DEXCOM INC
Form 10-Q
November 06, 2013
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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 September 30, 2013

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 000-51222
DEXCOM, INC.
(Exact name of Registrant as specified in its charter)

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

Registrant's Telephone Number, including area code: (858) 200-0200
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 November 1, 2013, 71,783,705 shares of the Registrant's common stock were outstanding.

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

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$33.4	$8.1
Short-term marketable securities, available-for-sale	14.2	40.6
Accounts receivable, net	21.6	19.5
Inventory	10.0	7.4
Prepaid and other current assets	2.5	2.0
Total current assets	81.7	77.6
Property and equipment, net	19.7	18.9
Restricted cash	1.0	1.0
Intangible assets, net	3.7	4.2
Goodwill	3.2	3.2
Other assets	0.8	1.1
Total assets	$110.1	$106.0
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$12.6	$8.7
Accrued payroll and related expenses	12.4	9.2
Current portion of long-term debt	1.8	0.2
Current portion of deferred revenue	0.6	1.4
Total current liabilities	27.4	19.5
Other liabilities	2.8	2.1
Long-term debt, net of current portion	5.2	6.8
Long-term portion of deferred revenue	—	0.6
Total liabilities	35.4	29.0
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5.0 shares authorized; no shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	—	—
Common stock, $0.001 par value, 100.0 authorized; 72.0 and 71.7 issued and outstanding, respectively, at September 30, 2013; and 69.7 and 69.5 shares issued and outstanding, respectively, at December 31, 2012	0.1	0.1
Additional paid-in capital	547.5	522.6
Accumulated other comprehensive loss	(0.1)	(0.1)
Accumulated deficit	(472.8)	(445.6)
Total stockholders' equity	74.7	77.0
Total liabilities and stockholders' equity	$110.1	$106.0

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Product revenue	$42.5	$21.1	$105.8	$61.2
Development grant and other revenue	0.4	2.0	2.5	5.4
Total revenue	42.9	23.1	108.3	66.6
Product cost of sales	14.8	13.4	40.9	33.9
Development and other cost of sales	0.5	1.3	1.4	3.7
Total cost of sales	15.3	14.7	42.3	37.6
Gross profit	27.6	8.4	66.0	29.0
Operating expenses				
Research and development	11.8	10.3	32.2	29.7
Selling, general and administrative	21.6	15.4	60.4	46.7
Total operating expenses	33.4	25.7	92.6	76.4
Operating loss	(5.8)	(17.3)	(26.6)	(47.4)
Interest and other income	—	—	—	0.1
Interest expense	(0.2)	—	(0.6)	—
Loss before income taxes	(6.0)	(17.3)	(27.2)	(47.3)
Income tax expense (benefit)	—	—	—	(1.3)
Net loss	$(6.0)	$(17.3)	$(27.2)	$(46.0)
Basic and diluted net loss per share	$(0.08)	$(0.25)	$(0.38)	$(0.67)
Shares used to compute basic and diluted net loss per share	71.4	69.1	70.7	68.5

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	$(6.0)	$(17.3)	$(27.2)	$(46.0)
Unrealized gain (loss) on short-term available-for-sale marketable securities	—	—	—	—
Foreign currency translation gain (loss)	—	—	—	—
Comprehensive loss	$(6.0)	$(17.3)	$(27.2)	$(46.0)

See accompanying notes

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

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net loss	$(27.2)	$(46.0)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	5.1	4.8
Share-based compensation	18.0	13.9
Accretion and amortization related to marketable securities, net	0.3	0.7
Amortization of debt issuance costs	0.3	—
Release of valuation allowance against deferred tax assets	—	(1.3)
Change in fair value of contingent consideration	2.0	0.9
Changes in operating assets and liabilities:		
Accounts receivable	(2.0)	0.2
Inventory	(2.5)	1.0
Prepaid and other assets	(0.5)	(0.8)
Restricted cash	—	(0.1)
Accounts payable and accrued liabilities	2.9	2.4
Accrued payroll and related expenses	3.1	1.8
Deferred revenue	(1.4)	—
Deferred rent and other liabilities	(0.1)	—
Net cash used in operating activities	(2.0)	(22.5)
Investing activities		
Purchase of available-for-sale marketable securities	(12.4)	(56.3)
Proceeds from the maturity of available-for-sale marketable securities	38.4	86.2
Purchase of property and equipment	(5.6)	(8.1)
Net cash provided by investing activities	20.4	21.8
Financing activities		
Net proceeds from issuance of common stock	6.9	2.9
Net cash provided by financing activities	6.9	2.9
Increase in cash and cash equivalents	25.3	2.2
Cash and cash equivalents, beginning of period	8.1	2.5
Cash and cash equivalents, ending of period	$33.4	$4.7
Supplemental disclosure of non-cash transactions		
Issuance of common stock in connection with acquisition and contingent consideration	$—	$6.1

See accompanying notes

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

1. Organization and Summary of Significant Accounting Policies

Organization and Business

DexCom, Inc. 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 in the hospital for the treatment of people with and without 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 $472.8 million at September 30, 2013. As of September 30, 2013, we had available cash, cash equivalents and short-term marketable securities totaling $47.6 million, excluding $1.0 million of restricted cash, and working capital of $54.3 million. Our ability to transition to attaining 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 related expenses or other operating expenses 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 September 30, 2014.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation (except for the changes in estimates described below), have been included. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012 included in the Annual Report on Form 10-K filed by us with the Securities and Exchange Commission on February 21, 2013.

Reclassifications

Certain reclassifications have been made to the prior period consolidated financial statements and notes to conform to the current year presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of DexCom 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. The operations of SweetSpot Diabetes Care, Inc. ("SweetSpot"), our subsidiary, does not 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 as, one operating segment.

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 study expenses, allowances for returned product, allowance for bad debt, deferral period for recognizing revenue on future performance obligations, accounting for the SweetSpot acquisition including contingent consideration, and share-based compensation expense. Excess and obsolete inventories are estimated by identifying the amount of on hand and on order materials compared to expected future

sales, taking into account clinical trial and development usage along with new product introductions. Employee bonus estimates are based, in part, on the 2013 bonus plan’s authorized target

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bonus amounts to be awarded from the bonus pool based on the weighted average achievement of certain objectives. Clinical trial expenses are accrued based on estimates of progress under related contracts and include initial set up costs as well as ongoing monitoring over multiple sites in the U.S. and abroad. An allowance for refunds for returned products is determined by analyzing the timing and amounts of past refund activity and considering the impact of newly introduced products.

