trust and the filing of a certificate of trust with the Delaware Secretary of State on December 11, 2001. Each trust agreement will be amended and restated in its entirety substantially in the form

incorporated by reference as an exhibit to the registration statement of which this prospectus forms a part. Each restated trust agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended.

Each Capital Trust exists for the exclusive purposes of:

- issuing and selling preferred securities and common securities that represent undivided beneficial interests in the assets of such Capital Trust;

- using the proceeds from the sale of its preferred securities and common securities to acquire junior subordinated debt securities issued by PartnerRe Finance and guaranteed by us; and

- engaging in only those other activities necessary or incidental to the issuance and sale of its preferred securities and common securities.

The common securities of each Capital Trust, all of which will be directly or indirectly owned by PartnerRe Finance, will rank equally, and payments will be made on the common securities pro rata, with the preferred securities of such Capital Trust, except that, if an event of default under the applicable restated trust agreement has occurred and is continuing, the rights of the holders of the common securities of such Capital Trust to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the preferred securities of such Capital Trust. Unless otherwise disclosed in the applicable prospectus supplement, PartnerRe Finance will, directly or indirectly, acquire common securities in an aggregate liquidation amount equal to at least 3% of the total capital of each Capital Trust. Each of the Capital Trusts is a legally separate entity and the assets of one are not available to satisfy the obligations of the other.

Unless otherwise disclosed in the related prospectus supplement, each Capital Trust will have a term of approximately 55 years, but may dissolve earlier as provided in the applicable restated trust agreement. Unless otherwise disclosed in the applicable prospectus supplement, each Capital Trust's business and affairs will be conducted by the trustees, which we refer to as the Capital Trustees, appointed by PartnerRe Finance, as the direct or indirect holder of all of the common securities of such Capital Trust. The holder of the common securities of each Capital Trust will be entitled to appoint, remove or replace any of, or increase or reduce the number of, the Capital Trustees of such Capital Trust. The duties and obligations of the Capital Trustees of each Capital Trust will be governed by the restated trust agreement of such Capital Trust.

Unless otherwise disclosed in the related prospectus supplement, two of the Capital Trustees, which we refer to as the Administrative Trustees, of each Capital Trust will be persons who are employees or officers of or affiliated with PartnerRe Finance. One Capital Trustee of each Capital Trust will be a financial institution, which we refer to as the Property Trustee, that is not affiliated with PartnerRe Finance. Each Property Trustee will have a minimum amount of combined capital and surplus of not less than $50,000,000, and shall act as property trustee and as indenture trustee for the purposes of compliance with the provisions of the Trust Indenture Act, pursuant to the terms set forth in the applicable prospectus supplement. In addition, one Capital Trustee of each Capital Trust, which may be the Property Trustee, if it otherwise meets the requirements of applicable law, will have its principal place of business or reside in the State of Delaware, which we refer to as the Delaware Trustee. We or one of our affiliates will pay all fees and expenses related to each Capital Trust and the offering of preferred securities and common securities by such Capital Trust.

The office of the Delaware Trustee for each Capital Trust in the State of Delaware is located at c/o Chase Manhattan Bank USA, National Association, 500 Stanton Christiana Road, OPS4–3rd Floor, Newark, Delaware 19713. The principal executive offices for each Capital Trust is located at c/o PartnerRe U.S. Corporation, One Greenwich Plaza, Greenwich, CT 06830-6352. The telephone number for both Capital Trusts is (203) 485-4200.

RISK FACTORS

Before you invest in securities issued by PartnerRe Ltd., PartnerRe Finance or the Capital Trusts, you should carefully consider the risks involved. Accordingly, you should carefully consider:

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- the information contained in or incorporated by reference into this prospectus;
- information contained in or incorporated by reference into any prospectus supplement relating to specific offerings of securities;
- the risks described in our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 2, 2006, which we incorporate by reference into this prospectus; and
- other risks and other information that may be contained in, or incorporated by reference from, other filings we make with the Commission.

FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this prospectus may be considered forward-looking statements as defined in section 27A of the United States Securities Act of 1933 and section 21E of the United States Securities Exchange Act of 1934. Forward-looking statements are made based upon our assumptions and expectations concerning the potential effect of future events on our financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Our forward-looking statements could be affected by numerous foreseeable and unforeseeable events and developments. The following review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere:

(1) the occurrence of catastrophic events or other reinsured events with a frequency or severity exceeding our expectations;

(2) a decrease in the level of demand for reinsurance and/or an increase in the supply of reinsurance capacity;

(3) increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;

(4) actual losses and loss expenses exceeding our estimated loss reserves, which are necessarily based on actuarial and statistical projections of ultimate losses;

(5) uncertainty related to estimated losses and unanticipated losses from catastrophe events;

(6) acts of terrorism, acts of war and man-made or other unanticipated perils;

(7) changes in the cost, availability and performance of retrocessional reinsurance, including the ability to collect reinsurance recoverables;

(8) concentration risk in dealing with a limited number of brokers;

(9) credit risk relating to our brokers, cedants and other counterparties;

(10) developments in and risks associated with global financial markets that could affect our investment portfolio;

(11) changing rates of inflation and other economic conditions;

(12) availability of borrowings and letters of credit under our credit facilities;

(13) impact of fluctuations in foreign currency exchange rates;

(14) actions by rating agencies that might impact our ability to continue to write existing business or write new business;

(15) changes in accounting policies, their application or interpretation;

(16) changes in the legal or regulatory environments in which we operate, including the passage of federal or state legislation subjecting our non-U.S. operations to supervision or regulation, including additional tax regulation, in the United States or other jurisdictions in which we operate.

(17) potential industry impact of investigations into market practices in the U.S. property and casualty industry;

(18) legal decisions and rulings and new theories of liability; and

(19) amount of dividends received from our subsidiaries.

The foregoing review of important factors should not be construed as exhaustive.

The words "believe," "anticipate," "estimate," "project," "plan," "expect," "intend," "hope," "will likely result" or "w
or words of similar impact, generally involve forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

The net proceeds from the sale of preferred securities by each Capital Trust will be used to purchase junior subordinated debt securities of PartnerRe Finance. Unless the applicable prospectus supplement states otherwise, the net proceeds from the sale of securities offered by PartnerRe or PartnerRe Finance will be used for working capital, capital expenditures, acquisitions or other general corporate purposes.

RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED SHARE DIVIDENDS OF PARTNERRE

For purposes of computing the following ratios, earnings consist of net income before income tax expense plus fixed charges to the extent that such charges are included in the determination of earnings. Fixed charges consist of interest costs plus one-third of minimum rental payments under operating leases (estimated by management to be the interest factor of such rentals).

	Fiscal Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Ratio of Earnings to Fixed Charges	0.43x	9.73x	12.47x	6.60x	NM(1)
Ratio of Earnings to Combined Fixed Charges and Preference Share Dividends	0.25x	7.08x	6.01x	3.16x	NM(1)

(1) NM: not meaningful. The ratios for 2001 above are not meaningful due to the net loss which PartnerRe reported for 2001, which included losses related to the terrorist attack of September 11, 2001. Further information regarding the impact of this attack on PartnerRe's financial results can be found incorporated by reference herein. In 2005, additional earnings of $28.1 million and $62.7 million, and in 2001 additional earnings of $227.5 million and $249.8 million, would be necessary to result in a one to one coverage ratio of the Ratio of Earnings to Fixed Charges and the Ratio of Earnings to Combined Fixed Charges and Preference Share Dividends respectively.

Neither PartnerRe Finance nor the Capital Trusts had any operations during the periods set forth above.

GENERAL DESCRIPTION OF THE OFFERED SECURITIES

We may from time to time offer under this prospectus, separately or together:

- common shares;
- preferred shares;
- depositary shares, each representing a fraction of a common share or of a preferred share;
- unsecured senior or subordinated debt securities;
- warrants to purchase common shares;
- warrants to purchase preferred shares;
- warrants to purchase debt securities;
- share purchase contracts to purchase common shares;
- share purchase units, each representing ownership of a share purchase contract and, as security for the holder's obligation to purchase common shares under the share purchase contract, any of (1) our debt obligations, (2) debt obligations of third parties, including U.S. Treasury securities, or (3) preferred securities of any of the Capital Trusts; and
- units which may consist of any combination of the securities listed above.

PartnerRe Finance may from time to time offer unsecured senior, subordinated or junior subordinated debt securities, which will be fully and unconditionally guaranteed by us to the extent described in this prospectus.

Each of Capital Trust II and Capital Trust III may offer preferred securities representing undivided beneficial interests in their respective assets, which will be fully and unconditionally guaranteed by us to the extent described in this prospectus.

DESCRIPTION OF OUR CAPITAL SHARES

The following is a summary of certain provisions of:

- our Memorandum of Association and Bye-Laws, which set forth certain terms of our capital stock,
- the certificate of designation for our 6.75% Series C Cumulative Redeemable Preferred Shares, which we refer to in this prospectus as the Series C Preferred Shares, and
- the certificate of designation for our 6.50% Series D Cumulative Redeemable Preferred Shares, which we refer to in the prospectus as the Series D Preferred Shares.

This summary is not complete. You should read our Memorandum of Association and Bye-Laws and the certificate of designation of each series of our preferred shares for complete information regarding the provisions of these governing documents including the definitions of some of the terms used below. Copies of our Memorandum of Association and Bye-Laws and the certificates of designation are incorporated by reference as exhibits to the registration statement of which this prospectus forms a part. Whenever we refer to particular sections or defined terms of our Memorandum of Association, Bye-Laws or the certificates of designation, those sections or defined terms are incorporated by reference into this prospectus, and the statement in connection with which such reference is made is qualified in its entirety by such reference.

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General

Our authorized share capital consists of 200,000,000 common shares, par value $1.00 per share, 11,600,000 Series C Preferred Shares, 9,200,000 Series D Preferred Shares and 64,800,000 undesignated shares par value $1.00 per share. As of April 25, 2006 approximately 56,743,965 common shares were issued and outstanding, 11,600,000 Series C Preferred Shares were issued and outstanding and 9,200,000 Series D Preferred Shares were issued and outstanding.

Common Shares

Our common shares are listed on the New York Stock Exchange under the symbol PRE. The common shares currently issued and outstanding are fully paid and nonassessable within the meaning of applicable Bermuda law. There are no provisions of Bermuda law, our Memorandum of Association or our Bye-Laws which impose any limitation on the rights of shareholders to hold or vote common shares by reason of their not being residents of Bermuda.

Under our Bye-Laws, the holders of common shares have no redemption, conversion or sinking fund rights. Subject to the restrictions set forth under —Transfer of Shares, below, holders of common shares are entitled to one vote per share on all matters submitted to a vote of holders of common shares and do not have any cumulative voting rights. If we are liquidated, dissolved, or wound-up, the holders of common shares are entitled to share equally and ratably in our assets, if any, remaining after the payment of all of our debts and liabilities and the liquidation preference of any outstanding preferred shares.

Other than as required by Bermuda law or in respect of alteration of class rights and reporting requirements and certain procedural matters, all actions by our shareholders are decided by a simple majority of votes cast.

The holders of common shares will receive such dividends, if any, as may be declared by our board of directors out of funds legally available for such purposes.

A more detailed description of our common shares is set forth in our registration statements filed under the Exchange Act on Form 8-A on October 4, 1993 (file no. 001-14536) and October 24, 1996, including any amendment or report for the purpose of updating such description.

Series C Preferred Shares

The Series C Preferred Shares are listed on the New York Stock Exchange under the symbol PRE PrC. The Series C Preferred Shares currently issued and outstanding are fully paid and nonassessable within the meaning of applicable Bermuda law.

