DEXCOM INC
Form 10-Q
August 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-51222
DEXCOM, INC.
(Exact name of Registrant as specified in its charter)

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

Registrant's Telephone Number, including area code: (858) 200-0200
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer ý	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 28, 2016, 83,883,617 shares of the Registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

DexCom, Inc.
Consolidated Balance Sheets
(In millions—except par value data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 87.5	$ 86.1
Short-term marketable securities, available-for-sale	28.1	29.1
Accounts receivable, net	73.8	74.1
Inventory	42.9	35.2
Prepaid and other current assets	8.7	6.8
Total current assets	241.0	231.3
Property and equipment, net	77.0	54.7
Intangible assets, net	1.8	2.2
Goodwill	11.8	3.7
Other assets	1.2	0.1
Total assets	$ 332.8	$ 292.0
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 49.9	$ 38.9
Accrued payroll and related expenses	23.3	24.9
Current portion of long-term debt	—	2.3
Current portion of deferred revenue	0.7	0.8
Total current liabilities	73.9	66.9
Other liabilities	12.5	3.9
Total liabilities	86.4	70.8
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5.0 shares authorized; no shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	—	—
Common stock, $0.001 par value, 100.0 authorized; 84.1 and 83.8 issued and outstanding, respectively, at June 30, 2016; and 82.0 and 81.7 shares issued and outstanding, respectively, at December 31, 2015	0.1	0.1
Additional paid-in capital	841.8	776.8
Accumulated other comprehensive loss	(0.7)	(0.3)
Accumulated deficit	(594.8)	(555.4)
Total stockholders' equity	246.4	221.2
Total liabilities and stockholders' equity	$ 332.8	$ 292.0

See accompanying notes

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DexCom, Inc.
Consolidated Statements of Operations
(In millions—except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Product revenue	$137.3	$92.9	$253.5	$165.7
Development grant and other revenue	—	0.3	—	0.3
Total revenue	137.3	93.2	253.5	166.0
Cost of sales	51.8	27.2	92.9	53.5
Gross profit	85.5	66.0	160.6	112.5
Operating expenses				
Research and development	36.3	24.4	68.5	44.2
Selling, general and administrative	69.3	45.2	131.4	84.6
Total operating expenses	105.6	69.6	199.9	128.8
Operating loss	(20.1)	(3.6)	(39.3)	(16.3)
Interest income	0.1	—	0.2	—
Interest expense	(0.1)	(0.1)	(0.2)	(0.3)
Loss before income taxes	(20.1)	(3.7)	(39.3)	(16.6)
Income tax expense	0.1	—	0.1	—
Net loss	$(20.2)	$(3.7)	$(39.4)	$(16.6)
Basic and diluted net loss per share	$(0.24)	$(0.05)	$(0.48)	$(0.21)
Shares used to compute basic and diluted net loss per share	83.6	79.6	82.8	78.7

See accompanying notes

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DexCom, Inc.
Consolidated Statements of Comprehensive Loss
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(20.2)	$(3.7)	$(39.4)	$(16.6)
Unrealized gain (loss) on short-term available-for-sale marketable securities	—	—	—	—
Foreign currency translation loss	(0.4)	—	(0.4)	(0.2)
Comprehensive loss	$(20.6)	$(3.7)	$(39.8)	$(16.8)