Share-Based Compensation

We recorded $6.6 million and $18.0 million in share-based compensation expense during the three and nine months ended September 30, 2013, respectively, compared to $4.9 million and $13.9 million during the three and nine months ended September 30, 2012, respectively. At September 30, 2013, unrecognized estimated compensation costs related to unvested stock options and restricted stock units totaled $47.1 million and are expected to be recognized through 2017. We issued performance restricted stock units (the "Performance Awards") in connection with our acquisition of SweetSpot in March 2012. The performance targets for these Performance Awards are tied to earnings before interest, taxes, depreciation and amortization ("EBITDA") for fiscal years 2013 and 2014. We recognize expense for the Performance Awards when it is probable that the EBITDA targets will be met. At September 30, 2013, we had $1.3 million of unrecognized share-based compensation expense related to the Performance Awards. We utilize the Black-Scholes option-pricing model as the method of valuation for share-based awards granted and we use the grant date fair value of our common stock for valuing restricted stock unit awards. Our determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Compensation costs will be adjusted for future changes in estimated forfeitures.

Revenue Recognition

We sell our durable systems and disposable units through a direct sales force in the United States and through distribution arrangements in the United States, Australia, New Zealand, and in portions of Europe, the Middle East and Latin America. 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, data management software and a USB cable. Disposable sensors for use with the durable system are sold separately in packages of four. The initial durable system price is 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 their purchase price. We accrue for estimated returns, refunds and rebates by reducing revenues and establishing a liability account at the time of shipment based on historical experience.

We have entered into distribution agreements with RGH Enterprises, Inc. ("Edgepark") and other distributors that allow the distributors to sell our durable systems and disposable units. Revenue on product sales to distributors is generally recognized at the time of shipment, which is when title and risk of loss have been transferred to the distributor and there are no other post-shipment obligations. Revenue is recognized based on contracted prices and invoices are either paid by check following the issuance of a purchase order or letter of credit, or they are paid by wire at the time of placing the order. Terms of distributor orders are generally Freight on Board ("FOB") shipping point (Free Carrier ("FCA") shipping point for international orders). Distributors do not have rights of return per their distribution

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.

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We shipped product directly to certain distributors' customers and recognized $6.4 million and $17.0 million in revenue, which represents 15% and 16% of our total revenues for the three and nine months ended September 30, 2013, respectively, compared to $4.0 million and $11.6 million in revenue, which represents 17% and 17% of our total revenues for the same periods in 2012. With respect to other distributors that stock inventory of our product and fulfill orders from their inventory, we shipped product to these distributors and recognized $20.3 million and $46.4 million in revenue from these arrangements, which represents 47% and 43% of our total revenues for the three and nine months ended September 30, 2013, respectively, compared to $8.5 million and $23.0 million in revenue from these arrangements, which represents 37% and 35% of our total revenues for the same periods in 2012. We monitor shipments to, and on-hand inventory levels of, these distributors, and at September 30, 2013, these distributors had limited amounts of our product in their inventory.

We have collaborative license and development arrangements with strategic partners for the development and commercialization of products utilizing our technologies. The terms of these agreements typically include multiple deliverables by us (for example, license rights, provision of research and development services and manufacture of clinical materials) in exchange for consideration to us of some combination of non-refundable license fees, funding of research and development activities, payments based upon achievement of clinical development milestones and royalties in the form of a designated percentage of product sales or profits. With the exception of royalties, these types of consideration are classified as development grant and other revenue in our consolidated statements of operations and are generally recognized over the service period except for substantive milestone payments, which are generally recognized when the milestone is achieved. In determining whether each milestone is substantive, we considered whether the consideration earned by achieving the milestone should (i) be commensurate with either (a) our performance to achieve the milestone or (b) the enhancement of value of the item delivered as a result of a specific outcome resulting from our performance to achieve the milestone, (ii) relate solely to past performance and (iii) be reasonable relative to all deliverables and payment terms in the arrangement. We recognize royalties in the period in which we obtain the royalty report, which is necessary to determine the amount of royalties we are entitled to receive. Non-refundable license fees are recognized as revenue when we have a contractual right to receive such payment, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured and we have no further performance obligations under the license agreement. Multiple element arrangements, such as license, development and other multiple element service arrangements, are analyzed to determine how the arrangement consideration should be allocated among the separate units of accounting, or whether they must be accounted for as a single unit of accounting.

For transactions containing multiple element arrangements, we consider deliverables as separate units of accounting and recognize deliverables as revenue upon delivery only if (i) the deliverable has standalone value and (ii) if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is probable and substantially controlled by us. We allocate consideration to the separate units of accounting using the relative selling price method, in which allocation of consideration is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE"), or if VSOE and TPE are not available, management's best estimate of a standalone selling price for elements.

We use judgment in estimating the value allocable to the deliverables in an agreement based on our estimate of the fair value or relative selling price attributable to the related deliverables and the consideration from such an agreement is typically recognized as product revenue or development grant and other revenue. For arrangements that are accounted for as a single unit of accounting, total payments under the arrangement are recognized as revenue on a straight-line basis over the period we expect to complete our performance obligations. We review the estimated period of our performance obligations on a periodic basis and update the recognition period as appropriate. The cumulative amount of revenue earned is limited to the cumulative amount of payments we are entitled to as of the period ending date.

If we cannot reasonably estimate when our performance obligation either ceases or becomes inconsequential, then revenue is deferred until we can reasonably estimate when the performance obligation ceases or becomes inconsequential. Revenue is then recognized over the remaining estimated period of performance. Deferred revenue amounts are classified as current liabilities to the extent that revenue is expected to be recognized within one year.

Significant management judgment is required in determining the level of effort required under an arrangement and the period over which we are expected to complete our performance obligations under an arrangement.