The holders of the Series C Preferred Shares have no preemptive rights with respect to any of our common shares or any of our other securities convertible into or carrying rights or options to purchase any such shares. The Series C Preferred Shares are not subject to any sinking fund or other obligation on our part to redeem or retire the Series C Preferred Shares. Unless we redeem them, the Series C Preferred Shares will have a perpetual term with no maturity. We have not issued shares that are senior to the Series C Preferred Shares with respect to payment of dividends and distribution of assets in liquidation. Our Series C Preferred Shares rank equally with our Series D Preferred Shares, with respect to dividends and distribution of assets in liquidation.

Dividends. Holders of the Series C Preferred Shares are entitled to receive, when, as and if declared by our board of directors out of funds legally available for the payment of dividends, cumulative preferential cash dividends in an amount per share equal to 6.75% of the liquidation preference per annum (equivalent to $1.6875 per share). Such dividends are payable quarterly, when, as and if declared by the board of directors.

If any of the Series C Preferred Shares are outstanding, unless full cumulative dividends on the Series C Preferred Shares have been paid, we generally may not:

- declare or pay any dividends upon any other capital shares ranking pari passu with the Series C Preferred Shares, as to dividends and the distribution of assets upon any liquidation, dissolution or winding up of PartnerRe, unless either all dividends are declared upon the Series C Preferred Shares, or all dividends declared upon the Series C Preferred Shares and the shares ranking equally with the Series C Preferred Shares are declared pro rata;

- declare or pay any dividends upon the common shares or any other capital shares ranking junior to the Series C Preferred Shares, as to dividends or the distribution of assets upon any liquidation, dissolution or winding up of PartnerRe; or

- redeem any common shares or other shares ranking junior to the Series C Preferred Shares.

Liquidation. Upon any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Company, the holders of the Series C Preferred Shares will be entitled to receive from our assets legally available for distribution to shareholders, $25.00 per share, plus all dividends accrued and unpaid to the date fixed for distribution. This distribution must be made before we make any distribution to holders of our common shares and any other shares ranking junior to the Series C Preferred Shares.

Redemption. The Series C Preferred Shares are not redeemable prior to May 8, 2008. On or after such date, we, at our option upon not less than 30 nor more than 90 days written notice, may redeem the Series C Preferred Shares, in whole at any time or in part from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends, if any, thereon to the date fixed for redemption, without interest.

Voting. Generally, the Series C Preferred Shares shall have no voting rights. However, the holders of Series C Preferred Shares, together with the holders of any other shares ranking equally with the Series C Preferred Shares, voting as a single class, shall have the right to elect two directors to our board of directors whenever dividends payable on the Series C Preferred Shares or any other shares ranking equally with the Series C Preferred Shares are in arrears in an amount equivalent to dividends for six full dividend periods.

Whenever we have paid all arrearages in dividends on the Series C Preferred Shares and any shares that rank equal to the Series C Preferred Shares then outstanding and we have paid or declared and set apart for payment, dividends for the current quarterly dividend period, then the right of holders of the Series C Preferred Shares and any shares that rank equal to the Series C Preferred Shares to be represented by directors shall cease. As of April 25, 2006, there were no dividends in arrears on the Series C Preferred Shares.

In addition, without the written consent of the holders of at least 75% of the outstanding Series C Preferred Shares, we may not:

- amend or repeal any of the provisions of our Memorandum of Association, Bye-Laws or the certificate of designation relating to the Series C Preferred Shares that would vary the rights, preferences or voting powers of the holders of the Series C Preferred Shares;

- authorize any amalgamation, consolidation, merger or statutory share exchange that affects the Series C Preferred Shares, unless each Series C Preferred Share remains outstanding with no variation in its rights, preferences or voting powers or is converted into or exchanged for preferred shares of the surviving entity having rights, preferences and voting powers identical to that of a Series C Preferred Share; or

- authorize any creation or increase in the authorized amount of, any shares of any class or series or any security convertible into shares of any class or series ranking prior to the Series C Preferred Shares in payment of dividends or the distribution of assets on any liquidation, dissolution or winding up of the Company.

We may create and issue additional classes or series of shares that rank equal or junior to the Series C Preferred Shares without the consent of any holder of the Series C Preferred Shares.

A more detailed description of our Series C Preferred Shares is set forth in our registration statement filed under the Exchange Act on Form 8-A on May 2, 2003 (file no. 001-14536), including any amendment or report for the purpose of updating such description.

Series D Preferred Shares

The Series D Preferred Shares are listed on the New York Stock Exchange under the symbol PRE PrD. The Series D Preferred Shares currently issued and outstanding are fully paid and nonassessable within the meaning of applicable Bermuda law.

The holders of Series D Preferred Shares have no preemptive rights with respect to any of our common shares or any of our other securities convertible into or carrying rights or options to purchase any such shares. The Series D Preferred Shares are not subject to any sinking fund or other obligation on our part to redeem or retire the Series D Preferred Shares. Unless we redeem them, the Series D Preferred Shares will have a perpetual term with no maturity. We have not issued shares that are senior to the Series D Preferred Shares with respect to payment of dividends and distribution of assets in liquidation. Our Series D Preferred Shares rank equally with our Series C Preferred Shares with respect to payment of dividends and distribution of assets in liquidation.

Dividends. Holders of Series D Preferred Shares are entitled to receive, when, as and if declared by our board of directors out of funds legally available for the payment of dividends, cumulative preferential cash dividends in an amount per share equal to 6.50% of the liquidation preference per annum (equivalent to $1.625 per share). Such dividends are paid quarterly when, as and if declared by the board of directors.

If any of the Series D Preferred Shares are outstanding, unless full cumulative dividends on the Series D Preferred Shares have been paid, we generally may not:

- declare or pay any dividends upon any other capital shares ranking pari passu with the Series D Preferred Shares, as to dividends and the distribution of assets upon any liquidation, dissolution or winding up of PartnerRe, unless either all dividends are declared upon the Series D Preferred Shares, or all dividends declared upon the Series D Preferred Shares and the shares ranking equally with the Series D Preferred Shares are declared pro rata;

- declare or pay any dividends upon the common shares or any other capital shares ranking junior to the Series D Preferred Shares, as to dividends or the distribution of assets upon any liquidation, dissolution or winding up of PartnerRe; or redeem any common shares or other shares ranking junior to the Series D Preferred Shares.

Liquidation. Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of Series D Preferred Shares will be entitled to receive from our assets legally available for distribution to shareholders, $25.00 per share, plus all dividends accrued and unpaid to the date fixed for distribution. This distribution must be made before we make any distribution to holders of our common shares and any other shares ranking junior to the Series D Preferred Shares.

Redemption. The Series D Preferred Shares are not redeemable prior to November 15, 2009. On or after such date, we at our option upon not less than 30 nor more than 90 days written notice, may redeem the Series D Preferred Shares, in whole at any time or in part from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends, if any, thereon to the date fixed for redemption, without interest.

Voting. Generally, the Series D Preferred Shares shall have no voting rights. However, the holders of Series D Preferred Shares, together with the holders of any other shares ranking equally with the Series D Preferred Shares, voting as a single class, shall have the right to elect two directors to our board of directors whenever dividends payable on the Series D Preferred Shares or any other shares ranking equally with the Series D Preferred Shares are in arrears in an amount equivalent to dividends for six full dividend periods.

Whenever we have paid all arrearages in dividends on the Series D Preferred Shares and any shares that rank equal to the Series D Preferred Shares then outstanding and we have paid or declared and set apart for payment, dividends for the current quarterly dividend period, then the right of holders of the Series D Preferred Shares and any shares that rank equal to the Series D Preferred Shares to be represented by directors shall cease. As of April 25, 2006, there were no dividends in arrears on the Series D Preferred Shares.

In addition, without the written consent of the holders of at least 75% of the outstanding Series D Preferred Shares, we may not:

- amend or repeal any of the provisions of our Memorandum of Association, Bye-Laws or the certificate of designation relating to the Series D Preferred Shares that would vary the rights, preferences or voting powers of the holders of the Series D Preferred Shares;

- authorize any amalgamation, consolidation, merger or statutory share exchange that affects the Series D Preferred Shares, unless each Series D Preferred Share remains outstanding with no variation in its rights, preferences or voting powers or is converted into or exchanged for preferred shares of the surviving entity having rights, preferences and voting powers identical to that of a Series D Preferred Share; or

- authorize any creation or increase in the authorized amount of, any shares of any class or series or any security convertible into shares of any class or series ranking prior to the Series D Preferred Shares in payment of dividends or the distribution of assets on any liquidation, dissolution or winding up of the Company.

We may create and issue additional classes or series of shares that rank equal with or junior to the Series D Preferred Shares without the consent of any holder of the Series D Preferred Shares.

A more detailed description of our Series D Preferred Shares is set forth in our registration statement filed under the Exchange Act on Form 8-A on November 12, 2004 (file no. 001-14536), including any amendment or report for the purpose of updating such description.

Other Preferred Shares

From time to time, pursuant to the authority granted by our Bye-Laws, our board of directors may create and issue one or more series of preferred shares. The particular rights and preferences of the preferred shares offered by any prospectus supplement and the extent, if any, to which the general provisions described below may apply to the offered preferred shares, will be described in the prospectus supplement.

A prospectus supplement will specify the terms of a particular class or series of preferred shares as follows:

- the number of shares to be issued and sold and any distinctive designation;

- the dividend rights of the preferred shares, whether dividends will be cumulative and, if so, from which date or dates and the relative rights or priority, if any, of payment of dividends on preferred shares and any limitations, restrictions or conditions on the payment of such dividends;

- the voting powers, if any, of the preferred shares, equal to or greater than one vote per share, which may include the right to vote, as a class or with other classes of capital stock, to elect one or more of our directors;

- the terms and conditions (including the price or prices, which may vary under different conditions and at different redemption dates), if any, upon which all or any part of the preferred shares may be redeemed, at whose option such a redemption may occur, and any material limitations, restrictions or conditions on such redemption;

- the terms, if any, upon which the preferred shares will be convertible into or exchangeable for our shares of any other class, classes or series;

- the relative amounts, and the relative rights or priority, if any, of payment in respect of preferred shares, which the holders of the preferred shares will be entitled to receive upon our liquidation, dissolution or winding up;

- the terms, if any, of any purchase, retirement or sinking fund to be provided for the preferred shares;

- the restrictions, limitations and conditions, if any, upon the issuance of our indebtedness so long as any preferred shares are outstanding; and

- any other relative rights, preferences, limitations and powers not inconsistent with applicable law, the Memorandum of Association or the Bye-Laws.

Subject to the specification of the above terms of preferred shares in a supplement to this prospectus, we anticipate that the terms of such preferred shares will correspond to those set forth below.

Undesignated Shares

Under our Bye-Laws, we have authorized 64,800,000 shares, par value $1.00 per share, the rights and preferences of which are undesignated. On May 10, 2005, our annual general meeting of shareholders was held, in which shareholders voted to increase our authorized share capital from 150,000,000 shares to 200,000,000 shares by creating an additional 50,000,000 undesignated shares, par value $1.00 per share. Without further action of our shareholders, our board of directors may fix the relative rights, preferences and limitations of such shares. Such determination may include:

- fixing the dividend rates and payment dates;

- the extent of voting rights, if any,

- the terms and prices of redemption;

- the amount payable on the shares in the event of liquidation;

- sinking fund provisions; and

- the terms and conditions on which shares may be converted if the shares are to be issued with the privilege of conversion.