See accompanying notes

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DexCom, Inc.
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Operating activities		
Net loss	$(39.4)	$(16.6)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	7.3	5.0
Share-based compensation	52.7	36.6
Accretion and amortization related to marketable securities, net	0.1	0.2
Amortization of debt issuance costs	—	0.1
Loss on disposal of equipment	—	0.2
Changes in operating assets and liabilities:		
Accounts receivable, net	0.8	(3.1)
Inventory	(7.2)	(6.4)
Prepaid and other assets	(2.7)	(1.0)
Restricted cash	—	0.3
Accounts payable and accrued liabilities	9.3	3.7
Accrued payroll and related expenses	(1.7)	(0.2)
Deferred revenue	(0.2)	0.1
Deferred rent and other liabilities	0.9	0.9
Net cash provided by operating activities	19.9	19.8
Investing activities		
Purchase of available-for-sale marketable securities	(20.9)	(27.5)
Proceeds from the maturity of available-for-sale marketable securities	21.7	9.2
Purchase of property and equipment	(22.0)	(14.3)
Acquisitions, net of cash acquired	0.4	(0.5)
Net cash used in investing activities	(20.8)	(33.1)
Financing activities		
Net proceeds from issuance of common stock	4.8	10.4
Repayment of long-term debt	(2.3)	(1.2)
Net cash provided by financing activities	2.5	9.2
Effect of exchange rate changes on cash and cash equivalents	(0.2)	—
Increase (decrease) in cash and cash equivalents	1.4	(4.1)
Cash and cash equivalents, beginning of period	86.1	71.8
Cash and cash equivalents, end of period	$87.5	$67.7
Supplemental disclosure of non-cash investing and financing transactions:		
Issuance of common stock in connection with acquisition	$7.2	$—
Acquisition-related holdback liability	$1.8	$—
Assets acquired and financing obligation under build-to-suit leasing arrangement	$6.0	$—

See accompanying notes

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DexCom, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Business

DexCom, Inc. is a medical device company focused on the design, development and commercialization of continuous glucose monitoring ("CGM") systems for ambulatory use by people with diabetes and by healthcare providers for the treatment of people with diabetes. Unless the context requires otherwise, the terms "we," "us," "our," the "company," or "DexCom" refer to DexCom, Inc. and its subsidiaries.

Basis of Presentation

We have incurred operating losses since our inception and have an accumulated deficit of $594.8 million at June 30, 2016. As of June 30, 2016, we had available cash, cash equivalents and marketable securities totaling $115.6 million and working capital of $167.1 million. Our ability to transition to, and maintain, profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, we may be required to reduce planned increases in compensation expenses and other operating expenses needed to support the growth of our business which could have an adverse impact on our ability to achieve our intended business objectives. We believe our working capital resources will be sufficient to fund our operations through at least June 30, 2017.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and related notes thereto for the year ended December 31, 2015 included in the Annual Report on Form 10-K filed by us with the Securities and Exchange Commission on February 23, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of DexCom, Inc. and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting

An operating segment is identified as a component of a business that has discrete financial information available, and one for which the chief operating decision maker must decide the level of resource allocation. In addition, the guidance for segment reporting indicates certain quantitative thresholds. None of the operations of our subsidiaries meet the definition of an operating segment and are currently not material, but may become material in the future.

We currently consider our operations to be, and manage our business globally within, one reportable segment, which is consistent with how our President and Chief Executive Officer, who is our chief operating decision maker, reviews our business, makes investment and resource allocation decisions and assesses operating performance.

We sell our products through a direct sales force in the United States and portions of Europe, and through distribution arrangements in the United States, Canada, Australia, New Zealand, and in portions of Europe, Asia, Latin America, the Middle East and Africa. DexCom, Inc. is domiciled in the United States.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Significant estimates include excess or obsolete inventories, valuation of inventory, warranty accruals, employee bonus, clinical trial expenses, allowance for bad debt, refunds and rebates, including pharmacy rebates and share-based compensation expense.

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Share-Based Compensation

Share-based compensation expense is measured at the grant date based on the estimated fair value of the award and is recognized, for awards that are ultimately expected to vest, primarily on a straight-line basis over the requisite service period of the individual grants, which typically equals the vesting period. The fair value of our Restricted Stock Units ("RSUs") is based on the market price of our common stock on the date of grant. We are also required to estimate at grant the likelihood that the award will ultimately vest (the "pre-vesting forfeiture rate"), and to revise the estimate, if necessary, in future periods if the actual forfeiture rate differs. We determine the pre-vesting forfeiture rate of an award based on our historical pre-vesting award forfeiture experience, giving consideration to company-specific events impacting historical pre-vesting award forfeiture experience that are unlikely to occur in the future as well as anticipated future events that may impact forfeiture rates. We use our historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

We recorded $27.6 million and $52.7 million in share-based compensation expense during the three and six months ended June 30, 2016, compared to $20.7 million and $36.6 million during the three and six months ended June 30, 2015. At June 30, 2016, unrecognized estimated compensation costs related to unvested stock options and restricted stock units totaled $202.8 million and is expected to be recognized through 2020.

