

THERASENSE INC  
Form 10-Q  
May 15, 2003  
Table of Contents

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED MARCH 31, 2003**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

Commission File Number: 000-33139

**THERASENSE, INC.**

(Exact name of Registrant issuer as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3267373**  
(I.R.S. Employer  
Identification No.)

**1360 South Loop Road, Alameda, California**  
(Address of principal executive offices)

**94502**  
(Zip code)

**(510) 749-5400**  
(Registrant's telephone number, including area code)

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

to such filing requirements for the past 90 days.

Yes x No o

As of May 1, 2003, Registrant had outstanding 41,079,187 shares of Common Stock, \$0.001 par value.

**Table of Contents**

***THERASENSE, INC.  
QUARTERLY REPORT ON FORM 10-Q***

***TABLE OF CONTENTS***

	<b><u>PAGE</u></b>
<b>Part I: Financial Information</b>	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Statements of Operations</u> for the Three Months Ended March 31, 2003 and 2002	1
<u>Condensed Consolidated Balance Sheets</u> at March 31, 2003 and December 31, 2002	2
<u>Condensed Consolidated Statements of Cash Flows</u> for the Three Months Ended March 31, 2003 and 2002	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22
<b>Part II: Other Information</b>	
Item 1. <u>Legal Proceedings</u>	23
Item 2. <u>Changes in Securities and Use of Proceeds</u>	23
Item 3. <u>Defaults Upon Senior Securities</u>	23
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	23
Item 5. <u>Other Information</u>	23
Item 6. <u>Exhibits and Reports on Form 8-K</u>	23

**Signature** 26

i

**Table of Contents**

**PART I: FINANCIAL INFORMATION**

***ITEM 1.***

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****THERASENSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2003</b>	<b>2002</b>
Total revenues	\$ 40,904	\$ 33,279
Cost of revenues	19,114	18,408
Gross profit	21,790	14,871
Operating expenses:		
Research and development	5,166	4,441
Selling, general and administrative	25,280	21,905
Total operating expenses	30,446	26,346
Loss from operations	(8,656 )	(11,475 )
Interest income, net	117	490
Net loss	\$ (8,539 )	\$ (10,985 )
Net loss per common share, basic and diluted	\$ (0.21)	\$ (0.28 )
Weighted-average shares used in computing net loss per common share, basic and diluted	40,831	39,429

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

1

**Table of Contents****THERASENSE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands)**

<b>March 31,</b>	<b>December 31,</b>
<b>2003</b>	<b>2002</b>

Edgar Filing: THERASENSE INC - Form 10-Q

	(unaudited)	(Note 1)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 35,024	\$ 32,158
Available-for-sale investments	40,254	34,135
Accounts receivable, net	40,183	36,319
Inventories	19,346	21,060
Prepaid expenses and other current assets	3,053	6,358
	<hr/>	<hr/>
Total current assets	137,860	130,030
Available-for-sale investments	3,644	11,217
Property and equipment, net	15,724	14,340
Other assets	4,978	5,216
	<hr/>	<hr/>
Total assets	<u>\$ 162,206</u>	<u>\$ 160,803</u>
 <b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 15,090	\$ 17,034
Accrued liabilities	13,729	16,109
Deferred revenue	3,649	1,000
Current portion of long-term debt	4,458	5,149
	<hr/>	<hr/>
Total current liabilities	36,926	39,292
Long-term debt, net of current	2,767	3,161
Deferred revenue	13,752	2,261
Other liabilities		500
	<hr/>	<hr/>
Total liabilities	<u>53,445</u>	<u>45,214</u>
 Stockholders equity:		
Common stock	41	41
Additional paid-in capital	271,340	271,782
Notes receivable from stockholders	(20 )	(156 )
Deferred stock-based compensation, net	(9,649 )	(11,642 )
Accumulated other comprehensive income	340	316
Accumulated deficit	(153,291 )	(144,752 )
	<hr/>	<hr/>
Total stockholders equity	<u>108,761</u>	<u>115,589</u>
	<hr/>	<hr/>
Total liabilities and stockholders equity	<u>\$ 162,206</u>	<u>\$ 160,803</u>

(1)

The balance sheet at December 31, 2002 has been derived from the audited financial statement at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

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

**Table of Contents**

**THERASENSE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(in thousands)**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (8,539 )	\$ (10,985 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,002	645
Amortization of deferred stock-based compensation	1,381	1,508
Other		67
Changes in operating assets and liabilities:		
Accounts receivable	(3,864 )	(5,204 )
Inventories	1,714	(3,121 )
Deferred cost of products sold		168
Prepaid expenses and other current assets	3,306	1,973
Other assets	238	(710 )
Accounts payable	(1,944 )	(6,591 )
Accrued and other liabilities	(2,881 )	(3,337 )
Deferred revenue	14,140	(1,779 )
	<u>4,553</u>	<u>(27,366 )</u>
Net cash provided by (used in) operating activities		
<b>Cash flows from investing activities:</b>		
Proceeds from maturities of investments	36,035	
Purchases of investments	(34,669 )	(43,757 )
Purchases of property and equipment	(2,387 )	(1,777 )
	<u>(1,021 )</u>	<u>(45,534 )</u>
Net cash used in investing activities		
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	170	138
Principal payments on long-term debt	(1,083 )	(826 )
Repayment of notes receivable from stockholders	135	
	<u>(778 )</u>	<u>(688 )</u>
Net cash used in financing activities		
Effect of foreign exchange rate changes on cash and cash equivalents	112	
	<u>2,866</u>	<u>(73,588 )</u>
Net change in cash and cash equivalents		
Cash and cash equivalents, beginning of period	32,158	143,187
	<u>\$ 35,024</u>	<u>\$ 69,599</u>
Cash and cash equivalents, end of period		

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

3

---

**Table of Contents**

**THERASENSE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)**

**NOTE 1 Basis of Presentation Policies:**

The accompanying unaudited condensed consolidated financial statements of TheraSense, Inc. and its subsidiaries ( TheraSense or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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 month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003, or for any future period. These financial statements and notes should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2002 included in the Company s Form 10-K for the year ended December 31, 2002.

**NOTE 2 Summary of Significant Accounting Policies:**

The Company s significant accounting policies are disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2002 that was filed with the Securities and Exchange Commission on March 27, 2003. The Company s significant accounting policies have not materially changed since December 31, 2002.

**NOTE 3 - Recent Accounting Pronouncements:**

In January 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 46 ( FIN 46 ), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently evaluating the impact that the adoption of FIN 46 will have on its consolidated financial statements.

**NOTE 4 - Net Loss Per Share:**

Basic net loss per common share is computed by dividing net loss by the weighted-average number of vested common shares outstanding for the period. Diluted net loss per share is computed giving effect to all potential dilutive common stock, including options and warrants. Options, warrants and common stock subject to repurchase were not included in the computation of diluted net loss per common share because the effect would be antidilutive.

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share follows (in thousands):

**Three Months Ended  
March 31,**

---

2003

2002

---