Transfer of Shares

Our Bye-Laws contain various provisions affecting the transferability of our capital shares. Under the Bye-Laws, our board of directors has absolute discretion to decline to register a transfer of shares:

- unless the appropriate instrument of transfer is submitted along with such evidence as our board of directors may reasonably require showing the right of the transferor to make the transfer;

- unless, where applicable, the consent of the Bermuda Monetary Authority has been obtained; or

- if our board of directors determines that such transfer would result in a person controlling more than 9.9% of all of our outstanding shares.

One of the primary purposes of the restriction on a holder of our capital shares from controlling more than 9.9% of our outstanding shares is to reduce the likelihood that we will be deemed a foreign personal holding company within the meaning of the Internal Revenue Code of 1986, as amended. This limit may also have the effect of deterring purchases of large blocks of common shares or proposals to acquire us, even if some or a majority of the shareholders might deem these purchases or acquisition proposals to be in their best interests. With respect to this issue, also see the provisions discussed below under "Anti-Takeover Effects of Certain Bye-Laws Provisions."

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If our board of directors refuses to register any transfer of shares, it shall send notice of such refusal to the transferee within three months of the date on which the transfer was lodged with us.

Our Bermuda counsel has advised us that while the precise form of the restrictions on transfers contained in the Bye-Laws is untested, as a matter of general principle, restrictions on transfers are enforceable under Bermuda law and are not uncommon.

Anti-Takeover Effects of Certain Bye-Laws Provisions

In addition to those provisions of the Bye-Laws discussed above under "Transfers of Shares," our Bye-Laws contain certain provisions that make it more difficult to acquire control of us by means of a tender offer, open market purchase, a proxy fight or otherwise. These provisions are designed to encourage persons seeking to acquire control of us to negotiate with our board of directors. We believe that, as a general rule, the interests of our shareholders would be best served if any change in control results from negotiations with our board of directors. Our board of directors would negotiate based upon careful consideration of the proposed terms, such as the price to be paid to shareholders, the form of consideration to be paid and the anticipated tax effects of the transaction. However, these provisions could have the effect of discouraging a prospective acquiror from making a tender offer or otherwise attempting to obtain control of us. To the extent these provisions discourage takeover attempts, they could deprive shareholders of opportunities to realize takeover premiums for their shares or could depress the market price of the shares.

Board Provisions. Our Bye-laws provide for a classified board, to which approximately one-third of our board of directors is elected each year at our annual general meeting of shareholders. Accordingly, our directors serve three-year terms rather than one-year terms. Each class of directors is required to have a minimum of one director and a maximum of four directors.

The classification of directors will have the effect of making it more difficult for shareholders to change the composition of our board of directors. At least two annual meetings of shareholders, instead of one, will generally be required to effect a change in a majority of our board of directors. Such a delay may help ensure that our directors, if confronted by a holder attempting to force a proxy contest, a tender or exchange offer, or an extraordinary corporate transaction, would have sufficient time to review the proposal as well as any available alternatives to the proposal and to act in what they believe to be in our best interests, including the shareholders. The classification provisions will apply to every election of directors, however, regardless of whether a change in the composition of our board of directors would be beneficial to PartnerRe and its shareholders and whether or not a majority of our shareholders believe that such a change would be desirable.

The classification provisions could also have the effect of discouraging a third party from initiating a proxy contest, making a tender offer or otherwise attempting to obtain control of PartnerRe, even though such an attempt might be beneficial to PartnerRe and its shareholders. The classification of our board of directors could thus increase the likelihood that incumbent directors will retain their positions. In addition, because the classification provisions may discourage accumulations of large blocks of our stock by purchasers whose objective is to take control of PartnerRe and remove a majority of our board of directors, the classification of our board of directors could tend to reduce the likelihood of fluctuations in the market price of the shares that might result from accumulations of large blocks for such a purpose. Accordingly, shareholders could be deprived of certain opportunities to sell their shares at a higher market price than might otherwise be the case.

Voting Rights Limitations. Our Bye-Laws provide that the voting rights with respect to shares directly or indirectly beneficially or constructively owned by any person owning more than 9.9% of the voting power of the outstanding shares, including common shares and preferred shares, of the Company will be limited to voting power of 9.9% . The voting rights with respect to all shares held by such person in excess of the 9.9% limitation will be allocated to the other holders of shares pro rata based on the number of shares held by all such other holders of shares, subject only to the further limitation that no shareholder allocated any such voting rights may exceed the 9.9% limitation as a result of such allocation.

Availability of Shares for Future Issuances. We have available for issuance a large number of authorized but unissued common shares. Generally, these shares may be issued by action of our directors without further action by shareholders, except as may be required by applicable stock exchange requirements. The availability of these shares for issue could be viewed as enabling the directors to make more difficult a change in our control. For example, the directors could determine to issue warrants or rights to acquire shares. In addition, we have authorized a sufficient amount of our shares such that we could put in place a shareholder rights plan without further action by shareholders. A shareholder rights plan could serve to dilute or deter stock ownership of persons seeking to obtain control of us.

Our ability to take these actions makes it more difficult for a third party to acquire us without negotiating with our board of directors, even if some or a majority of the shareholders desired to pursue a proposed transaction. Moreover, these powers could discourage or defeat unsolicited stock accumulation programs and acquisition proposals.

DESCRIPTION OF THE DEPOSITARY SHARES

-indent:4%">The Company sells its OmniPod System and other diabetes management supplies in the United States through direct sales to customers or through the Company s distribution partners. The OmniPod System is currently available in multiple countries in Europe through the Company s exclusive distribution partner, Ypsomed Distribution AG (Ypsomed) and in Canada through the Company s exclusive distribution partner, GlaxoSmithKline Inc. (GSK).

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and 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 period ended June 30, 2012, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012, 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, 2011.

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 accounts receivable, inventories, deferred revenue and equity instruments, the lives of property and equipment and intangible assets, as well as warranty and doubtful accounts reserve 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, third-party distributors, and government agencies. The allowance for doubtful accounts is recorded at the time 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 held at the lower of cost or market, determined under the first-in, first-out method. Inventory has been recorded at cost as of June 30, 2012 and December 31, 2011. Work in process is calculated based upon a build up in the stage of completion using estimated labor inputs for each stage in production. The Company periodically reviews inventories for potential impairment based on quantities on hand and expectations of future use.

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Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life 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.

Intangibles and Other Long-Lived Assets

The Company s finite-lived intangible assets are stated at cost less accumulated amortization. The Company assesses its intangible and other long-lived assets for impairment whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. The Company recognizes an impairment loss for intangibles and other long-lived assets if the carrying amount of the asset is not recoverable based on its undiscounted future cash flows. Any such impairment loss is measured as the difference between the carrying amount and the fair value of the asset. The estimation of useful lives and expected cash flows requires the Company to make significant judgments regarding future periods that are subject to some factors outside its control. Changes in these estimates can result in significant revisions to the carrying value of these assets and may result in material charges to the results of operations. The estimated life of the acquired tradename asset is 15 years. The estimated life of the acquired customer relationship asset is 10 years. Intangible assets with determinable estimated lives are amortized over these lives. At June 30, 2012, intangible assets related to the acquisition of Neighborhood Diabetes consisted of $23.2 million of customer relationships and $2.6 million of tradenames.

Goodwill

Goodwill represents the excess of the cost of the acquired Neighborhood Diabetes businesses over the fair value of identifiable net assets acquired. The Company performs an assessment of its goodwill for impairment on at least an annual basis or whenever events or changes in circumstances indicate there might be impairment.

Goodwill is evaluated at the reporting unit level. To test for impairment, the Company compares the carrying value of the reporting unit to its fair value. If the reporting unit s carrying value exceeds its fair value, the Company records an impairment loss to the extent that the carrying value of goodwill exceeds its implied fair value.

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. As these estimates are based on historical experience, and the Company continues to introduce new versions of existing products, the Company also considers the anticipated performance of the product over its warranty period in estimating warranty reserves.

Revenue Recognition

The Company generates nearly all of its revenue from sales of its OmniPod System and other diabetes related products including blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals to customers and third-party distributors who resell the products to patients with diabetes.

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 collectability is reasonably assured. With respect to these criteria:

- The evidence of an arrangement generally consists of a physician order form, a patient information form and, if applicable, third-party insurance approval for sales directly to patients or a purchase order for sales to a third-party distributor.

- Transfer of title and risk and rewards of ownership are passed to the patient or third-party distributor upon shipment of the products.

The selling prices for all sales are fixed and agreed with the patient or third-party distributor and, if applicable, the patient s third-party insurance provider(s), prior to shipment and are based on established list prices or, in the case of certain third-party insurers, contractually agreed upon prices. Provisions for discounts and rebates to customers are established as a reduction to revenue in the same period the related sales are recorded.

The Company offers a 45 day right of return for its OmniPod Insulin Management System 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 collectability 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 five year term of the agreement. In addition, Abbott agreed to pay an amount to the Company for services performed in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to customers in certain territories. The Company recognizes revenue related to this portion of the Abbott agreement at the time it meets the criteria for revenue recognition, typically at the time the revenue is recognized on the sale of the PDM to the patient.

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In June 2011, the Company entered into a development agreement with a U.S. based pharmaceutical company (the Development Agreement). Under the Development Agreement, the Company is required to perform design, development, regulatory and other services to support the pharmaceutical company as it works to obtain regulatory approval to use the Company s drug delivery technology as a delivery method for its pharmaceutical. Over the estimated two year term of the Development Agreement, the Company has and will continue to invoice amounts based upon meeting certain deliverable milestones. Revenue from the Development Agreement is recognized using a proportional performance methodology based on efforts incurred and total payments under the agreement.

The Company had deferred revenue of $1.1 million and $2.7 million as of June 30, 2012 and December 31, 2011, respectively. The deferred revenue recorded was comprised of product-related revenue and unrecognized amounts related to the Development Agreement, 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 and cash equivalents. 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 and government agencies. There were no third-party payors or government agencies that accounted for more than 10% of gross accounts receivable as of June 30, 2012 or December 31, 2011.

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. The Company s current product offering consists of diabetes supplies, including the OmniPod System as well as other diabetes related products and supplies such as blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals. The Company s current product offering is marketed to a single customer type, people with diabetes. As the Company sells a single product type management views and operates as a single entity.

Income Taxes

Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, *Income Taxes* (ASC 740-10) clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition.

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, 2012, interest and penalties were immaterial to the consolidated financial statements.

For the three months ended June 30, 2012, income tax expense was comprised of $43,000 for the current portion and $26,000 for the deferred portion. For the six months ended June 30, 2012, income tax expense was comprised of $63,000 for the current portion and $52,000 for the deferred portion. The current portion primarily relates to state, local, and foreign taxes. The deferred portion primarily relates to U. S. Federal and State tax amounts.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC 718-10, *Compensation Stock Compensation* (ASC 718-10), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options granted. The Company determines the intrinsic value of restricted stock units based on the closing prices of its common stock on the date of grant. The Company recognizes the compensation expense of share-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected life of the awards is estimated based on the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate assumption is

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based on observed interest rates appropriate for the terms of the awards. The dividend yield assumption is based on company history and expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in the financial statements is based on awards that are ultimately expected to vest. The Company evaluates the assumptions used to value the awards on a quarterly basis and, if factors change and different assumptions are utilized, stock-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

See Footnote 12 for a summary of the stock option activity under the Company s stock-based employee compensation plan.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 clarifies existing concepts regarding existing fair value principles. The amendments are effective in fiscal years beginning after December 15, 2011. The Company adopted the guidance in the first quarter of 2012. The adoption of these amendments did not have a material impact on the Company s financial statements.