Warranty Accrual

Estimated warranty costs are recorded at the time of shipment. We estimate future warranty costs by analyzing the timing, cost and amount of returned product. Assumptions and historical warranty experience are evaluated on at least a quarterly basis to determine the continued appropriateness of such assumptions. During the quarter ended September 30, 2013, we accrued

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additional warranty expense for our G4 PLATINUM system based on actual and expected warranty costs since the commercial launch in October 2012.

Foreign Currency

The financial statements of our non-U.S. subsidiary, whose functional currency is the Swedish Krona, 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. Cumulative translation adjustments are recognized as part of comprehensive income and are included in accumulated other comprehensive income in the consolidated balance sheet. Gains and losses on transactions denominated in other than the functional currency are reflected in operations. To date the results of operations of this subsidiary and related translation adjustments 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 other 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. 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. We utilize a standard cost system to track inventories on a part-by-part basis that approximates first in, first out. If necessary, adjustments are made to the standard materials, standard labor and standard overhead costs to approximate actual labor and actual overhead costs. The labor and overhead elements of inventory are based on full utilization of our manufacturing capacity.

Short-Term Marketable Securities

We have classified our short-term marketable securities as “available-for-sale” and carry them 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.

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

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.

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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.

Certain contingent consideration liabilities are classified within Level 3 of the fair value hierarchy because they use unobservable inputs. For those liabilities, fair value is determined using a probability-weighted discounted cash flow model, the significant inputs which are not observable in the market.

The following table represents our fair value hierarchy for our financial assets (cash equivalents and marketable securities) and liabilities measured at fair value on a recurring basis as of September 30, 2013 (in millions):

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$—	$25.9	$—	$25.9
Marketable securities, available for sale				
U.S. government agencies	—	11.3	—	11.3
Corporate debt	—	2.9	—	2.9
Total marketable securities, available for sale	$—	$14.2	$—	$14.2
Restricted cash	$1.0	$—	$—	$1.0
Contingent consideration	$—	$—	$3.7	$3.7

The following table represents our fair value hierarchy for our financial assets (cash equivalents and marketable securities) and liabilities measured at fair value on a recurring basis as of December 31, 2012 (in millions):

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$—	$4.5	$—	$4.5
Marketable securities, available for sale				
U.S. government agencies	—	31.8	—	31.8
Corporate debt	—	8.0	—	8.0
Commercial paper	—	0.8	—	0.8
Total marketable securities, available for sale	$—	$40.6	$—	$40.6
Restricted cash	$1.0	$—	$—	$1.0
Contingent consideration	$—	$—	$1.7	$1.7

The book values of cash equivalents, short-term marketable securities, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these instruments. The book value of long-term debt approximates fair value. The fair value of long-term debt at September 30, 2013 and December 31, 2012 was based on quoted prices of similar instruments (Level 1).

Contingent Consideration Liability

In connection with the acquisition of SweetSpot in March 2012, at the closing of the acquisition, we agreed to issue up to an additional 357,176 shares of our common stock upon the achievement of certain specified milestones, which is classified as contingent consideration. The fair value of the contingent consideration at the closing of $2.2 million was determined using a probability-weighted discounted cash flow model, the significant inputs of which are not observable in the market. The key assumptions in applying this approach are the interest rate and the estimated probabilities and timing assigned to the milestones being achieved. During 2012, approximately $1.1 million related to the contingent consideration was earned and paid through the issuance of 89,296 shares of our common stock, with up to 267,880 shares of our common stock that may still be issued upon the achievement of remaining performance milestones. Changes in fair value are recorded in the consolidated statements of operations as research and development expense since the milestones are related to development activities.

The following table sets forth the change in the estimated fair value for our liabilities measured on a recurring basis using significant unobservable inputs (Level 3) (in millions):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Fair value measurement at the beginning of period	$2.7	$1.7	$1.7	$—
Contingent consideration recorded upon acquisition	—	—	—	2.2
Changes in fair value measurement included in operating expenses	1.0	0.3	2.0	0.9
Contingent consideration settled	—	—	—	(1.1)
Fair value measurement at end of period	$3.7	$2.0	$3.7	$2.0

Impairment of Goodwill and Intangible Assets

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.

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 lease term.

Recent Accounting Guidance

Effective January 1, 2013, we adopted the Financial Accounting Standards Board ("FASB") authoritative guidance for Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income ("AOCI"), which requires an entity to report, in one place, information about reclassifications out of AOCI and to present reclassifications by component when reporting changes in AOCI balances. Other than additional disclosure requirements, the adoption of this guidance did not have a material impact on our consolidated financial statements. Reclassifications out of AOCI for the three and nine months ended September 30, 2013 and 2012 were not material.

In July 2013, the FASB issued authoritative guidance for Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. We intend to adopt this guidance at the beginning of our first quarter of fiscal year 2014, and do not believe the adoption of this guidance will have a material impact on our consolidated financial statements or related financial statement disclosures.

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, options and unvested restricted stock units 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):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Options outstanding to purchase common stock	6.6	7.5	6.6	7.5
Unvested restricted stock units	3.7	3.0	3.7	3.0
Total	10.3	10.5	10.3	10.5

3. Financial Statement Details (in millions)

Short Term Marketable Securities, Available for Sale

Short term marketable securities, consisting solely of debt securities with contractual maturities of less than one year were as follows:

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agencies	$11.3	$—	$—	$11.3
Corporate debt	2.9	—	—	2.9
Total	$14.2	$—	$—	$14.2

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agencies	$31.8	$—	$—	$31.8
Corporate debt	8.0	—	—	8.0
Commercial paper	0.8	—	—	0.8
Total	$40.6	$—	$—	$40.6

Inventory

	September 30, 2013	December 31, 2012
Raw materials	$3.5	$2.5
Work-in-process	1.3	0.4
Finished goods	5.2	4.5
Total	$10.0	$7.4

Accounts Payable and Accrued Liabilities

	September 30, 2013	December 31, 2012
Accounts payable trade	$3.8	$3.9
Accrued tax, audit, and legal fees	0.9	0.7
Clinical trials	—	0.1
Accrued other including warranty	5.6	2.8
Acquisition-related liabilities	2.3	1.2
Total	$12.6	$8.7

Accrued Warranty

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Beginning balance	$0.3	$0.4	$0.3	$0.3
Charges to costs and expenses	2.1	0.4	3.5	1.4
Costs incurred	(1.1)	(0.5)	(2.5)	(1.4)
Ending balance	$1.3	$0.3	$1.3	$0.3

4. Commitments and Contingencies

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 borrowings under the Loan Agreement are collateralized by a first priority security interest in substantially all of our assets with a negative pledge on our intellectual property.