Revenue Recognition

We sell our durable systems and disposable units through a direct sales force in the United States and portions of Europe, and through distribution arrangements in the United States, Canada, Australia, New Zealand, and in portions of Europe, Asia, Latin America the Middle East and Africa. Components are individually priced and can be purchased separately or together. We receive payment directly from customers who use our products, as well as from distributors, organizations and third-party payors. Our durable system includes a reusable transmitter, a receiver, a power cord and a USB cable. Disposable sensors for use with the durable system are sold separately in packages of four. We provide free of charge software and mobile applications for use with our durable systems and disposable sensors. The initial durable system price is generally not dependent upon the purchase of any amount of disposable sensors.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Revenue on product sales is generally recognized upon shipment, which is when title and the risk of loss have been transferred to the customer and there are no other post shipment obligations. With respect to customers who directly pay for products, the products are generally paid for at the time of shipment using a customer's credit card and do not include customer acceptance provisions. We recognize revenue from contracted insurance payors based on the contracted rate. For non-contracted insurance payors, we obtain prior authorization from the payor and recognize revenue based on the estimated collectible amount and historical experience. We also receive a prescription or statement of medical necessity and, for insurance reimbursement customers, an assignment of benefits prior to shipment.

We provide a "30-day money back guarantee" program whereby customers who purchase a durable system and a package of four disposable sensors may return the durable system for any reason within thirty days of purchase and receive a full refund of the purchase price of the durable system. We accrue for estimated returns, refunds and rebates, including pharmacy rebates, by reducing revenues and establishing a liability account at the time of shipment based on historical experience. Returns have historically been immaterial. Allowances for rebates include contracted discounts with commercial payors and are amounts owed after the final dispensing of the product by a distributor or retail pharmacy to a pharmacy benefit plan participant and are based upon contractual agreements with private sector benefit providers. The allowance for rebates is based on contractual discount rates, expected utilization under each contract and our estimate of the amount of inventory in the distribution channel that will become subject to such rebates. Our estimates for expected utilization for rebates are based on historical rebate claims and to a lesser extent third party market research data. Rebates are generally invoiced and paid monthly or quarterly in arrears so that our accrual consists of an estimate of the amount expected to be incurred for the current month's or quarter's activity, plus an accrual for unpaid rebates from prior periods, and an accrual for inventory in the distribution channel.

We have entered into distribution agreements with Byram Healthcare and its subsidiaries ("Byram"), RGH Enterprises ("Edgepark") and other distributors that allow the distributors to sell our durable systems and disposable units. We have

contracts with certain distributors, including and pharmacy wholesalers, who stock our products, and we refer to these distributors as Stocking Distributors, whereby the Stocking Distributors fulfill orders for our product from their inventory. We also have contracts with certain distributors that do not stock our products, but rather products are shipped directly to the customer by us on behalf of our distributor, and we refer to these distributors as Drop-Ship Distributors. Revenue is recognized based on contracted prices and invoices are either paid by check following the issuance of a purchase order or letter of credit, or they are paid by wire at the time of placing the order. Terms of distributor orders are generally Freight on Board shipping point (or Free Carrier shipping point for international orders). Distributors do not have rights of return per their distribution

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agreement outside of our standard warranty. The distributors typically have a limited time frame to notify us of any missing, damaged, defective or non-conforming products. For any such products, we shall either, at our option, replace the portion of defective or non-conforming product at no additional cost to the distributor or cancel the order and refund any portion of the price paid to us at that time for the sale in question.

Warranty Accrual

Estimated warranty costs associated with a product are recorded at the time of shipment. We estimate future warranty costs by analyzing historical warranty experience for the timing and amount of returned product, and these estimates are evaluated on at least a quarterly basis to determine the continued appropriateness of such assumptions.