In September 2011, the FASB issued ASU No. 2011-08 *Testing Goodwill for Impairment* (ASU No. 2011-08). ASU No. 2011-08 provides guidance on simplifying the impairment testing for goodwill. A company may first assess the qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test on the reporting unit. The guidance is effective in fiscal years beginning after December 15, 2011, and the Company adopted the guidance in the first quarter of 2012. The adoption of this guidance did not have a material impact on the Company s financial statements.

3. Acquisition of Neighborhood Diabetes

In June 2011, the Company acquired all of the outstanding shares of privately-held Neighborhood Diabetes, a durable medical equipment distributor specializing in direct to consumer sales of diabetes supplies, including pharmaceuticals and support services. Neighborhood Diabetes serves more than 60,000 customers with Type 1 and Type 2 diabetes primarily in the northeast and southeast regions of the United States with blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals, as well as other products for the management and treatment of diabetes. Neighborhood Diabetes is based in Massachusetts, with additional offices in New York and Florida. At the time of the acquisition, Neighborhood Diabetes employed approximately 200 people across its three locations. The acquisition of Neighborhood Diabetes provides the Company with full suite diabetes management product offerings, accelerates the Company s sales force expansion, strengthens the Company s back office support capabilities, expands the Company s access to insulin dependent patients, and provides pharmacy adjudication capabilities to drive incremental sales higher. The aggregate purchase price of approximately $62.4 million consisted of approximately $37.9 million in cash paid at closing, 1,197,631 shares of the Company s common stock valued at approximately $24.4 million, or $20.40 per share based on the closing price of the Company s common stock on the acquisition date, and contingent consideration with a fair value of approximately $0.1 million. Of the $37.9 million of cash paid at closing, $6.6 million is being held in an escrow account to reimburse the Company and its affiliates, if necessary, for certain claims for which they are entitled to be indemnified pursuant to the terms of the agreement and plan of merger with Neighborhood Diabetes.

The Company has accounted for the acquisition of Neighborhood Diabetes as a business combination. Under business combination accounting, the assets and liabilities of Neighborhood Diabetes were recorded as of the acquisition date at their respective fair values, and consolidated with the Company. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The operating results of Neighborhood Diabetes have been included in the consolidated financial statements since June 2011, the period in which the acquisition was completed. The purchase price allocation, including an independent appraisal for intangible assets, has been prepared based on the information that was available to management at the time the consolidated financial statements were prepared. The allocation of the purchase price was finalized during the year ended December 31, 2011.

The purchase price has been allocated as follows (in thousands):

Calculation of allocable purchase price:	
Cash	$ 37,855
Common stock	24,432

Contingent consideration obligations	61
Total allocable purchase price	$ 62,348

Allocation of purchase price:	
Accounts receivable	$ 5,897
Inventories	2,336
Prepaid expenses and other current assets	242

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Property and equipment	391
Customer relationships	30,100
Tradenames	2,800
Goodwill	26,647
Other assets	253
Accounts payable	4,109
Accrued expenses	1,700
Other long-term liabilities	509
	$ 62,348

The Company incurred transaction costs of approximately $3.2 million, which consisted primarily of banking, legal, accounting and other administrative fees. These costs were recorded as general and administrative expense in the three and six months ended June 30, 2011.

4. Debt

At June 30, 2012 and December 31, 2011, the Company had outstanding convertible debt and related deferred financing costs on its balance sheet as follows (in thousands):

	As of	
	June 30, 2012	December 31, 2011
Principal amount of the 5.375% Convertible Senior Notes	$ 15,000	$ 15,000
Principal amount of the 3.75% Convertible Senior Notes	143,750	143,750
Unamortized discount	(45,519)	(50,210)
Total debt	113,231	108,540
Current portion of long-term debt	13,849	
Long-term debt	$ 99,382	$ 108,540
Deferred financing costs	$ 2,300	$ 2,597

Interest expense related to the 5.375% Notes (as defined below) and the 3.75% Notes (as defined below) was included in interest expense on the consolidated statements of operations as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Contractual coupon interest	$ 1,549	$ 1,142	$ 3,098	$ 2,284
Accretion of debt discount	2,387	1,425	4,691	2,849
Other interest payments		1,992		1,992
Amortization of debt issuance costs	149	121	297	243
	$ 4,085	$ 4,680	$ 8,086	$ 7,368

5.375% Convertible Senior Notes

In June 2008, the Company sold $85.0 million in 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 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.

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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 five 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.

In June 2011, in connection with the issuance of $143.8 million in principal amount of 3.75% Convertible Notes due June 15, 2016 (the 3.75% Notes), the Company repurchased $70 million in principal amount of the 5.375% Notes for $85.1 million, a 21.5% premium on the principal amount. The investors that held the $70 million in principal amount of repurchased 5.375% Notes purchased $59.5 million in principal amount of the 3.75% Notes and retained approximately $13.5 million in principal amount of the remaining 5.375% Notes. The investors combined $73.0 million in principal amount of convertible debt ($13.5 million of 5.375% Notes and $59.5 million of 3.75% Notes) was considered to be a modification of a portion of the 5.375% Notes. See 3.75% Convertible Senior Notes below for additional detail on the modification accounting.

The Company recorded an immaterial amount of non-cash interest expense related to the amortization of the debt discount and the deferred financing costs of the remaining $1.5 million unmodified portion of the 5.375% Notes in the three and six months ended June 30, 2012. The Company recorded non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the $85 million in principal amount of the 5.375% Notes of $1.6 million and $3.1 million in the three and six months ended June 30, 2011, respectively.

Cash interest expense related to the 5.375% Notes was $0.2 million and $0.4 million for the three and six months ended June 30, 2012, respectively. Cash interest expense related to the 5.375% Notes was $1.2 million and $2.3 million for the three and six months ended June 30, 2011, respectively.

As of June 30, 2012, the Company included approximately $1.4 million on its balance sheet in the current portion of long-term debt related to the unmodified portion of the 5.375% Notes. The 5.375% Notes have a remaining term of one year.

3.75% Convertible Senior Notes

In June 2011, the Company sold $143.8 million in principal amount of the 3.75% Notes. The interest rate on the notes is 3.75% per annum, payable semi-annually in arrears in cash on December 15 and June 15 of each year. The 3.75% Notes are convertible into the Company s common stock at an initial conversion rate of 38.1749 shares of common stock per $1,000 principal amount of the 3.75% Notes, which is equivalent to a conversion price of approximately $26.20 per share, subject to adjustment under certain circumstances. The 3.75% Notes are convertible prior to March 15, 2016 only upon the occurrence of certain circumstances. On and after March 15, 2016 and prior to the close of business on the second scheduled trading day immediately preceding the final maturity date of the 3.75% Notes, the notes may be converted without regard to the occurrence of any such circumstances. The 3.75% Notes and any unpaid interest will be convertible at the Company s option for cash, shares of the Company s common stock or a combination of cash and shares of the Company s common stock for the principal amount. The Company intends to settle the principal in cash.

The Company may not redeem the 3.75% Notes prior to June 20, 2014. From June 20, 2014 to June 20, 2015 the Company may redeem the 3.75% Notes, at its option, in whole or in part, only if the last reported sale price per share of the Company s common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during a period of 30 consecutive trading days. On and after June 20, 2015, the Company may redeem the 3.75% Notes, at its option (without regard to such sale price condition), in whole or in part. If a fundamental change, as defined in the Indenture for the 3.75% Notes, occurs at any time prior to maturity, holders of the 3.75% 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 3.75% Notes to be repurchased, plus accrued and unpaid interest. If a holder elects to convert its 3.75% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 3.75% 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 3.75% Notes. In no event will the number of shares issuable upon conversion of a note exceed 50.5816 per $1,000 principal amount (subject to adjustment as described in the Indenture for the 3.75% Notes). The 3.75% Notes are unsecured and are equal in right of payment to the 5.375% Notes.

The Company identified certain features related to a portion of the 3.75% Notes, including the holders ability to require the Company to repurchase their notes and the higher interest payments required in an event of default, which are considered embedded derivatives and should be bifurcated and accounted for at fair value. The Company assesses the value of each of these embedded derivatives at each balance sheet date. At June 30, 2012, the Company separately accounted for and determined that these derivatives have de minimus value.

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In connection with the issuance of the 3.75% Notes, the Company repurchased $70 million in principal amount of the 5.375% Notes for $85.1 million, a 21.5% premium on the principal amount. The investors that held the $70 million in principal amount of repurchased 5.375% Notes purchased $59.5 million in principal amount of the 3.75% Notes and retained approximately $13.5 million in principal amount of the remaining 5.375% Notes. This transaction was treated as a modification of a portion of the 5.375% Notes. The Company accounted for this modification of existing debt separately from the issuance of the remainder of the 3.75% Notes.

Prior to the transaction, the $70 million in principal amount of repurchased 5.375% Notes had a debt discount of $10.5 million. This amount remained in debt discount related to the $73 million in principal amount of modified debt. The Company recorded additional debt discount of $15.1 million related to the premium payment in connection with the repurchase and $0.2 million related to the increase in the value of the conversion feature. The portion of the debt discount related to the value of the conversion feature was recorded as additional paid-in capital. The total debt discount of $25.8 million related to the modified debt is being amortized as interest expense at the effective rate of 16.5% over the five year term of the modified debt. The Company paid transaction fees of approximately $2.0 million related to the modification, which were recorded as interest expense at the time of the modification. The Company included $12.4 million in current liabilities and $37.5 million in long-term debt related to the modified debt at June 30, 2012. Non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the $73 million in principal amount of the modified debt was $1.3 million and $2.6 million in the three and six months ended June 30, 2012. The Company recorded an immaterial amount of non-cash interest expense related to the modified debt in the three and six months ended June 30, 2011.

Of the $143.8 million in principal amount of 3.75% Notes issued in June 2011, $84.3 million in principal amount was considered to be an issuance of new debt. The Company recorded a debt discount of $26.6 million related to the $84.3 million in principal amount of 3.75% Notes. The debt discount was recorded as additional paid-in capital to reflect the value of its nonconvertible debt borrowing rate of 12.4% per annum. This debt discount is being amortized as interest expense over the five year term of the 3.75% Notes. The Company incurred deferred financing costs related to this offering of approximately $2.8 million, of which $0.9 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 3.75% Notes. The Company included $61.9 million on its balance sheet in long-term debt related to these notes at June 30, 2012. Non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the new portion of the 3.75% Notes was $1.2 million and $2.4 million in the three and six months ended June 30, 2012. The Company recorded an immaterial amount of non-cash interest expense related to the new portion of the 3.75% Notes in the three and six months ended June 30, 2011.

Cash interest expense related to the $143.8 million in principal amount of 3.75% Notes was $1.4 million and $2.7 million in the three and six months ended June 30, 2012. The Company recorded an immaterial amount of cash interest expense related to 3.75% Notes in the three and six months ended June 30, 2011.

As of June 30, 2012, the 3.75% Notes have a remaining term of four years.