The revolving line of credit is an interest-only financing that bears an interest rate equal to the prime rate plus 0.5% and requires repayment of principal at the maturity date of November 2015. Available funds, up to the borrowing base of 80% of eligible accounts receivables, under the revolving line of credit can be drawn at any time, and repaid funds can be redrawn. No amounts have been drawn against the revolving line of credit.

Per the Loan Agreement, $7.0 million was advanced under the Term Loan at the funding date in November 2012, and initially provided up to $13.0 million in additional funds available upon our request from June 1, 2013 to September 30, 2013 (the "Draw Period"). In August 2013, the Loan Agreement was amended to change the Draw Period for the additional funds under the Term Loan to January 1, 2014 to March 31, 2014. The Term Loan bears a fixed interest rate equal to the three-year treasury rate at the time of advance plus 6.94% and requires payment of interest only for the first year and amortized payments of interest and principal thereafter through the maturity date of November 2016.

The aggregate debt issuance costs and fees incurred with respect to the issuance of the Loan Agreement were $1.1 million. These costs have been capitalized as debt issuance costs on our consolidated balance sheet as other assets. Fees related to the revolving line of credit are being amortized through the maturity date of November 2015. Issuance costs and fees related to the term loan are being amortized through the maturity date of November 2016 using the effective interest method. As of September 30, 2013, the remaining unamortized issuance costs and fees totaled $0.7 million. Principal repayment obligations under the Loan Agreement as of September 30, 2013 were as follows (in millions):

Fiscal Year Ending	
Remainder of 2013	$0.2
2014	2.2
2015	2.3
2016	2.3
Total	$7.0

Leases

In April 2006, we entered into an office lease agreement for facilities located in San Diego, California. In August 2010, we entered into a First Amendment to Office Lease (the “Lease Amendment”) with respect to facilities in the buildings at 6340 Sequence Drive and 6310 Sequence Drive, each in San Diego, California (the “Buildings”). Under the Lease Amendment, we leased additional space in the Buildings. The lease term for the Buildings extends through November 2016 and we have an option to renew the lease upon the expiration of the initial term for an additional five years. These facility leases have annual rental increases ranging from approximately 2.5% to 4.0%. The difference between the straight-line expense over the term of the lease and actual amounts paid are recorded as deferred rent. In September 2008, our subsidiary in Sweden entered into a three-year lease for a small shared office space, which was renewed for a three-year term and has a quarterly adjustment clause for rent to increase or decrease in proportion to changes in consumer prices. In July 2012, our subsidiary SweetSpot entered into a five-year lease for a small office

space in a multi-tenant commercial building. Rental obligations, excluding real estate taxes, operating costs, and tenant improvement allowances, under all lease agreements as of September 30, 2013 were as follows (in millions):

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Fiscal Year Ending	
Remainder of 2013	$0.7
2014	2.7
2015	2.7
2016	2.6
Total	$8.7

Total rent expense for the three and nine months ended September 30, 2013 was $0.7 million and $2.2 million, respectively, compared to $0.6 million and $1.7 million for the same periods of 2012.

Litigation

On August 11, 2005, Abbott Diabetes Care, Inc. (“Abbott”) filed a patent infringement lawsuit against us in the United States District Court for the District of Delaware, seeking a declaratory judgment that our continuous glucose monitor infringes certain patents held by Abbott. In August 2005, we moved to dismiss these claims and filed requests for reexamination of the Abbott patents with the United States Patent and Trademark Office (the “Patent Office”) and by March 2006, the Patent Office ordered reexamination of each of the four patents originally asserted against us in the litigation. On June 27, 2006, Abbott amended its complaint to include three additional patents owned or licensed by Abbott which are allegedly infringed by our continuous glucose monitor. On August 18, 2006, the court granted our motion to stay the lawsuit pending reexamination by the Patent Office of each of the four patents originally asserted by Abbott, and the court dismissed one significant infringement claim. In approving the stay, the court also granted our motion to strike, or disallow, Abbott's amended complaint in which Abbott had sought to add three additional patents to the litigation. Subsequent to the court's August 18, 2006 order striking Abbott's amended complaint, Abbott filed a separate action in the U.S. District Court for the District of Delaware alleging patent infringement of the three additional patents it had sought to include in the litigation discussed above. On September 7, 2006, we filed a motion to strike Abbott's new complaint on the grounds that it is redundant of claims Abbott already improperly attempted to inject into the original case, and because the original case is now stayed, Abbott must wait until the court lifts that stay before it can properly ask the court to consider these claims. Alternatively, we asked the court to consolidate the new case with the original case and thereby stay the entirety of the case pending conclusion of the reexamination proceedings in the Patent Office. In February 2007, the Patent Office ordered reexamination of each of the three patents cited in this new lawsuit. On September 30, 2007, the court granted our motion to consolidate the cases and stay the entirety of the case pending conclusion of the reexamination proceedings in the Patent Office relating to all seven patents asserted against us.

In connection with this litigation, two of the seven patents that are the subject of the litigation have reexamination requests on appeal at the Patent Office. Certificates of Reexamination were issued for four of the seven patents and a Notice of Intent to Issue a Reexamination Certificate was issued for the seventh patent in August 2013. In many of these reexamination proceedings, Abbott filed responses with the Patent Office seeking claim construction to differentiate certain claims from the prior art we presented, seeking to amend certain claims to overcome the prior art we presented, canceling claims and/or seeking to add new claims.