Foreign Currency

The financial statements of our foreign subsidiaries are translated into U.S. dollars for financial reporting purposes. Assets and liabilities are translated at period-end exchange rates, and revenue and expense transactions are translated at average exchange rates for the period. Translation related adjustments are recognized as part of comprehensive income and are included in accumulated other comprehensive loss in the consolidated balance sheet. Gains and losses resulting from certain intercompany transactions as well as transactions with customers and vendors that are denominated in currencies other than the functional currency of each subsidiary give rise to foreign exchange gains or losses reflected in operations. To date the results of operations of these subsidiaries and related translation adjustments and foreign exchange gains or losses have not been material in our consolidated results.

Comprehensive Loss

We report all components of comprehensive loss, including net loss, in the consolidated financial statements in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net loss and comprehensive loss, including unrealized gains and losses on marketable securities and foreign currency translation adjustments, are reported, net of their related tax effect, to arrive at comprehensive loss.

Inventory

Inventory is valued at the lower of cost or market value on a part-by-part basis that approximates first in, first out. We make adjustments to reduce the cost of inventory to its net realizable value, if required, for estimated excess, obsolete and potential scrapped inventories. Factors influencing these adjustments include inventories on hand and on order compared to estimated future usage and sales for existing and new products, as well as judgments regarding quality control testing data, and assumptions about the likelihood of scrap and obsolescence. Once written down the adjustments are considered permanent and are not reversed until the related inventory is sold or disposed. During the first quarter of 2015, we recorded charges of approximately $2.0 million in cost of goods sold related to excess and obsolete inventory due to the approval and launch of our DexCom G4 PLATINUM with Share System. During the second quarter of 2016, we recorded charges of $3.5 million in cost of goods sold related to excess and obsolete receiver inventory primarily related to the customer notification as discussed in the Risk Factor entitled “If we or our suppliers or distributors fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems with our products, the products could be subject to restrictions or withdrawal from the market."

Our products require customized products and components that currently are available from a limited number of sources. We purchase certain components and materials from single sources due to quality considerations, costs or constraints resulting from regulatory requirements.

Marketable Securities

We have classified our marketable securities with remaining maturity at purchase of more than three months and remaining maturities of one year or less as short-term available-for-sale marketable securities. Marketable securities with remaining maturities of greater than one year are also classified as short-term available-for-sale marketable securities as such marketable securities represent the investment of cash that is available for current operations. We carry our marketable securities at fair value with unrealized gains and losses, if any, reported as a separate component of stockholders' equity and included in comprehensive loss. Realized gains and losses are calculated using the specific identification method and recorded as interest income. We invest in various types of securities, including debt securities in government-sponsored entities, corporate debt securities, U.S. Treasury securities and commercial paper. We do not generally intend to sell the investments and it is not more likely than not that we will be required to sell the

investments before recovery of their amortized cost bases, which may be at maturity.

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Fair Value Measurements

The fair value hierarchy described by the authoritative guidance for fair value measurements is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and include the following:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

We carry our marketable securities at fair value. The carrying amounts of financial instruments, such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities, are carried at cost, which approximate the related fair values due to the short-term maturities of these instruments. For additional detail see Note 6 “Fair Value Measurements.”

Property and Equipment

Property and equipment is stated at cost and depreciated over the estimated useful lives of the assets, generally three years for computer equipment, four years for machinery and equipment, and five years for furniture and fixtures, using the straight-line method. Leasehold improvements are stated at cost and amortized over the shorter of the estimated useful lives of the assets or the remaining lease term.