5. 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, restricted stock units 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, 2012 and 2011, 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,	
	2012	**2011**
5.375% Convertible Senior Notes	702,701	702,701
3.75% Convertible Senior Notes	5,487,642	5,487,642
Unvested restricted stock units	860,319	635,215
Outstanding options	2,855,080	2,938,921
Outstanding warrants	62,752	62,752

Total dilutive common shares	9,968,494	9,827,231

6. Accounts Receivable

The components of accounts receivable are as follows:

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	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Trade receivables	$ 32,559	$ 30,211
Allowance for doubtful accounts	(6,968)	(7,021)
	$ 25,591	$ 23,190

7. Inventories

Inventories consist of the following:

	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Raw materials	$ 3,743	$ 3,528
Work-in-process	2,030	359
Finished goods	10,653	7,951
	$ 16,426	$ 11,838

8. Other Intangible Assets

Other intangible assets consist of the following:

	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Customer relationships	$ 30,100	$ 30,100
Tradename	2,800	2,800
Total intangible assets	$ 32,900	$ 32,900
Less: accumulated amortization	(7,147)	(3,898)
Total	$ 25,753	$ 29,002

The Company recorded $32.9 million of other intangible assets in the year ended December 31, 2011 as a result of the acquisition of Neighborhood Diabetes (see Footnote 3 for further description). The Company determined that the estimated useful life of the customer relationships asset is 10 years and is amortizing the asset over that period using an estimated cash flow pattern. The Company determined that the useful life of the Neighborhood Diabetes tradename is 15 years and is amortizing the asset over that period on a straight-line basis. The amortization of other intangible assets was approximately $1.5 million and $3.2 million for the three and six months ended June 30, 2012. The amortization of other intangible assets was approximately $0.5 million for the three and six months ended June 30, 2011. Amortization expense for the year ending December 31, 2012 is expected to be approximately $6.0 million. As of June 30, 2012, the weighted average amortization period of the Company s intangible assets is approximately ten years.

9. Goodwill

The Company follows the provisions of FASB ASC Topic 350-20, *Intangibles Goodwill and Other* (ASC 350-20). ASC 350-20 requires companies to use the purchase method of accounting for all business combinations initiated after June 30, 2001, and established specific criteria for the recognition of intangible assets separately from goodwill. Goodwill and indefinite-lived assets are tested for impairment at least annually. In accordance with ASC 350-20, the Company tests goodwill for impairment on an annual basis or whenever events and circumstances indicate there might be an impairment. The Company s goodwill arose in connection with the acquisition of Neighborhood Diabetes in June 2011. No goodwill impairment loss was recorded in the six months ended June 30, 2012.

10. Product Warranty Costs

The Company provides a four year warranty on its PDMs and may replace 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 is as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In thousands)		(In thousands)	
Balance at the beginning of the period	$ 2,033	$ 1,836	$ 1,960	$ 1,873
Warranty expense	348	655	1,222	1,379
Warranty claims settled	(559)	(696)	(1,360)	(1,457)
Balance at the end of the period	$ 1,822	$ 1,795	$ 1,822	$ 1,795

	As of June 30, 2012	As of December 31, 2011
	(In thousands)	
Composition of balance:		
Short-term	$ 762	$ 940
Long-term	1,060	1,020
	$ 1,822	$ 1,960

11. Commitments and Contingencies

Operating Leases

The Company leases its facilities in Massachusetts, New York, Florida and Singapore. The Company s leases 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. The Company has extended the leases of its facilities in Bedford and Billerica, Massachusetts. Following the extensions, these leases expire in September 2014. The leases for Bedford contain a five year renewal option and escalating payments over the life of the lease. The leases in Florida, Woburn, Singapore and New York expire in September 2012, June 2013, July 2013 and April 2015, respectively.

During the six months ended June 30, 2012, the Company terminated a lease for one of its corporate office spaces in Bedford, Massachusetts. There was no material impact to the financial statements for the six months ended June 30, 2012 due to the lease termination. During the same period, the Company entered into a new lease agreement for an additional 26,500 square feet in Bedford, Massachusetts. The lease expires in September 2014 and includes escalating payments over its term.

Certain of the Company s operating lease agreements contain scheduled rent increases, which are being amortized over the terms of the agreements using the straight-line method and are included in other liabilities in the accompanying consolidated balance sheet. The aggregate future minimum lease payments of these leases as of June 30, 2012, are as follows (in thousands):

Year Ending December 31,	Minimum Lease Payments
2012 (remaining)	845
2013	1,486
2014	988
2015	45
Total	$ 3,364

Legal Proceedings

In August 2010, Becton, Dickinson and Company (BD), filed a lawsuit in the United States District Court in the State of New Jersey against the Company alleging that the OmniPod System infringes three of its patents. BD seeks a declaration that the Company has infringed its patents, equitable relief, including an injunction that would enjoin the Company from infringing these patents and an unspecified award for monetary damages. The Company believes that the OmniPod System does not infringe these patents. The Company expects that this litigation will not have a material adverse impact on its financial position or results of operations. The Company believes it has meritorious defenses to this lawsuit; however, litigation is inherently uncertain and there can be no assurance as to the ultimate outcome or effect of this action.

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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.

12. Equity

In June 2011, in connection with the acquisition of Neighborhood Diabetes, the Company issued 1,197,631 shares of its common stock at a price of $20.40 per share, as partial consideration for the acquisition.

The Company grants share-based awards to employees under its Amended and Restated 2007 Stock Option and Incentive Plan (the 2007 Plan) in the form of options to purchase the Company s common stock, the ability to purchase stock at a discounted price under the employee stock purchase plan and restricted stock units. In May 2012, shares available for grant under the 2007 Plan were increased by 3,775,000 shares. Stock-based compensation expense related to share-based awards recognized in the three and six months ended June 30, 2012 was $2.5 million and $5.1 million, respectively, and was calculated based on awards ultimately expected to vest. Stock-based compensation expense related to share-based awards recognized in the three and six months ended June 30, 2011 was $1.8 million and $3.8 million, respectively. At June 30, 2012, the Company had $25.3 million of total unrecognized compensation expense related to stock options and restricted stock units.

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, 2011	2,814,591	$ 11.02	
Granted	383,100	18.94	
Exercised	(273,437)	5.40	$ 3,756(1)
Canceled	(69,174)	14.15	
Balance, June 30, 2012	2,855,080	$ 12.54	$ 25,334
Vested, June 30, 2012	1,679,593	$ 10.27	$ 18,751(2)
Vested and expected to vest, June 30, 2012 (3)	2,424,770		$ 22,644(2)

(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, 2012 and the exercise price of the underlying options.

(3) Represents the number of vested options as of June 30, 2012, plus the number of unvested options expected to vest as of June 30, 2012, based on the unvested options outstanding as of June 30, 2012, adjusted for the estimated forfeiture rate of 16%.

At June 30, 2012 there were 2,855,080 options outstanding with a weighted average exercise price of $12.54 per share and a weighted average remaining contractual life of 7.0 years. At June 30, 2012 there were 1,679,593 options exercisable with a weighted average exercise price of

$10.27 per share and a weighted average remaining contractual life of 5.8 years.

Employee stock-based compensation expense related to stock options recognized in the three and six months ended June 30, 2012 was $1.3 million and $2.5 million, respectively, and was based on awards ultimately expected to vest. Employee stock-based compensation related to stock options recognized in the three and six months ended June 30, 2011 was $1.0 million and $2.1 million, respectively. At June 30, 2012, the Company had $10.9 million of total unrecognized compensation expense related to stock options that will be recognized over a weighted average period of 1.3 years.

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Employee Stock Purchase Plan

As of June 30, 2012 and 2011 the Company had 8,882 shares and zero shares contingently issued under the employee stock purchase plan (ESPP). In the three and six months ended June 30, 2012 and 2011, the Company recorded no significant stock-based compensation charges related to the ESPP.

Restricted Stock Units

In the six months ended June 30, 2012, the Company awarded 467,000 restricted stock units to certain employees. The restricted stock units were granted under the 2007 Plan and vest annually over three to four years from the grant date. The restricted stock units granted have a weighted average fair value of $18.96 per share based on the closing price of the Company s common stock on the date of grant. The restricted stock units granted during the six months ended June 30, 2012 were valued at approximately $8.9 million on their grant date, and the Company is recognizing the compensation expense over the vesting period. Approximately $1.3 million and $2.7 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, 2012, respectively. Approximately $0.8 million and $1.7 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, 2011, respectively. Approximately $14.4 million of the fair value of the restricted stock units remained unrecognized as of June 30, 2012. Under the terms of the award, the Company will issue shares of common stock on each of the vesting dates. During the six months ended June 30, 2012, 191,145 restricted stock units vested. The following table summarizes the status of the Company s restricted stock units:

	Number of Shares (#)	Weighted Average Fair Value ($)
Balance, December 31, 2011	603,882	$ 17.12
Granted	467,000	18.96
Vested	(191,145)	16.69
Forfeited	(19,418)	17.49
Balance, June 30, 2012	860,319	$ 18.20

13. Income Taxes

For the three months ended June 30, 2012, income tax expense was comprised of $43,000 for the current portion and $26,000 for the deferred portion. For the six months ended June 30, 2012, income tax expense was comprised of $63,000 for the current portion and $52,000 for the deferred portion. The current portion primarily related to state, local, and foreign taxes. The deferred portion primarily related to U. S. Federal and State tax amounts.

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. At June 30, 2012 and December 31, 2011, the Company had deferred tax liabilities of $0.5 million including in other long-term liabilities on its consolidated balance sheet. There have been no significant changes in the Company s valuation allowance in the three and six months ended June 30, 2012.

In the future, the Company will generate additional deferred tax assets and liabilities related to its amortization of acquired intangible assets for tax purposes because these long-lived intangible assets are not amortized for financial reporting purposes. The tax amortization in future years will give rise to a temporary difference and a tax liability, which will only reverse at the time of ultimate sale or further impairment of the underlying intangible assets. Due to the uncertain timing of this reversal, the temporary difference cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore, the tax liability cannot be used to offset the deferred tax asset related to the net operating loss carryforward for tax purposes that will be generated by the same amortization. This amount gives rise to the need for additional valuation allowance.

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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 which are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to: risks associated with our dependence on the OmniPod System; our ability to reduce production costs and increase customer orders and manufacturing volumes; adverse changes in general economic conditions; impact of healthcare reform legislation; our inability to raise additional funds in the future on acceptable terms or at all; potential supply problems or price fluctuations with sole source or other third-party suppliers on which we are dependent; failure by us to retain supplier pricing discounts and achieve satisfactory gross margins; failure by us to retain key supplier and payor partners; international business risks; our inability to obtain adequate coverage or reimbursement from third-party payors for the OmniPod System and potential adverse changes in reimbursement rates or policies relating to the OmniPod; failure to retain key partner payors and their members; failure to retain and manage successfully our Medicare and Medicaid business; potential adverse effects resulting from competition with competitors; 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, including claims that our current or future products infringe the proprietary rights of others; adverse regulatory or legal actions relating to the OmniPod System; failure to obtain timely regulatory approval for the sale of the next generation OmniPod System; failure of our contract manufacturers or component suppliers to comply with FDA s quality system regulations, the potential violation of federal or state laws prohibiting kickbacks or protecting patient health information, or any challenges to or investigations into our practices under these laws; product liability lawsuits that may be brought against us; reduced retention rates; unfavorable results of clinical studies relating to the OmniPod System or the products of our competitors; potential future publication of articles or announcement of positions by physician associations or other organizations that are unfavorable to our products; the concentration of substantially all of our manufacturing capacity at a single location in China and substantially all of our inventory at a single location in Massachusetts; our ability to attract and retain key personnel; our ability to manage our growth; fluctuations in quarterly results of operations; risks associated with potential future acquisitions; the costs associated with the acquisition of Neighborhood Diabetes; our ability to generate sufficient cash to service all of our indebtedness; the expansion of our distribution network; our ability to successfully maintain effective internal controls; the volatility of our common stock; risks related to future sales of our common stock or the conversion of the 5.375% or 3.75% Notes; potential limitations on our ability to use our net operating loss carryforwards; anti-takeover provisions in our organizational documents; and other risks and uncertainties described in our Annual Report on Form 10-K , which was filed with the Securities and Exchange Commission on February 28, 2012 in the section entitled Risk Factors, and in our other filings from time to time with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements.