In addition, since 2008, Abbott has copied claims from certain of our applications, and stated that it may seek to provoke an interference with certain of our pending applications in the Patent Office. If interference is declared and Abbott prevails in the interference, we would lose certain patent rights to the subject matter defined in the interference. Also since 2008, Abbott has filed 38 reexamination requests seeking to invalidate 31 of our patents. Four of the 38 reexamination requests are in various stages at the Patent Office, and 33 have been issued a Certificate of Reexamination (one Reexamination Request was denied). We have filed responses with the Patent Office seeking claim construction to differentiate certain claims from the prior art presented in the reexaminations, seeking to amend certain claims to overcome the prior art presented in the reexaminations, canceling claims and/or seeking to add new claims. It is possible that the Patent Office may determine that some or all of the claims of our patents subject to the reexamination are invalid. Additionally, Abbott has filed an Opposition to four of our European patents.

Although it is our position that Abbott's assertions of infringement have no merit, and that the potential interference and reexamination requests by Abbott have no merit, neither the outcome of the litigation nor the amount and range of potential fees associated with the litigation, potential interference or reexamination requests can be assessed, and as of September 30, 2013, no amounts have been accrued.

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. We do not expect that the resolution of these matters would have a material adverse effect 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 glucose monitoring systems. As of September 30, 2013, we had purchase commitments with vendors totaling $12.5 million due within one year. There are no material purchase commitments due beyond one year.

5. Development and Other Agreements

Edwards Lifesciences LLC

On November 10, 2008, and as amended on May 5, 2009, we entered into a Collaboration Agreement (the "Collaboration Agreement") with Edwards Lifesciences LLC ("Edwards"). Pursuant to the Collaboration Agreement, we and Edwards agreed to develop jointly and to market an in-hospital automatic blood glucose monitoring system. Under the terms of the Collaboration Agreement, as amended, Edwards paid us an upfront fee of $13.0 million in November 2008. In addition, we received $10.0 million, in total, for product development from 2009 through 2010. We will also receive either a profit-sharing payment of up to 10% on the product's gross profits, or a royalty of up to 6% of commercial sales of the product. The Collaboration Agreement provides Edwards with an exclusive license under our intellectual property to the critical care sector in the hospital market. Edwards will be responsible for global sales and marketing, and we will initially be responsible for manufacturing. Our development obligations under the Collaboration Agreement were completed in the fourth quarter of 2012, and there will no longer be any development grant and other revenue recognized in future periods related to consideration previously received under the Collaboration Agreement. We recorded $0.3 million and $1.0 million in development grant and other revenue related to consideration previously received under the Collaboration Agreement for development efforts for the three and nine months ended September 30, 2012.

Each of the milestones related to the Collaboration Agreement is considered to be substantive under the terms of the Collaboration Agreement and, at the outset of the agreement, we were entitled to receive up to $12.0 million in milestones related to regulatory approvals and manufacturing readiness, subject to reductions based on the timing of the receipt of approvals. However, we do not expect to receive all or any of such milestones based on regulatory and joint development delays. We did not recognize any consideration for milestones related to the Collaboration Agreement for the three and nine months ended September 30, 2013 and 2012.

Roche Diagnostics Operations, Inc.

On November 1, 2011, we entered into a non-exclusive Research and Development Agreement (the "Roche Agreement") with Roche Diagnostics Operations, Inc. ("Roche") to integrate a future generation of our continuous glucose monitoring technology with Roche's next generation Accu-Chek insulin delivery system in the United States. On February 20, 2013, Roche provided us with notice that Roche was terminating the Roche Agreement in accordance with its terms. We received an initial payment of $0.5 million as a result of the execution of the Roche Agreement, and we received an additional $0.5 million upon agreement of a development and regulatory plan. We recorded $0.8 million in development grant and other revenue related to consideration previously received for development efforts for the nine months ended September 30, 2013, compared to $47,000 and $0.1 million for the three and nine months ended September 30, 2012. As a result of the termination of the Roche Agreement, we are no longer entitled to receive any further consideration for milestones or development activities pursuant to the Roche 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 system with Tandem's t:slim insulin delivery system in the United States. 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. We received an initial payment of $1.0 million as a result of the execution of the Tandem Agreement. We are also entitled to receive up to an additional $2.0 million upon the achievement of certain milestones related to regulatory submissions and approvals as set forth in the Tandem Agreement. Each of the milestones related to the Tandem Agreement is considered to be substantive. We did not recognize any consideration for milestones for the three and nine months ended September 30, 2013 and 2012. We

recorded $0.1 million and $0.4 million in development grant and other revenue related to consideration previously received for development efforts for the three and nine months ended September 30, 2013, compared to $0.1 million and $0.2 million for the same periods in 2012.

The Leona M. and Harry B Helmsley Charitable Trust

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In July 2013, we were awarded a $4.0 million grant (the "Helmsley Grant") from the Leona M. and Harry B. Helmsley Charitable Trust (the "Helmsley Trust") to accelerate the development of the sixth generation of our advanced glucose-sensing technologies (the "Gen 6 Sensor"). The funding is milestone-based and is contingent upon our meeting specific development milestones related to the Gen 6 Sensor over the next several years. During the three months ended September 30, 2013, $0.5 million of the Helmsley Grant was received. Upon successful commercialization of our Gen 6 Sensor, we are obligated to either (1) make royalty payments of up to $2.0 million per year for four years, or (2) at our sole election, make a one-time $6.0 million royalty payment. The Helmsley Grant funds will offset research and development expense as incurred and earned. For the three and nine months ended September 30, 2013, $0.1 million and $0.1 million of Helmsley Grant funds was earned.

6. Business Combinations

On February 21, 2012, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) to acquire 100% of the common stock of SweetSpot. The merger was consummated on March 6, 2012 (the “Closing”). In accordance with the Merger Agreement, on the Closing, we issued 384,483 shares of our common stock having an aggregate value on the Closing of $3.9 million to the security holders of SweetSpot. The fair value of the contingent consideration at the Closing was determined to be $2.2 million using a probability-weighted discounted cash flow model with the key assumptions being the discount rate, the timing of expected achievement and the probability assigned to each milestone being achieved. During 2012, approximately $1.1 million related to the contingent consideration was earned and paid through the issuance of 89,296 shares of our common stock. We may also issue up to 267,880 shares of our common stock in milestone payments contingent upon the achievement of certain other performance milestones. We have not issued any shares of common stock for milestone payments in 2013. We incurred acquisition-related costs of $0.3 million during 2012, which are recorded as general and administrative expense.