Goodwill and Intangible Assets

Our identifiable intangible assets are comprised of acquired core technologies, customer relationships, covenants not-to-compete, in-process research and development and trade names. The cost of identifiable intangible assets with finite lives is generally amortized on a straight-line basis over the assets’ respective estimated useful lives. The change in goodwill for the three and six months ended June 30, 2016 compared to December 31, 2015 was primarily due to the acquisition of Nintamed, our distributor in Germany, Switzerland and Austria, based on our preliminary purchase price allocation. The acquisition is part of our strategy to expand our international operations. In connection with the acquisition, we issued 110,993 shares of our common stock with an aggregate value of $7.2 million as of May 2, 2016 and recorded a $1.8 million holdback liability within “Other Liabilities” in the Consolidated Balance Sheets, which represents a portion of the purchase price withheld and payable in May 2018, in either cash or common stock at our election, to the extent that certain breaches of the representations and warranties have not occurred. We have determined that the acquisition of Nintamed was a non-material business combination.

We test goodwill and intangible assets with indefinite lives for impairment on an annual basis. Also, between annual tests we test for impairment if events and circumstances indicate it is more likely than not that the fair value is less than the carrying value. Events that would indicate impairment and trigger an interim impairment assessment include, but are not limited to, current economic and market conditions, including a decline in market capitalization, a significant adverse change in legal factors, business climate or operational performance of the business and an adverse action or assessment by a regulator.

Recent Accounting Guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance for Revenue from Contracts with Customers, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the guidance is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The guidance defines a five step process to achieve this core principle and it is possible when the five step process is applied, more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The updated standard permits the use of either the retrospective or cumulative effect transition method and is effective for us in our first quarter of fiscal 2018. Early adoption is not permitted. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and

related disclosures.

In July 2015, the FASB issued guidance to change the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance requires that inventory accounted for under the first-in, first-out (FIFO) or average cost methods be measured at the lower of cost and net realizable value, where net realizable value represents

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the estimated selling price of inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for us beginning in the first quarter of fiscal 2018. Early adoption is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the effect this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which require a lessee to recognize a lease payment liability and a corresponding right of use asset on their balance sheet for all lease terms longer than 12 months, lessor accounting remains largely unchanged. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2018 and early adoption is permitted. We are currently evaluating the effect this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) ("ASU 2016-09"), which is intended to simplify several areas of accounting for share-based payment arrangements. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. We are currently evaluating the effect this guidance will have on our consolidated financial statements.

2. Net Loss Per Common Share

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, outstanding options and unvested RSUs settleable in shares of common stock are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

Historical outstanding anti-dilutive securities not included in diluted net loss per share attributable to common stockholders calculation (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Options outstanding to purchase common stock	1.0	2.1	1.0	2.1
Unvested restricted stock units	3.9	4.4	3.9	4.4
Total	4.9	6.5	4.9	6.5

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3. Financial Statement Details (in millions)

Short- Term Marketable Securities, Available-for-Sale

Short-term marketable securities, consisting solely of debt securities, were as follows:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agencies	$22.2	$ —	$ —	$ 22.2
Corporate debt	2.6	—	—	2.6
Commercial paper	3.3	—	—	3.3
Total	$28.1	$ —	$ —	$ 28.1

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agencies	$22.1	$ —	$ —	$ 22.1
Corporate debt	4.9	—	—	4.9
Commercial paper	2.1	—	—	2.1
Total	$29.1	$ —	$ —	$ 29.1

As of June 30, 2016, the estimated market value of available-for-sale marketable securities with contractual maturities of up to one year and up to 18 months were $27.0 million and $1.1 million, respectively.

Inventory

	June 30, 2016	December 31, 2015
Raw materials	$18.4	$ 16.0
Work-in-process	3.4	2.6
Finished goods	21.1	16.6
Total	$42.9	$ 35.2

Accounts Payable and Accrued Liabilities

	June 30, 2016	December 31, 2015
Accounts payable trade	$22.4	$ 19.0
Accrued tax, audit, and legal fees	3.3	2.1
Clinical trials	0.5	0.7
Pharmacy rebates	5.2	4.0
Accrued other including warranty	18.5	13.1
Total	$49.9	$ 38.9

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Accrued Warranty

Warranty costs are reflected in the consolidated statements of operations as product cost of sales. A reconciliation of our accrued warranty costs for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Beginning balance	$5.7	$1.1	$3.3	$1.3
Charges to costs and expenses	7.3	1.8	13.5	3.0
Costs incurred	(5.1)	(1.7)	(8.9)	(3.1)
Ending balance	$7.9	$1.2	$7.9	$1.2