Overview

We are primarily engaged in the sale of diabetes supplies, including our proprietary OmniPod Insulin Management System (the OmniPod System) as well as blood glucose testing supplies, traditional insulin pumps, pump supplies, and other pharmaceuticals. Our proprietary OmniPod System consists of our disposable OmniPod insulin infusion device and our handheld, wireless Personal Diabetes Manager (PDM). The U.S. Food and Drug Administration (FDA), approved the OmniPod System in January 2005. In October 2005, we shipped our first commercial OmniPod System. In June 2011, we acquired Neighborhood Holdings, Inc. and their wholly-owned subsidiaries (collectively, Neighborhood Diabetes) in order to expand our full suite diabetes management product offerings and obtain access to a larger number of insulin dependent patients.

We sell the OmniPod System and other diabetes management supplies in the United States through direct sales to customers or through our distribution partners. The OmniPod System is currently available in multiple countries in Europe through our exclusive distribution partner, Ypsomed Distribution AG (Ypsomed) and in Canada through our exclusive distribution partner, GlaxoSmithKline Inc. (GSK).

Our total revenue was $51.0 million and $98.8 million for the three and six months ended June 30, 2012, respectively. Our total revenue was $32.2 million and $60.4 million for the three and six months ended June 30, 2011, respectively.

We sell our proprietary OmniPod System as well as blood glucose testing supplies, traditional insulin pumps, pump supplies, pharmaceuticals and other products for the management and treatment of diabetes to people with diabetes. Through our infrastructure in the reimbursement, billing and collection areas, we are able to provide for adjudication of claims as either durable medical equipment or through pharmacy benefits. Claims are adjudicated under private insurers, Medicaid or Medicare. We are aligning third-party payor contracts to be able to better leverage our cross-selling initiatives. As we expand our sales and marketing focus, increase our manufacturing capacity, expand to additional international markets and broaden our high-touch patient model, we will need to maintain and expand available reimbursement for our product offerings.

Our sales and marketing effort is focused on generating demand and acceptance of the OmniPod System among key diabetes practitioners, academic centers, clinics, people with insulin-dependent diabetes, third-party payors, government agencies, and third-party distributors. Our marketing strategy is to build awareness for the benefits of the OmniPod System as well as our high-touch patient model 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.

We currently produce the OmniPod System on a partially automated manufacturing line at a facility in China operated by a subsidiary of Flextronics International Ltd. (Flextronics). 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. 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 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 introduction of our next generation OmniPod, is important as we strive to achieve profitability. We believe our current manufacturing capacity is sufficient to meet our expected 2012 demand for OmniPods.

We purchase certain other diabetes management supplies from manufacturers at contracted rates and supply these products to our customers. Based on market penetration, payor plans and other factors, certain manufacturers provide rebates based on product sold. We record these rebates as a reduction to cost of goods sold as they are earned.

Since our inception in 2000, we have incurred losses every quarter. In the three and six months ended June 30, 2012, we incurred net losses of $14.5 million and $29.3 million, respectively. As of June 30, 2012, we had an accumulated deficit of $470.3 million. We have financed our operations through private placements of debt and equity securities, public offerings of our common stock, issuances of convertible debt and borrowings under certain other debt agreements. As of June 30, 2012, we had $158.8 million of convertible debt outstanding. Of the $158.8 million of convertible debt outstanding, $15.0 million matures in June 2013 and approximately $143.8 million matures in June 2016.

Our long-term financial objective is to achieve and sustain profitable growth. Our efforts in the coming months of 2012 will be focused primarily on the approval and production capacity of our next generation OmniPod System. Once the next generation product has obtained regulatory approval in the United States, we will focus on our United States launch. We are also focused on increasing sales to existing patients by offering additional products through our cross-selling initiatives. Achieving these objectives is expected to require additional investments in certain personnel and initiatives to allow for us to increase our penetration in the United States and 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.

We believe that our 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 the next 12 months.

Acquisition of Neighborhood Diabetes

In June 2011, we acquired all of the outstanding shares of Neighborhood Diabetes, a durable medical equipment distributor specializing in direct to consumer sales of diabetes supplies, including pharmaceuticals, and support services. Neighborhood Diabetes serves more than 60,000 customers with Type 1 and Type 2 diabetes, primarily in the northeast and southeast regions of the United States with blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals, as well as other products for the management and treatment of diabetes. Neighborhood Diabetes is based in Massachusetts, with additional offices in New York and Florida. At the time of the acquisition, Neighborhood Diabetes employed approximately 200 people across the three locations. The acquisition of Neighborhood Diabetes provides us with full suite diabetes management product offerings, accelerates our sales force expansion, strengthens our back office support capabilities, expands our access to insulin dependent patients, and provides pharmacy adjudication capabilities to drive incremental sales higher. The aggregate purchase price of approximately $62.4 million consisted of approximately $37.9 million in cash paid at closing, 1,197,631 shares of our common stock valued at approximately $24.4 million, or $20.40 per share based on the closing price of our common stock on the acquisition date, and contingent consideration with a fair value of approximately $0.1 million. Of the $37.9 million of cash paid at closing, $6.6 million is being held in an escrow account to reimburse us and our affiliates, if necessary, for certain claims for which we and our affiliates are entitled to be indemnified pursuant to the terms of the agreement and plan of merger with Neighborhood Diabetes.

We have accounted for the acquisition of Neighborhood Diabetes as a business combination. Under business combination accounting, the assets and liabilities of Neighborhood Diabetes were recorded as of the acquisition date, at their respective fair values, and consolidated with our results. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The operating results of Neighborhood Diabetes have been included in the consolidated financial statements since June 2011, the period in which the acquisition was completed. The purchase price allocation, including an independent appraisal for intangible assets, has been prepared based on the information that was available to management at the time the consolidated financial statements were prepared. The allocation of the purchase price was finalized during the year ended December 31, 2011. The purchase price has been allocated as follows (in thousands):

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Calculation of allocable purchase price:	
Cash	$ 37,855
Common stock	24,432
Contingent consideration obligations	61
Total allocable purchase price	$ 62,348
Allocation of purchase price:	
Accounts receivable	$ 5,897
Inventories	2,336
Prepaid expenses and other current assets	242
Property and equipment	391
Customer relationships	30,100
Tradenames	2,800
Goodwill	26,647
Other assets	253
Accounts payable	4,109
Accrued expenses	1,700
Other long-term liabilities	509
	$ 62,348

In connection with acquisition of Neighborhood Diabetes, we incurred transaction costs of approximately $3.2 million, which consisted primarily of banking, legal, accounting and other administrative fees. These costs were recorded as general and administrative expense in the six months ended June 30, 2011.

Financial Operations Overview

Revenue. We derived most of our revenue from the sale of the OmniPod System and other diabetes related products including blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals to customers and third-party distributors who resell the product to customers. 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 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. We received FDA approval of the OmniPod System in January 2005 and began commercial sale in the U.S. in October 2005. We are currently selling our OmniPod System through our partnership with Ypsomed in multiple countries, including Germany, the United Kingdom, the Netherlands and Switzerland. We entered into an amendment to the distribution agreement with Ypsomed in April 2012 which increased the number of countries and extended the expiration of the agreement for an additional year. We are currently selling our OmniPod System through our partnership with GSK in Canada.

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 five year term of the agreement. In addition, Abbott agreed to pay us certain amounts for services performed in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to customers in certain territories. 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 the patient.

In June 2011, we entered into a development agreement with a U.S. based pharmaceutical company (the Development Agreement). Under the Development Agreement, we are required to perform design, development, regulatory, and other services to support the pharmaceutical company as it works to obtain regulatory approval to use our drug delivery technology as a delivery method for its pharmaceutical. Over the estimated two year term of the Development Agreement, we have and expect to continue to invoice amounts as we meet certain defined deliverable milestones. Revenue on the Development Agreement is recognized using a proportional performance methodology based on costs incurred and total payments under the agreement.

As of June 30, 2012 and December 31, 2011, we had deferred revenue of $1.1 million and $2.7 million, respectively. These amounts include product-related revenue, unrecognized amounts related to the Development Agreement, as well as the unrecognized portion of the agreement fee related to the Abbott agreement.

For the year ending December 31, 2012, we expect our revenue to continue to increase as we leverage our high-touch patient model to gain new customers in the United States and continue expansion in Europe, Canada and certain other international markets. Increased revenue will be dependent upon the success of our sales efforts, our ability to produce OmniPods in sufficient volumes, the successful introduction of our next generation OmniPod System, and other risks and uncertainties.

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Cost of revenue. Cost of revenue consists primarily of raw material, labor, warranty and overhead costs such as freight, depreciation and packaging costs related to the OmniPod System, the cost of products we acquire from third party suppliers, and costs incurred related to the Development Agreement.

Research and development. Research and development expenses consist primarily of personnel costs within our product development, regulatory and clinical functions, and the costs of clinical studies and product development projects. We expense all research and development costs as incurred. For the year ending December 31, 2012, we expect overall research and development spending to decrease slightly from 2011 spending as we finalize the validation of our next generation OmniPod System manufacturing line with Flextronics and complete our work with the regulatory agencies on obtaining approval of the next generation OmniPod System.

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. We expect general and administrative expenses to increase in the year ending December 31, 2012 as compared to 2011.

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. We expect sales and marketing expenses to increase in the year ending December 31, 2012 as compared to 2011as we continue expansion of our sales force to support the growth of our existing business and introduce our next generation OmniPod System.

Results of Operations

The following table presents certain statement of operations information for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
	(in thousands)			(in thousands)		
Revenue	$ 51,035	$ 32,211	58%	$ 98,789	$ 60,469	63%
Cost of revenue	28,704	17,673	62%	56,162	32,398	73%
Gross profit	22,331	14,538	54%	42,627	28,071	52%
Operating expenses:						
Research and development	6,521	6,832	5%	11,953	11,421	5%
General and administrative	12,665	12,996	3%	25,685	20,206	27%
Sales and marketing	13,664	9,625	42%	26,403	18,631	42%
Total operating expenses	32,850	29,453	12%	64,041	50,258	27%
Operating loss	(10,519)	(14,915)	29%	(21,414)	(22,187)	3%
Other expense, net	(3,888)	(4,508)	14%	(7,727)	(7,082)	9%
Income tax expense	(69)		100%	(115)		100%
Net loss	$ (14,476)	$ (19,423)	25%	$ (29,256)	$ (29,269)	0%

Comparison of the Three and Six Months Ended June 30, 2012 and 2011

Revenue

Our total revenue was $51.0 million and $98.8 million for the three and six months ended June 30, 2012 compared to $32.2 million and $60.5 million the same periods in 2011. The increase in revenue is due to continued adoption of the OmniPod System by patients in the United States and internationally, as well as additional sales of other diabetes supplies, largely as a result of the June 2011 acquisition of Neighborhood Diabetes.

Cost of Revenue

Cost of revenue was $28.7 million and $56.2 million for the three and six months ended June 30, 2012 compared to $17.7 million and $32.4 million for the same periods in 2011. The increase in cost of revenue is due to higher sales volumes as our patient base continues to increase.

Research and Development

Research and development expenses decreased $0.3 million, or 5%, to $6.5 million for the three months ended June 30, 2012, compared to $6.8 million for the same period in 2011. The decrease was primarily a result of a $2.2 million reduction in products used for research and development as our next generation product gets closer to approval. This decrease was offset by an increase of $0.8 million in employee related expenses including stock-based compensation and an increase of $1.1 million in outside services mainly related to the development and regulatory approval of the next generation OmniPod System.