SweetSpot is a healthcare-focused information technology company with a platform for uploading and processing data from certain diabetes devices to advance the treatment of diabetes. SweetSpot specializes in turning raw output from certain devices into information for healthcare providers, individuals and researchers. Through our acquisition of SweetSpot, we have a software platform that enables our customers to aggregate and analyze data from certain diabetes devices and to share it with their healthcare providers.

The acquisition of SweetSpot has been recorded using the acquisition method of accounting in accordance with the authoritative guidance for business combinations. The allocation of purchase price is based on our valuation of the fair value of tangible and intangible assets acquired and liabilities assumed as of the Closing.

The purchase price is as follows (in millions):

Market value of DexCom common stock issued on the Closing	$3.9
Fair value of contingent consideration	2.2
Total purchase price	$6.1

The following table summarizes the allocation of the purchase price.

	Estimated Fair Value (in millions)	Estimated Useful Life in Months
Net assumed liabilities	$(1.8)	
Developed technology	3.2	109
In-process research and development	0.2	51
Trademarks and trade names	0.1	
Customer-related intangible	0.6	70
Covenants not-to-compete	0.6	70
Goodwill	3.2	
Total purchase price allocation	$6.1	

Goodwill represents the excess of the purchase price over the fair value of tangible and identified intangible assets acquired. Goodwill and trademarks and trade names are not amortized, but are subject to review for impairment on at least an annual basis. Acquired developed technology represents the fair value assigned to technology assets that we acquired that have

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been completed at the date of acquisition. The acquired technology is capitalized as intangible assets and amortized over their estimated useful lives. Acquired in-process research and development ("IPR&D") represents the fair value assigned to research and development assets that we acquired that have not been completed at the date of acquisition. The acquired IPR&D is capitalized as an intangible asset and tested for impairment at least annually until commercialization, after which time the IPR&D will be amortized over its estimated useful life. Acquired customer-related intangibles and covenant not-to-compete are capitalized as intangible assets and amortized over their estimated useful lives.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that are based upon current expectations. These forward-looking statements fall within the meaning of the federal securities laws that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "expect," "plan," "anticipate," "believe," "estimate," "intend," "potential" or "continue" or the negative of these terms or other comparab terminology. Forward-looking statements involve risks and uncertainties. Our actual results and the timing of events could differ materially from those anticipated in our forward-looking statements as a result of many factors, including product performance, a lack of acceptance in the marketplace by physicians and customers, sufficient customer demand, the inability to manufacture products in commercial quantities at an acceptable cost, possible delays in our research and development programs, the inability of customers to receive reimbursements from third-party payors, the impact of competitive products and pricing, our ability to obtain regulatory approvals and introduce new products, other uncertainties related to regulatory processes, our ability to respond to changing laws and regulations affecting our industry and changing enforcement practices related thereto, inadequate financial and other resources, global economic conditions, and the other risks set forth below under "Risk Factors" and elsewhere in this report. We assume no obligation to update any of the forward-looking statements after the date of this report or to conform these forward-looking statements to actual results.

Overview

We are a medical device company primarily focused on the design, development and commercialization of continuous glucose monitoring systems for ambulatory use by people with diabetes and for use by healthcare providers in the hospital for the treatment of people with and without diabetes. Unless the context requires otherwise, the terms "we," "us," "our," the "company," or "DexCom" refer to DexCom, Inc. and its subsidiaries.

Ambulatory Product Line: SEVEN® PLUS, G4® and DexCom G4® PLATINUM

We received approval from the Food and Drug Administration ("FDA") and commercialized our first product in 2006. In 2007, we received approval and began commercializing our second generation system, the DexCom SEVEN®. We no longer market or provide support for the DexCom SEVEN system. In 2009 we received approval for our third generation system, the DexCom SEVEN® PLUS, which is designed for up to seven days of continuous use, and we began commercializing this product in the first quarter of 2009. On June 14, 2012, we received Conformité Européene Marking ("CE Mark") approval for our fourth generation continuous glucose monitoring system, the DexCom G4® system, enabling commercialization of the DexCom G4 system in the European Union, Australia, New Zealand and the countries in Asia and Latin America that recognize the CE Mark. On October 5, 2012, we received approval from the FDA for the DexCom G4 PLATINUM, which is designed for up to seven days of continuous use by adults with diabetes, and we began commercializing this product in the U.S. in the fourth quarter of 2012. On February 14, 2013, we received CE Mark approval for a pediatric indication for our DexCom G4 system, enabling us to market and sell this system in the European Union, Australia, New Zealand and the countries in Asia and Latin America that recognize the CE Mark to persons two years old and older who have diabetes (hereinafter referred to as the "Pediatric Indication"), and we initiated a limited commercial launch in the second quarter of 2013. In connection with our receipt of CE Mark approval for the Pediatric Indication, we changed the name of the DexCom G4 system to the DexCom G4 PLATINUM system. We currently do not have approval of a Pediatric Indication in the United States. In

the first quarter of 2013, we submitted a PMA supplement to the FDA seeking approval of a Pediatric Indication for the DexCom G4 PLATINUM system in the United States. During the third quarter of 2013, we submitted a PMA supplement to the FDA seeking an expanded indication for G4 PLATINUM for professional use. This expanded indication would allow health care professionals to purchase G4 PLATINUM devices for use with multiple patients. Healthcare professionals can use the insights gained from a G4 PLATINUM professional session to adjust therapy and to educate and motivate patients to modify their behavior after viewing the effects that specific foods, exercise, stress, and medications have on their glucose levels. Unless the context requires otherwise, the term "G4 PLATINUM" shall refer to the DexCom G4 and DexCom G4 PLATINUM systems that are commercialized by us in and outside of the United States.

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As compared to the SEVEN PLUS, the G4 PLATINUM offers:

- an improved sensor wire design that allows more scalable manufacturing,
- a smaller, sleeker receiver that is capable of displaying data in color,
- a new transmitter design that offers improved communication range with the receiver which allows for improved data capture, and
- additional user interface and algorithm enhancements that are intended to make the user experience more customizable and to make its glucose monitoring function more accurate especially in the hypoglycemic range.