Other Liabilities

	June 30, 2016	December 31, 2015
Financing lease obligations	$6.0	$ —
Deferred rent	4.3	3.8
Other	2.2	0.1
Total	$12.5	$ 3.9

4. Commitments and Contingencies

Revolving Credit Agreement

In June 2016, we entered into a $200.0 million revolving credit agreement (the “Credit Agreement”) with JPMorgan Chase Bank, NA, as administrative agent, Bank of America, Silicon Valley Bank and Union Bank. In addition to allowing borrowings in US dollars, the Credit Agreement provides a $25.0 million sublimit for borrowings in Canadian Dollars, Euros, British Pounds, Swedish Krona, Japanese Yen and any other currency that is subsequently approved by JPMorgan Chase and each lender. The Credit Agreement also provides a subfacility of up to $10.0 million for letters of credit. The interest rate under the Credit Agreement ranges from 0.75% to 2.75% plus our choice of one of two base rates, LIBOR or a rate based on the publicly announced JPMorgan Chase prime rate, the federal funds rate or the overnight bank funding rate. We will also pay a commitment fee of between 0.25% and 0.45%, payable quarterly in arrears, on the average daily unused amount of the revolving facility based on our leverage ratio. The aggregate debt issuance costs and fees incurred with respect to entering into the Credit Agreement were $0.7 million, which have been capitalized on our Consolidated Balance Sheet within "Other Assets" and will be amortized through the maturity date of June 2021 on a straight line basis. As of June 30, 2016 we had no outstanding borrowings under the Credit Agreement.

Long-Term Debt

In November 2012, we entered into a loan and security agreement (the “Loan Agreement”) that provides for (i) a $15.0 million revolving line of credit and (ii) a total term loan of up to $20.0 million (“the Term Loan”), in both cases, to be used for general corporate purposes. The revolving line of credit expired as of November 2015 with no amounts drawn or outstanding. In accordance with the Loan Agreement, $7.0 million was advanced under the Term Loan at the funding date in November 2012 and the remaining $13.0 million in additional funds expired unused. In June 2016, we paid off the remaining principal balance under the Term Loan.

Leases

Under the office lease agreement, as amended (the “Office Lease”), with John Hancock Life Insurance Company (U.S.A.) (the “Landlord”) we lease approximately 219,000 square feet of space in the buildings at 6340 Sequence Drive, 6310 Sequence Drive and 6290 Sequence Drive. The amended lease term extends through March 2022 and we have an option to renew the lease upon the expiration of the initial term for two additional five-year terms by giving notice

to the Landlord prior to the end of the initial term of the lease and any extension period, if applicable. Provided we are not in default under the Office Lease and the Office Lease is still in effect, we generally have the right to terminate the lease starting at the 55th month of the Office Lease. In September 2015, we received $1.8 million of tenant improvement allowance associated with the Office Lease, which was recorded as a deferred rent obligation and will be amortized over the term of the lease and reflected as a reduction to

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rent expense. Leasehold improvements associated with the tenant improvement allowance are included in Property and equipment, net in our consolidated balance sheet. On February 1, 2016, we entered into a Sublease (the “Sublease”) with Entropic Communications, LLC with respect to the building at 6350 Sequence Drive in San Diego, California (the “6350 Building”). Under the Sublease, we have leased approximately 132,600 square feet of space in the 6350 Building. The lease term extends through January 2022.