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Research and development expenses increased $0.6 million, or 5%, to $12.0 million for the six months ended June 30, 2012, compared to $11.4 million for the same period in 2011. The increase was primarily a result of increases of $1.5 million in employee related expenses including stock-based compensation and $1.4 million in outside services mainly related to the development and regulatory approval of the next generation OmniPod System. These increases were offset by a $2.4 million reduction in products used for research and development purposes.

General and Administrative

General and administrative expenses decreased $0.3 million, or 3%, to $12.7 million for the three months ended June 30, 2012, compared to $13.0 million for the same period in 2011. This decrease was primarily the result of transaction costs of approximately $3.2 million recorded in June 2011 in connection with the acquisition of Neighborhood Diabetes. This decrease was offset by an increase of $0.8 million in administrative and consulting expenses, an increase of $1.1 million related to amortization expense on the customer relationship and tradename assets acquired and an increase of $0.5 million of additional product shipping expenses due to the increased sales volume.

General and administrative expenses increased $5.5 million, or 27%, to $25.7 million for the six months ended June 30, 2012, compared to $20.2 million for the same period in 2011. This increase was a result of an increase in employee related expenses, including stock-based compensation, of $1.7 million, a $2.8 million increase in amortization expense on the customer relationship and tradename assets acquired, $1.0 million of higher product shipping expenses, $0.7 million of higher bad debt expense, and $1.8 million of higher administrative and consulting services. These increases were offset by $3.2 million related to the transactions costs for the acquisition of Neighborhood Diabetes recorded in June 2011.

Sales and Marketing

Sales and marketing expenses increased $4.1 million, or 42%, to $13.7 million for the three months ended June 30, 2012, compared to $9.6 million for the same period in 2011. This increase was primarily a result of employee related expenses, including increased stock compensation expense of $3.6 million. The remainder of the increase was a result of additional outside services costs primarily related to customer support functions. Of the total $4.1 million increase, $2.7 million was a result of the operations of Neighborhood Diabetes which was acquired in June 2011.

Sales and marketing expenses increased $7.8 million, or 42%, to $26.4 million for the six months ended June 30, 2012, compared to $18.6 million for the same period in 2011. This increase was primarily a result of employee related expenses, including increased stock compensation expense of $6.7 million and additional outside services costs primarily related to customer support functions.

Other Expense, Net

Other expense, net mainly consists of interest income and expense. Net interest expense was $3.9 million for the three months ended June 30, 2012 compared to $4.5 million for the same period in 2011. Net interest expense was $7.7 million for the six months ended June 30, 2012 compared to $7.1 million for the same period in 2011. The decrease in net interest expense for the three month period ended June 30, 2012, primarily relates to the one-time charge to interest expense related to the modification of the 5.375% Notes in June 2011, offset by additional interest expense in connection with the issuance of the 3.75% Senior Notes (as defined below). The increase in net interest expense for the six month period ended June 30, 2012 is primarily the result of additional interest expense due to the issuance of the 3.75% Notes (as defined below) and modification of the 5.375% Senior Notes (as defined below) in June 2011.

Liquidity and Capital Resources

We commenced operations in 2000 and to date we have financed our operations primarily through private placements of common and preferred stock, secured indebtedness, public offerings of our common stock and issuances of convertible debt. In June 2011, we acquired all of the outstanding shares of Neighborhood Diabetes. The aggregate purchase price of approximately $62.4 million included approximately $37.9 million in cash paid at closing. As of June 30, 2012, we had $70.1 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 June 2011, in connection with the acquisition of Neighborhood Diabetes, we issued 1,197,631 shares of our common stock with a value of $20.40 per share on the issuance date, as partial consideration for the acquisition.

In May 2012 the Company increased the number of shares available for grant under the Amended and Restated 2007 Stock Option and Incentive Plan (the 2007 Plan) by 3,775,000 shares.

Debt

At June 30, 2012 and December 31, 2011, we had outstanding convertible debt and related financing costs on our balance sheet as follows (in thousands):

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	As of	
	June 30, 2012	**December 31, 2011**
Principal amount of the 5.375% Convertible Senior Notes	$ 15,000	$ 15,000
Principal amount of the 3.75% Convertible Senior Notes	143,750	143,750
Unamortized discount	(45,519)	(50,210)
Total debt	113,231	108,540
Current portion of long-term debt	13,849	
Long-term debt	$ 99,382	$ 108,540
Deferred financing costs	$ 2,300	$ 2,597

Interest expense related to the 5.375% Senior Notes (as defined below) and the 3.75% Senior Notes (as defined below) was included in interest expense on the consolidated statements of operations as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Contractual coupon interest	$ 1,549	$ 1,142	$ 3,098	$ 2,284
Accretion of debt discount	2,387	1,425	4,691	2,849
Other interest payments		1,992		1,992
Amortization of debt issuance costs	149	121	297	243
	$ 4,085	$ 4,680	$ 8,086	$ 7,368

5.375% Convertible Senior Notes

In June 2008, we sold $85.0 million in 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.

If a fundamental change, as defined in the Indenture for the 5.375% Notes, occurs at any time prior to maturity, holders of the 5.375% Notes may require us to repurchase their notes in whole or in part for cash equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, including any additional interest to, but excluding, the date of repurchase. If a holder elects to convert its 5.375% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 5.375% Notes, the holder may be entitled to receive an additional number of shares of common stock on the conversion date. These additional shares are intended to compensate the holders for the loss of the time value of the conversion option and are set forth in the Indenture 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).

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 five year term 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.

In June 2011, in connection with the issuance of $143.8 million in principal amount of 3.75% Convertible Notes due June 2016 (the 3.75% Notes), we repurchased $70 million in principal amount of the 5.375% Notes for $85.1 million, a 21.5% premium on the principal amount. The investors that held the $70 million in principal amount of repurchased 5.375% Notes purchased $59.5 million in principal amount of the 3.75% Notes and retained approximately $13.5 million in principal amount of the remaining 5.375% Notes. The investors combined $73.0 million in principal amount of convertible debt ($13.5 million of 5.375% Notes and $59.5 million of 3.75% Notes) was considered to be a modification of a portion of the 5.375% Notes. See the section entitled 3.75% Convertible Senior Notes below.

We recorded an immaterial amount of non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the remaining $1.5 million unmodified portion of the 5.375% Notes in the three and six months ended June 30, 2012. We recorded non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the $85 million in principal amount of the 5.375% Notes of $1.6 million and $3.1 million in the three and six months ended June 30, 2011, respectively.

Cash interest expense related to the 5.375% Notes was $0.2 million and $0.4 million for the three and six months ended June 30, 2012, respectively. Cash interest expense related to the 5.375% Notes was $1.2 million and $2.3 million for the three and six months ended June 30, 2011, respectively.

As of June 30, 2012, we included approximately $1.4 million on our balance sheet in the current portion of long-term debt related to the unmodified portion of the 5.375% Notes. The 5.375% Notes have a remaining term of one year.

3.75% Convertible Senior Notes

In June 2011, we sold $143.8 million in principal amount of the 3.75% Notes. The interest rate on the notes is 3.75% per annum, payable semi-annually in arrears in cash on December 15 and June 15 of each year. The 3.75% Notes are convertible into our common stock at an initial conversion rate of 38.1749 shares of common stock per $1,000 principal amount of the 3.75% Notes, which is equivalent to a conversion price of approximately $26.20 per share, subject to adjustment under certain circumstances. The 3.75% Notes are convertible prior to March 15, 2016 only upon the occurrence of certain circumstances. On and after March 15, 2016 and prior to the close of business on the second scheduled trading day immediately preceding the final maturity date of the 3.75% Notes, the notes may be converted without regard to the occurrence of any such circumstances. The 3.75% Notes and any unpaid interest will be convertible at our option for cash, shares of our common stock or a combination of cash and shares of our common stock for the principal amount. We intend to settle the principal in cash.

We may not redeem the 3.75% Notes prior to June 20, 2014. From June 20, 2014 to June 20, 2015, we may redeem the 3.75% Notes, at our option, in whole or in part, only if the last reported sale price per share of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during a period of 30 consecutive trading days. On and after June 20, 2015, we may redeem the 3.75% Notes, at our option (without regard to such sale price condition), in whole or in part. If a fundamental change, as defined in the Indenture for the 3.75% Notes, occurs at any time prior to maturity, holders of the 3.75% 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. If a holder elects to convert their 3.75% Notes upon the occurrence of a make-whole fundamental change, as defined in the Indenture for the 3.75% 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 3.75% Notes. In no event will the number of shares issuable upon conversion of a 3.75% Note exceed 50.5816 per $1,000 principal amount (subject to adjustment as described in the Indenture for the 3.75% Notes). The 3.75% Notes are unsecured and are equal in right of payment to the 5.375% Notes.

We identified certain features related to a portion of the 3.75% Notes, including the holders ability to require us to repurchase their notes and the higher interest payments required in an event of default, which are considered embedded derivatives and should be bifurcated and accounted for at fair value. We assess the value of each of these embedded derivatives at each balance sheet date. At June 30, 2012, we determined that these derivatives have de minimus value.

In connection with the issuance of the 3.75% Notes, we repurchased $70 million in principal amount of the 5.375% Notes for $85.1 million, a 21.5% premium on the principal amount. The investors that held the $70 million in principal amount of repurchased 5.375% Notes purchased $59.5 million in principal amount of the 3.75% Notes and retained approximately $13.5 million in principal amount of the remaining 5.375% Notes. This transaction was treated as a modification of the existing 5.375% Notes. We accounted for this modification of a portion of the 5.375% Notes separately from the issuance of the remainder of the 3.75% Notes.

Prior to the transaction, the $70 million in principal amount of repurchased 5.375% Notes had a debt discount of $10.5 million. This amount remained in debt discount related to the $73 million in principal amount of modified debt. We recorded an additional debt discount of $15.1 million related to the premium payment in connection with the repurchase and $0.2 million related to the increase in the value of the conversion feature. The portion of the debt discount related to the value of the conversion feature was recorded as additional paid-in capital. The total debt discount of $25.8 million related to the modified debt is being amortized as interest expense at the effective rate of 16.5% over the five year term of the modified debt. We paid transaction fees of approximately $2.0 million related to the modification which were recorded as interest expense at the time of the modification. We included $12.4 million on our balance sheet in current liabilities and $37.5 million in long-term debt related to the modified debt at June 30, 2012. Non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the $73 million in principal amount of the modified debt was $1.3 million and $2.6 million in the three and six months ended June 30, 2012. We recorded an immaterial amount of non-cash interest expense related to the modified debt in the three and six months ended June 30, 2011.

Of the $143.8 million in principal amount of 3.75% Notes issued in June 2011, $84.3 million in principal amount was considered to be an issuance of new debt. We recorded a debt discount of $26.6 million related to the $84.3 million in principal amount of 3.75% Notes. The debt discount was recorded as additional paid-in capital to reflect the value of our nonconvertible debt borrowing rate of 12.4% per annum. This debt discount is being amortized as interest expense over the five year term of the 3.75% Notes. We incurred deferred financing costs related to this offering of approximately $2.8 million, of which $0.9 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

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five year term of the 3.75% Notes. We included $61.9 million on our balance sheet in long-term debt related to these notes at June 30, 2012. Non-cash interest expense related to the amortization of the debt discount and the deferred financing costs on the new portion of the 3.75% Notes was $1.2 million and $2.4 million in the three and six months ended June 30, 2012, respectively. We recorded an immaterial amount of non-cash interest expense related to the new portion of the 3.75% Notes in the three and six months ended June 30, 2011.