With the approval of the DexCom G4 PLATINUM systems, we have reduced marketing and sales efforts related to SEVEN PLUS.

DexCom Share

During the third quarter of 2013, we submitted a PMA supplement to the FDA seeking approval of the DexCom Share system. Through secure wireless connections, DexCom SHARE notifies another person of a user's DexCom G4 PLATINUM sensor glucose information when the G4 PLATINUM Receiver is docked in the DexCom SHARE Cradle. DexCom SHARE provides secondary notification and does not replace real time continuous glucose monitoring or standard home blood glucose monitoring.

In-Hospital Product Line: GlucoClear®

To address the in-hospital patient population, we entered into an exclusive agreement with Edwards to develop jointly and market a specific product platform for the in-hospital glucose monitoring market, with an initial focus on the development of an intravenous sensor specifically for the critical care market. On October 30, 2009, we received CE Mark approval for our first generation blood-based in-vivo automated glucose monitoring system, which we have branded the GlucoClear, for use by healthcare providers in the hospital, and in January 2013, Edwards received CE Mark approval for the second generation system. In partnership with Edwards, we initiated a very limited launch of the GlucoClear system in Europe in 2009, and Edwards initiated another limited launch in Europe of the second generation GlucoClear during 2013.

SweetSpot

Through our acquisition of SweetSpot in 2012, we have a software platform that enables our customers to aggregate and analyze data from certain diabetes devices and to share it with their healthcare providers. In November 2011, SweetSpot received 510(k) clearance from the FDA to market to clinics a data management service, which helps healthcare providers and patients see, understand and use blood glucose meter data to diagnose and manage diabetes. SweetSpot’s data transfer service is registered with the FDA as a Medical Device Data System (“MDDS”) and allows researchers to control the transfer of data from certain diabetes devices to research tools and databases according to their own research workflows. SweetSpot’s software provides an advanced cloud-based platform for uploading, processing and delivering health data and transforms raw output from certain medical devices into useful information for healthcare providers, individuals and researchers.

Background

From inception to 2006, we devoted substantially all of our resources to start-up activities, raising capital and research and development, including product design, testing, manufacturing and clinical trials. Since 2006, we have devoted considerable resources to the commercialization of our ambulatory continuous glucose monitoring systems, including the SEVEN PLUS and G4 PLATINUM, as well as the continued research and clinical development of our technology platform.

The International Diabetes Federation (“IDF”) estimates that in 2012, 371 million people around the world had diabetes, and the Centers for Disease Control (“CDC”) estimates that in 2010, diabetes affected 25.8 million people in the United States, of which 7.0 million were undiagnosed. IDF estimates that by 2030, the worldwide incidence of people suffering from diabetes will reach 552 million. The increased prevalence of diabetes is believed to be the result of an aging population, unhealthy diets and increasingly sedentary lifestyles. According to the CDC's National Vital Statistics Reports for 2010, diabetes was the seventh leading cause of death by disease in the United States. According to the Congressional Diabetes Caucus, diabetes is the leading cause of kidney failure, adult-onset blindness, lower-limb amputations, and significant cause of heart disease and stroke, high blood pressure and nerve damage. According to the IDF, there were an estimated 4.8 million deaths attributable to diabetes globally in 2012. The

American Diabetes Association (“ADA”) Fast Facts, revised in March 2013, states that diabetes is the primary cause of death for more than 71,000 Americans each year, and contributes to the death of more than 231,000 Americans annually.

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According to the Congressional Diabetes Caucus, in the United States, another individual is diagnosed with diabetes every 17 seconds. Each day approximately 5,082 people are diagnosed with diabetes, and about 1.9 million people will be diagnosed this year. In addition to those newly diagnosed, every 24 hours there are: 238 amputations in people with diabetes, 120 people who enter end-stage kidney disease programs, and 48 people who go blind.

According to the ADA one in every five health care dollars was spent on treating diabetes in 2012, and the direct medical costs and indirect expenditures attributable to diabetes in the United States were an estimated $245 billion, an increase of $71 billion, or approximately 41%, since 2007. Of the $245 billion in overall expenses, the ADA estimated that approximately $176 billion were direct costs associated with diabetes care, chronic complications and excess general medical costs, and $69 billion were indirect medical costs. The ADA also found that average medical expenditures among people with diagnosed diabetes were 2.3 times higher than for people without diabetes in 2012. According to the IDF, expenditures attributable to diabetes were an estimated $471 billion globally in 2012. The IDF estimates that expenditures attributable to diabetes will grow to $595 billion globally by 2030.

We believe continuous glucose monitoring has the potential to enable more people with diabetes to achieve and sustain tight glycemic control. The Diabetes Control and Complications Trial (“DCCT”) demonstrated that improving blood glucose control lowers the risk of developing diabetes-related complications by up to 50%. The study also demonstrated that people with Type 1 diabetes achieved sustained benefits with intensive management. Yet, according to an article published in the Journal of the American Medical Association (“JAMA”) in 2004, less than 50% of diabetes patients were meeting ADA standards for glucose control (A1c), and only 37% of people with diabetes were achieving their glycemic targets. The CDC estimated that as of 2006, 63.4% of all adults with diabetes were monitoring their blood glucose levels on a daily basis, and that 86.7% of insulin-requiring patients with diabetes monitored daily. Various clinical studies also demonstrate the benefits of continuous glucose monitoring and that continuous glucose monitoring is equally effective in patients who administer insulin through multiple daily injections or through use of continuous subcutaneous insulin infusion pumps. Results of a Juvenile Diabetes Research Foundation (“JDRF”) study published in the New England Journal of Medicine in 2008, and the extension phase of the study, published in Diabetes Care in 2009, demonstrated that continuous glucose monitoring improved A1c levels and reduced incidence of hypoglycemia for patients over the age of 25 and for all patients of all ages who utilized continuous glucose monitoring regularly.

Our initial target market in the United States consists of an estimated 30% of people with Type 1 diabetes who utilize insulin pump therapy and an estimated 50% of people with Type 1 diabetes who utilize multiple daily insulin injections. Our broader target market in the United States consists of our initial target market plus an estimated 20% of people with Type 1 diabetes using conventional insulin therapy and the estimated 27% of people with Type 2 diabetes who require insulin. Although our initial focus is within the United States, our CE Mark approval also enables us to commercialize our system in those European, Asian and Latin American countries that recognize the CE Mark.

We have built a direct sales organization to call on endocrinologists, physicians and diabetes educators who can educate and influence patient adoption of continuous glucose monitoring. We believe that focusing efforts on these participants is important given the instrumental role they each play in the decision-making process for diabetes therapy. To complement our direct sales efforts, we have entered into a limited number of distribution arrangements that allow distributors to sell our products. We believe our direct, highly specialized and focused sales organization is sufficient for us to support our sales efforts.

We are leveraging our technology platform to enhance the capabilities of our current products and to develop additional continuous glucose monitoring products. In 2008 and 2012, we entered into development agreements with Animas Corporation (“Animas”), a subsidiary of Johnson & Johnson, and with Tandem Diabetes Care, Inc. (“Tandem”), respectively. The purpose of each of these development relationships is to integrate our technology into the insulin pump product offerings of the respective partner, enabling the partner's insulin pump to receive glucose readings from our transmitter and display this information on the pump's screen. The Animas insulin pump product augmented with our sensor technology has been branded the Vibe®, and received CE Mark approval in May 2011, which allows Animas to market the Vibe in the countries that recognize CE Mark approvals.

On October 5, 2012, we received FDA approval for the G4 PLATINUM system. On June 14, 2012, we received CE Mark approval for the G4 system, enabling commercialization of the DexCom G4 system in the European Union,

Australia, New Zealand and the countries in Asia and Latin America that recognize the CE Mark. Our G4 PLATINUM system features improved sensor reliability, stability and accuracy over the useful life of the sensor, and is suitable for large scale manufacturing. On February 14, 2013, we received CE Mark approval of a Pediatric Indication for the G4 PLATINUM, enabling us to market and sell that system in the European Union, Australia, New Zealand and the countries in Asia and Latin America that recognize the CE Mark to persons two years old and older who have diabetes. In the first quarter of 2013, we submitted a PMA supplement to the FDA seeking approval of a Pediatric Indication for the DexCom G4 PLATINUM system in

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the United States. We also intend to seek a pregnancy indication (people who develop gestational diabetes during pregnancy) for our product platform in the future.

On February 21, 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") to acquire SweetSpot. Pursuant to the Merger Agreement, DexCom acquired SweetSpot and SweetSpot became a wholly owned subsidiary of DexCom (the "Merger"). The Merger was consummated on March 6, 2012. SweetSpot is a healthcare-focused information technology company with a platform for uploading and processing data from certain diabetes devices to advance the treatment of diabetes. SweetSpot specializes in turning raw output from certain devices into information for healthcare providers, users and researchers. Through our acquisition of SweetSpot, we have a software platform that enables our customers to aggregate and analyze data from certain diabetes devices and share it with their healthcare providers.

Our development timelines are highly dependent on our ability to achieve clinical endpoints and regulatory requirements and to overcome technology challenges, and our development timelines may be delayed due to extended regulatory approval timelines, scheduling issues with patients and investigators, requests from institutional review boards, sensor performance and manufacturing supply constraints, among other factors. In addition, support of these clinical trials requires significant resources from employees involved in the production of our products, including research and development, manufacturing, quality assurance, and clinical and regulatory personnel. Even if our development and clinical trial efforts are successful, the FDA may not approve our products, and if approved, we may not achieve acceptance in the marketplace by physicians and people with diabetes.

As a medical device company, reimbursement from Medicare and private third-party healthcare payors is an important element of our success. Although the Centers for Medicare and Medicaid ("CMS") released 2008 Alpha-Numeric Healthcare Common Procedure Coding System ("HCPCS") codes applicable to each of the three components of our continuous glucose monitoring systems, to date, our approved products are not reimbursed by virtue of a national coverage decision by Medicare. It is not known when, if ever, Medicare will adopt a national coverage decision with respect to continuous glucose monitoring devices. Until any such coverage decision is adopted by Medicare, reimbursement of our products will generally be limited to those customers covered by third-party payors that have adopted coverage policies for continuous glucose monitoring devices that includes our devices. As of November 2013, the seven largest private third-party payors, in terms of the number of covered lives, have issued coverage policies for the category of continuous glucose monitoring devices. In addition, we have negotiated contracted rates with six of those third-party payors for the purchase of our SEVEN PLUS and G4 PLATINUM systems by their members. Many of these coverage policies are restrictive in nature and require the patient to comply with extensive documentation and other requirements to demonstrate medical necessity under the policy. In addition, customers who are insured by payors that do not offer coverage for our devices will have to bear the financial cost of the products. We currently employ in-house reimbursement expertise to assist customers in obtaining reimbursement from private third-party payors. We also maintain a field-based reimbursement team charged with calling on third-party private payors to obtain coverage decisions and contracts. We have had formal meetings and have increased our efforts to create and liberalize coverage policies with third-party payors and expect to continue to do so in 2013. However, unless government and other third-party payors provide adequate coverage and reimbursement for our products, people with diabetes may not use them on a widespread basis.

We plan to develop future generations of technologies focused on improved performance and convenience and that will enable intelligent insulin administration. Over the longer term, we plan to develop networked platforms with open architecture, connectivity and transmitters capable of communicating with other devices. As an example, during the third quarter of 2013, we submitted a PMA supplement to the FDA for the DexCom Share System. Through secure wireless connections, DexCom SHARE notifies another person of a user's DexCom G4 PLATINUM sensor glucose information when the G4 PLATINUM Receiver is docked in the DexCom SHARE Cradle.

We currently manufacture our devices at our headquarters in San Diego, California. These facilities have more than 13,000 square feet of laboratory space and approximately 10,000 square feet of controlled environment rooms. In July 2012, the FDA completed an inspection of our facilities, and did not identify any observations or require any other types of corrective action.

There are technical challenges to increasing manufacturing capacity, including equipment design and automation, material procurement, problems with production yields, and quality con