On April 28, 2016, we entered into a certain Industrial Net Lease (the “Mesa Lease”) with PRA/LB, L.L.C. with respect to facilities in the building at 232 South Dobson Road in Mesa, Arizona (the “Mesa Building"). Under the Mesa Lease, we have leased approximately 148,797 square feet of space in the Mesa Building, of which approximately 78,000 square feet was available to us on May 1, 2016 and the remaining portion of the Mesa Building will become available to us on or around January 1, 2018. The term of the Mesa Lease extends through March 2028 with four extension options, each with five-year terms. The lease arrangement involves the construction of our new manufacturing facility where we are involved in the design and construction of the leased space, including non-standard tenant improvements paid for by us. This arrangement is referred to as build-to suit lease and for accounting purposes, we are considered the owner of the construction project during the construction period. As of June 30, 2016, we have capitalized the fair value of the Mesa Building of $6.0 million within “Property and Equipment, net,” and recorded a corresponding financing lease obligation liability of $6.0 million within “Other Liabilities” in the Consolidated Balance Sheet. At the conclusion of the construction period we will evaluate the Mesa Lease to determine whether or not it meets the criteria for “sales-leaseback” treatment.

We have also entered into other operating lease agreements, primarily for office and warehouse space, that expire at various times through September 2023. These facility leases have annual rental increases ranging from approximately 2.5% to 4%. The difference between the straight-line expense over the term of the lease and actual amounts paid are recorded as deferred rent.

Rental obligations, excluding real estate taxes, operating costs, and tenant improvement allowances, under all lease agreements as of June 30, 2016 were as follows (in millions):

Fiscal Year Ending	
Remainder of 2016	$3.2
2017	7.2
2018	9.4
2019	10.5
2020	10.8
Thereafter	37.5
Total	$78.6

Total rent expense for the three and six months ended June 30, 2016 was $2.3 million and $4.2 million, compared to $1.4 million and $2.8 million for the same periods of 2015.

Litigation

On March 28, 2016, Agamatrix, Inc. (“Agamatrix”) filed a patent infringement lawsuit against us in the United States District Court for the District of Oregon, asserting that certain of our products infringe certain patents held by Agamatrix. It is our position that Agamatrix’s assertions of infringement have no merit. Neither the outcome of the litigation nor the amount and range of potential fees associated with the litigation can be assessed at this time. As of June 30, 2016, no amounts have been accrued in respect of this litigation.

From time to time, we are subject to various claims and suits arising out of the ordinary course of business, including commercial and employment related matters. In addition, from time to time, we may bring claims or initiate lawsuits against various third parties with respect to matters arising out of the ordinary course of our business, including commercial and employment related matters. We do not expect that the resolution of these matters would, or will, have a material adverse effect or material impact on our consolidated financial position.

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Purchase Commitments

We are party to various purchase arrangements related to our manufacturing and development activities including materials used in our CGM systems. As of June 30, 2016, we had purchase commitments with vendors totaling $55.5 million due within one year. There are no material purchase commitments due beyond one year.

Other

On May 2, 2016, we entered into a Standard Form of Agreement (the "Skanska Contract") with Skanska USA Building Inc. (the "Contractor"), providing for construction and design services to build out our new manufacturing facility in the Mesa Building. The first phase of construction began in the second quarter of 2016 and is expected to be completed in mid-2017. The total expenditures under the Skanska Contract are currently anticipated to be approximately $30 million.

5. Development and Other Agreements

Collaboration with Verily Life Sciences

On August 10, 2015, we entered into a Collaboration and License Agreement (the "Verily Collaboration Agreement") with Google Life Sciences LLC, now renamed Verily Life Sciences ("Verily"). Pursuant to the Verily Collaboration Agreement, we and Verily have agreed to jointly develop a series of next-generation CGM products. The Verily Collaboration Agreement provides us with an exclusive license to use certain intellectual property of Verily related to the development, manufacture and commercialization of the products contemplated under the Verily Collaboration Agreement. The Verily Collaboration Agreement provides for the establishment of a joint steering committee, joint development committee and joint commercialization committee to oversee and coordinate the parties' activities under the collaboration. We and Verily have agreed to make committee decisions by consensus.