Cash interest expense related to the $143.8 million in principal amount of 3.75% Notes was $1.4 million and $2.7 million in the three and six months ended June 30, 2012. We recorded an immaterial amount of cash interest expense related to 3.75% Notes in the three and six months ended June 30, 2011.

As of June 30, 2012, the 3.75% Notes have a remaining term of four years.

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, 2012	Six Months Ended June 30, 2011
	(In thousands)	
Cash used in operating activities	$ (20,017)	$ (16,948)
Net loss	$ (29,256)	$ (29,269)

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 expenses. Adjustments for non-cash items were approximately $17.1 million and $12.6 million in the six months ended June 30, 2012 and 2011, respectively. Non-cash items mainly consist of depreciation and amortization, stock-based compensation and non-cash interest expense.

Uses of cash from operations in the six months ended June 30, 2012 include an increase in accounts receivable of $3.9 million and an increase in inventories of $4.6 million, offset in part by a increase in accounts payable and accruals of $2.7 million. Uses of cash from operations in the six months ended June 30, 2011 include an increase in inventories of $2.2 million and a decrease of deferred revenue. These uses of cash in the six months ended June 30, 2011 were offset by a decrease in accounts receivable of $1.1 million and an increase of $2.2 million in accounts payable and accruals.

Investing and Financing 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, 2012	Six Months Ended June 30, 2011
	(In thousands)	
Cash used in investing activities	$ (4,249)	$ (43,415)
Cash provided by financing activities	$ 455	$ 53,835

Cash used in investing activities in the six months ended June 30, 2012 was primarily for the purchase of manufacturing equipment for use in the production of our next generation OmniPod product. Cash used in investing activities in the six months ended June 30, 2011 primarily related to the acquisition of Neighborhood Diabetes. We paid approximately $37.9 million in cash as partial consideration for that acquisition.

Cash provided by financing activities in the six months ended June 30, 2012 is mainly related to the net proceeds from the issuance of common stock in connection with the exercise of employee stock options. Cash provided by financing activities in the six months ended June 30, 2011 mainly related to the net proceeds from the issuance of the 3.75% Notes, offset by the repurchase of $70 million principal of the 5.375% Notes for $85.1 million.

Contractual Obligations

We lease facilities in Massachusetts, New York, Florida and Singapore. We account for these leases as operating leases. The leases generally provide for a base rent plus real estate taxes and certain operating expenses related to the leases. We have extended the leases of our facilities in Bedford and Billerica, Massachusetts. Following these extensions, these leases expire in September 2014. The leases for Bedford contain a five year renewal option and escalating payments over the life of the leases. The leases in Florida, Woburn, Singapore and New York, expire in September 2012, June 2013, July 2013 and April 2015, respectively. As of June 30, 2012, we had an outstanding letter of credit which totaled $0.1 million to cover our security deposits for lease obligations.

During the six months ended June 30, 2012, we terminated a lease for one of our corporate office spaces in Bedford, Massachusetts. There was no material impact to the financial statements for the six months ended June 30, 2012 due to the lease termination. During the same period, we entered into a new lease agreement for an additional 26,500 square feet in Bedford, Massachusetts. The lease expires in September 2014 and includes escalating payments over the term.

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Certain of our operating lease agreements contain schedule rent increases, which are being amortized over the terms of the agreements using the straight-line method and are included in other liabilities on our balance sheet.

The following table summarizes our principal obligations as of June 30, 2012 (in thousands):

Contractual Obligations	Total	2012 Remaining	2013	2014	2015	2016
Operating lease obligations	$ 3,364	$ 845	$ 1,486	$ 988	$ 45	$
Long-term debt obligations (1)	180,891	3,098	20,790	5,391	5,391	146,221
Total contractual obligations	$ 184,255	$ 3,943	$ 22,276	$ 6,379	$ 5,436	$ 146,221

(1) The interest rate on the convertible debt is 5.375% and 3.75% per annum. We have included future payments of interest on the long-term debt in our obligations.

Off-Balance Sheet Arrangements

As of June 30, 2012, 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 System and other diabetes related products including blood glucose testing supplies, traditional insulin pumps, pump supplies and pharmaceuticals to customers and third-party distributors who resell the products to patients with diabetes.

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 collectability is reasonably assured. With respect to these criteria:

The evidence of an arrangement generally consists of a physician order form, a patient information form and, if applicable, third-party insurance approval for sales directly to patients or a purchase order for sales to a third-party distributor.

Transfer of title and risk and rewards of ownership are passed to the patient or third-party distributor typically upon shipment of the products.

The selling prices for all sales are fixed and agreed with the patient or third-party distributor and, if applicable, the patient s third-party insurance provider(s) prior to shipment and are based on established list prices or, in the case of certain third-party insurers, contractually agreed upon prices. Provisions for discounts and rebates to customers are established as a reduction to revenue in the same period the related sales are recorded.

We offer a 45 day right of return for our OmniPod Insulin Management System 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 our 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 collectability 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 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 five year term of the agreement. In addition, Abbott agreed to pay us certain amounts for services performed in connection with each sale of a PDM that includes an Abbott Discrete Blood Glucose Monitor to customers in certain territories. We recognize revenue related to this portion of the Abbott agreement at the time we meet the criteria for revenue recognition, typically at the time the revenue is recognized on the sale of the PDM to the patient.

In June 2011, we entered into a development agreement with a U.S. based pharmaceutical company (the Development Agreement). Under the Development Agreement, we are required to perform design, development, regulatory, and other services to support the pharmaceutical company as it works to obtain regulatory approval to use our drug delivery technology as a delivery method for its pharmaceutical. Over the estimated two year term of the Development Agreement, we have invoiced and expect to continue to invoice amounts as we meet certain defined deliverable milestones. Revenue from the Development Agreement is recognized using a proportional performance methodology based on efforts incurred and total payments under the agreement.

We had deferred revenue of $1.1 million as of June 30, 2012. The deferred revenue recorded as of June 30, 2012 was comprised of product-related revenue and unrecognized amounts related to the Development Agreement, as well as the non-amortized agreement fee related to the Abbott agreement.

Asset Valuation

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

Income Taxes

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes* (ASC 740-10) clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2012, we had $0.2 million of unrecognized tax benefits recorded.

Stock-Based Compensation

We account for stock-based compensation under the provisions of FASB ASC 718-10, *Compensation Stock Compensation.* (ASC 718-10), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

We use the Black-Scholes option pricing model to determine the weighted average fair value of options granted. We determine the intrinsic value of restricted stock units based on the closing price of our common stock on the date of grant. We recognize the compensation expense of share-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected life of the awards is estimated based on the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of the awards. The dividend yield assumption is based on our history and expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in the financial statements is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value the awards on a quarterly basis, and if factors change and different assumptions are utilized, stock-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

In the three and six months ended June 30, 2012, we recorded $2.5 million and $5.1 million of stock-based compensation expense, respectively. In the three and six months ended June 30, 2011, we recorded $1.8 million and $3.8 million of stock-based compensation expense, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due from third-party payors, patients, third-party distributors and government agencies. The allowance for doubtful accounts is recorded at the time potential collection risk is indentified. 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.

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Intangibles and Other Long-Lived Assets

Our finite-lived intangible assets are stated at cost less accumulated amortization. We assess our intangible and other long-lived assets for impairment whenever events or changes in circumstances suggest that the carrying value of an asset may not be recoverable. We assess the need for an impairment of intangibles and other long-lived assets if the carrying amount of the asset is not recoverable based on its undiscounted future cash flows. Any such impairment loss is measured as the difference between the carrying amount and the fair value of the asset. The estimation of useful lives and expected cash flows requires us to make significant judgments regarding future periods that are subject to some factors outside our control. Changes in these estimates can result in significant revisions to the carrying value of these assets and may result in material charges to the results of operations. The estimated life of the acquired tradename asset is 15 years. The estimated life of the acquired customer relationships asset is 10 years. Intangible assets with determinable estimated lives are amortized over these lives. At June 30, 2012, intangibles assets related to the acquisition of Neighborhood Diabetes and consisted of $23.2 million of customer relationships and $2.6 million of tradenames.

Goodwill

Goodwill represents the excess of the cost of the acquired Neighborhood Diabetes business over the fair value of identifiable net assets acquired. We perform an assessment of our goodwill for impairment on at least an annual basis or whenever events or changes in circumstances indicate there might be impairment.

Goodwill is evaluated at the reporting unit level. To test for impairment, we compare the carrying value of the reporting unit to its fair value. If the reporting unit s carrying value exceeds its fair value, we would record an impairment loss to the extent that the carrying value of goodwill exceeds its implied fair value.

Warranty

We provide a four year warranty on our PDMs and may replace any OmniPods that do not function in accordance with product specifications. We estimate our 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. As these estimates are based on historical experience, and we continue to introduce new versions of existing products, we also consider the anticipated performance of the product over its warranty period in estimating warranty reserves. At June 30, 2012 and December 31, 2011, the warranty reserve was $1.8 million.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 clarifies existing concepts regarding existing fair value principles. The amendments are effective in fiscal years beginning after December 15, 2011. We adopted the guidance in the first quarter of 2012. The adoption of these amendments did not have a material impact on our financial statements.

In September 2011, the FASB issued ASU No. 2011-08 *Testing Goodwill for Impairment* (ASU No. 2011-08). ASU No. 2011-08 provides guidance on simplifying the impairment testing for goodwill. A company may first assess the qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test on the reporting unit. The guidance is effective in fiscal years beginning after December 15, 2011, and we adopted the guidance in the first quarter of 2012. The adoption of this guidance did not have a material impact on our financial statements.

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, 2012, we had outstanding debt recorded on our consolidated balance sheet of $15.0 million related to our 5.375% Notes and $143.8 million related to our 3.75% Notes. These amounts were offset by related debt discounts of $45.5 million. As the interest rate on the

5.375% Notes and 3.75% Notes is 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, 2012, 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 (the Exchange Act)) 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

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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, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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, 2012 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

In August 2010, Becton, Dickinson and Company, (BD), filed a lawsuit in the United States District Court in the State of New Jersey against us alleging that the OmniPod Insulin Management System (the OmniPod System) infringes three of its patents. BD seeks a declaration that we have infringed its patents, equitable relief, including an injunction that would enjoin us from infringing these patents and an unspecified award for monetary damages. We believe that the OmniPod System does not infringe these patents. We do not expect this litigation to have a material adverse impact on our financial position or results of operations. We believe we have meritorious defenses to this lawsuit; however, litigation is inherently uncertain and there can be no assurance as to the ultimate outcome or effect of this action.

We are, from time to time, involved in the normal course of business in various legal proceedings, including intellectual property, contract employment and product liability suits. Although we are unable to quantify the exact financial impact of any of these matters, we believe that none of these currently pending matters will have an outcome material to our financial condition or business.

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, 2011, 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. 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, 2011.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Document
10.1+	Amendment No.5 to the Development and License Agreement, dated as of June 21, 2012, 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.

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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.
101§	The following materials from Insulet Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language), as follows: (i) Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 (Unaudited) (ii) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and June 30, 2011 (Unaudited) (iii) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and June 30, 2011 (Unaudited) (iv) Notes to Condensed Consolidated Financial Statements (Unaudited)

§ As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

\+ Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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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 8, 2012	/s/ Duane DeSisto Duane DeSisto President and Chief Executive Officer
	(Principal Executive Officer)
Date: August 8, 2012	/s/ Brian Roberts Brian Roberts Chief Financial Officer
	(Principal Financial and Accounting Officer)

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	(iii) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and June 30, 2011 (Unaudited)
	(iv) Notes to Condensed Consolidated Financial Statements (Unaudited)

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