The terms of Verily Collaboration Agreement required that we pay an upfront fee of $35.0 million in either cash or shares of our common stock at our sole election, with the number of shares calculated based on the volume weighted average trading price during a period of twenty consecutive trading days ending prior to the date of the Verily Collaboration Agreement. In addition, we will pay Verily up to $65.0 million in additional milestones upon achievement of various development and regulatory objectives, which payments may be paid in cash or shares of our common stock at our sole election, calculated based on the volume weighted average trading price during a period of twenty consecutive trading days ending on the trading day prior to the date on which the applicable objective has been achieved.

On August 27, 2015, we filed a Registration Statement on Form S-3 with the SEC and issued 404,591 shares of our common stock to Verily in connection with the $35.0 million upfront payment. We recorded $36.5 million in research and development expense in our consolidated statement of operations during 2015 related to the issuance of the 404,591 shares of our common stock, based on our stock price of $90.29 per share as of the date of Verily Collaboration Agreement.

In addition, Verily is eligible to receive tiered royalty payments associated with the commercialization of the products contemplated under the Verily Collaboration Agreement, which are subject to regulatory approval. Unless we attain annual product sales subject to the Verily Collaboration Agreement in excess of $750.0 million, there will be no royalty paid by us to Verily. Above this range, and upon marketing approval of the initial product contemplated by the Verily Collaboration Agreement, or upon commercialization of any other DexCom product that incorporates Verily intellectual property, we will pay to Verily a royalty percentage starting in the high single digits and declining to the mid-single digits based on our annual aggregate product sales.

The Verily Collaboration Agreement shall be terminable by either party (a) upon uncured material breach of the Verily Collaboration Agreement by the other party, (b) if the second product contemplated by the Verily Collaboration Agreement has not been submitted to the FDA for approval by a specified date and (c) if the annual net sales for the products developed with Verily under the Verily Collaboration Agreement are less than a specified aggregate dollar amount. Additionally, we have the right to terminate the Verily Collaboration Agreement upon the expiration of the last to expire patent that covers a product developed under the Verily Collaboration Agreement.

Tandem Diabetes Care, Inc.

On February 1, 2012, we entered into a non-exclusive Development and Commercialization Agreement (the “Tandem Agreement”) with Tandem Diabetes Care, Inc. (“Tandem”) to integrate a future generation of our continuous glucose monitoring technology with Tandem’s t:slim™ insulin delivery system in the United States. On January 4, 2013, the Tandem Agreement was amended to allow for the integration of our G4 PLATINUM systems with Tandem's t:slim insulin delivery system in the United States. We received an initial payment of $1.0 million as a result of the execution of the Tandem

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Agreement. In July 2014 we received an additional $1.0 million milestone payment related to the regulatory submission by Tandem of their CGM enabled insulin pump.

In September 2015, we received a final $1.0 million milestone payment related to the regulatory approval of Tandem 's CGM enabled insulin pump, which was recognized in development grant and other revenue for the twelve months ended December 31, 2015. Under the terms of the Tandem Agreement, we are entitled to receive up to $1.0 million to offset certain development, clinical and regulatory expenses. Each of the milestones related to the Tandem Agreement is considered to be substantive.

In September 2015, the Tandem Agreement was amended to eliminate Tandem’s obligation to pay DexCom a royalty of $100 for each Tandem t:slim G4 integrated pump system sold and instead to reallocate $100 for each Tandem t:slim G4 integrated pump system to incremental marketing activities for such pump systems, or marketing activities to support other jointly funded development projects.

6. Fair Value Measurements

We base the fair value of our Level 1 financial instruments that are in active markets using quoted market prices for identical instruments.

We obtain the fair value of our Level 2 financial instruments, which are not in active markets, from a primary professional pricing source using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. Fair value obtained from this professional pricing source can also be based on pricing models whereby all significant observable inputs, including maturity dates, issue dates, settlement date, benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers or other market related data, are observable or can be derived from, or corroborated by, observable market data for substantially the full term of the asset.

We validate the quoted market prices provided by our primary pricing service by comparing the fair values of our Level 2 marketable securities portfolio balance provided by our primary pricing service against the fair values of our Level 2 marketable securities portfolio balance provided by our investment managers.

The following table represents our fair value hierarchy for our financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of June 30, 2016 (in millions):

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents				