UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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, CA	**92121**
(Address of Principal Executive Offices)	(Zip Code)

(858) 200-0200
(Registrant's Telephone Number, including area code)
(Former Name, Former Address, and Former Fiscal Year, if changed from last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value Per Share	**DXCM**	**Nasdaq Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 1, 2019, there were 91,528,588 shares of the Registrant's common stock outstanding.

DexCom, Inc.
Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DexCom, Inc.

Consolidated Balance Sheets
(In millions, except par value and share data)

	September 30, 2019	December 31, 2018
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 395.6	$ 1,137.0
Short-term marketable securities	1,034.3	248.6
Accounts receivable, net	234.9	226.7
Inventory	120.4	70.7
Prepaid and other current assets	30.5	16.5
Total current assets	1,815.7	1,699.5
Property and equipment, net	301.0	183.1
Operating lease right-of-use assets	34.6	—
Goodwill	18.4	18.7
Other assets	16.0	14.7
Total assets	$ 2,185.7	$ 1,916.0
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 232.4	$ 147.1
Accrued payroll and related expenses	70.9	72.4
Operating lease liabilities, current portion	14.8	—
Deferred revenue	4.3	2.9
Total current liabilities	322.4	222.4
Long-term senior convertible notes	1,047.1	1,010.3
Operating lease liabilities, net of current portion	34.3	—
Other long-term liabilities	17.6	20.0
Total liabilities	1,421.4	1,252.7
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5.0 million shares authorized; no shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock, $0.001 par value, 200.0 million shares authorized; 92.3 million and 91.5 million shares issued and outstanding, respectively, at September 30, 2019; and 91.1 million and 90.0 million shares issued and outstanding, respectively, at December 31, 2018	0.1	0.1
Additional paid-in capital	1,651.6	1,560.6
Accumulated other comprehensive income	1.0	1.5
Accumulated deficit	(788.4)	(798.9)
Treasury stock, at cost; 0.8 million shares at September 30, 2019 and December 31, 2018	(100.0)	(100.0)
Total stockholders' equity	764.3	663.3
Total liabilities and stockholders' equity	$ 2,185.7	$ 1,916.0

See accompanying notes

DexCom, Inc.

Consolidated Statements of Operations
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues	$ 396.3	$ 266.7	$ 1,013.2	$ 693.6
Cost of sales	149.4	98.1	391.0	252.5
Gross profit	246.9	168.6	622.2	441.1
Operating expenses:				
Research and development	66.7	50.1	194.7	142.1
Selling, general and administrative	124.2	104.6	386.7	320.7
Total operating expenses	190.9	154.7	581.4	462.8
Operating income (loss)	56.0	13.9	40.8	(21.7)
Interest expense	(15.1)	(4.9)	(45.0)	(14.5)
Income (loss) from equity investments	—	34.9	(4.2)	85.0
Interest and other income, net	4.9	0.9	18.3	1.6
Income before income taxes	45.8	44.8	9.9	50.4
Income tax expense (benefit)	—	(1.8)	1.5	(2.2)
Net income	$ 45.8	$ 46.6	$ 8.4	$ 52.6
Basic net income per share	$ 0.50	$ 0.53	$ 0.09	$ 0.60
Shares used to compute basic net income per share	91.3	88.5	90.9	88.0
Diluted net income per share	$ 0.50	$ 0.52	$ 0.09	$ 0.59
Shares used to compute diluted net income per share	92.5	90.3	92.2	89.3

See accompanying notes

DexCom, Inc.

Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 45.8	$ 46.6	$ 8.4	$ 52.6
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation gain (loss)	(0.9)	0.9	(1.0)	2.2
Unrealized income (loss) on marketable debt securities	(0.1)	0.1	0.5	0.1
Total other comprehensive income (loss), net	(1.0)	1.0	(0.5)	2.3
Comprehensive income	$ 44.8	$ 47.6	$ 7.9	$ 54.9

See accompanying notes

DexCom, Inc.

Consolidated Statements of Stockholders' Equity

For the Three Months Ended September 30, 2019 and 2018
(In millions)
(Unaudited)

	Three Months Ended September 30, 2019						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Balance at June 30, 2019	91.2	$ 0.1	$ 1,620.4	$ 2.0	$ (834.2)	$ (100.0)	$ 688.3
Issuance of common stock under equity incentive plans	0.2	—	—	—	—	—	—
Issuance of common stock for Employee Stock Purchase Plan	0.1	—	6.8	—	—	—	6.8
Share-based compensation expense	—	—	24.4	—	—	—	24.4
Net income		—	—	—	45.8	—	45.8
Other comprehensive loss	—	—	—	(1.0)	—	—	(1.0)
Balance at September 30, 2019	91.5	$ 0.1	$ 1,651.6	$ 1.0	$ (788.4)	$ (100.0)	$ 764.3

	Three Months Ended September 30, 2018						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Balance at June 30, 2018	88.4	$ 0.1	$ 1,149.1	$ (1.3)	$ (665.8)	$ —	$ 482.1
Issuance of common stock under equity incentive plans	0.3	—	0.6	—	—	—	0.6
Issuance of common stock for Employee Stock Purchase Plan	0.1	—	4.8	—	—	—	4.8
Share-based compensation expense	—	—	27.1	—	—	—	27.1
Net income	—	—	—	—	46.6	—	46.6
Other comprehensive income	—	—	—	1.0	—	—	1.0
Balance at September 30, 2018	88.8	$ 0.1	$ 1,181.6	$ (0.3)	$ (619.2)	$ —	$ 562.2

See accompanying notes

DexCom, Inc.

Consolidated Statements of Stockholders' Equity

For the Nine Months Ended September 30, 2019 and 2018
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2019						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2018	90.0	$ 0.1	$ 1,560.6	$ 1.5	$ (798.9)	$ (100.0)	$ 663.3
Cumulative-effect adjustment from adoption of new lease accounting standard (Note 2)	—	—	—	—	2.1	—	2.1
Issuance of common stock under equity incentive plans	1.3	—	0.3	—	—	—	0.3
Issuance of common stock for Employee Stock Purchase Plan	0.2	—	11.6	—	—	—	11.6
Share-based compensation expense	—	—	79.1	—	—	—	79.1
Net income	—	—	—	—	8.4	—	8.4
Other comprehensive loss	—	—	—	(0.5)	—	—	(0.5)
Balance at September 30, 2019	91.5	$ 0.1	$ 1,651.6	$ 1.0	$ (788.4)	$ (100.0)	$ 764.3

	Nine Months Ended September 30, 2018						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2017	87.0	$ 0.1	$ 1,093.7	$ (2.6)	$ (671.8)	$ —	$ 419.4
Issuance of common stock under equity incentive plans	1.6	—	1.7	—	—	—	1.7
Issuance of common stock for Employee Stock Purchase Plan	0.2	—	8.9	—	—	—	8.9
Share-based compensation expense	—	—	77.3	—	—	—	77.3
Net income	—	—	—	—	52.6	—	52.6
Other comprehensive income	—	—	—	2.3	—	—	2.3
Balance at September 30, 2018	88.8	$ 0.1	$ 1,181.6	$ (0.3)	$ (619.2)	$ —	$ 562.2

See accompanying notes

DexCom, Inc.

Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Net income	$ 8.4	$ 52.6
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	34.4	20.5
Share-based compensation	79.1	77.3
Non-cash interest expense	37.0	11.3
Unrealized (gain) loss on equity investment	—	(40.8)
Realized (gain) loss on equity investment	4.2	(44.2)
Other non-cash income and expenses	0.6	5.1
Changes in operating assets and liabilities:		
Accounts receivable, net	(9.2)	(36.2)
Inventory	(49.7)	(10.0)
Prepaid and other assets	(2.6)	(3.4)
Accounts payable and accrued liabilities	78.2	50.2
Accrued payroll and related expenses	(1.2)	6.2
Deferred revenue and other liabilities	(8.4)	0.9
Net cash provided by operating activities	170.8	89.5
Cash flows from investing activities:		
Purchases of marketable securities	(1,556.8)	(340.0)
Proceeds from sale and maturity of marketable securities	773.0	231.0
Purchases of other equity investments	(1.2)	(1.0)
Purchases of property and equipment	(135.9)	(49.4)
Acquisitions, net of cash acquired	—	(11.3)
Net cash used in investing activities	(920.9)	(170.7)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	11.9	10.6
Payments on acquisition related contingent consideration liability	(0.7)	(1.8)
Other financing activities	(0.4)	—
Net cash provided by financing activities	10.8	8.8
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1.7)	(1.4)
Decrease in cash, cash equivalents and restricted cash	(741.0)	(73.8)
Cash, cash equivalents and restricted cash, beginning of period	1,137.1	441.5
Cash, cash equivalents and restricted cash, end of period	$ 396.1	$ 367.7
Reconciliation of cash, cash equivalents and restricted cash, end of period:		
Cash and cash equivalents	$ 395.6	$ 367.4
Restricted cash	0.5	0.3
Total cash, cash equivalents and restricted cash	$ 396.1	$ 367.7
Supplemental disclosure of non-cash investing and financing transactions:		
Acquisition of property and equipment included in accounts payable and accrued liabilities	$ 22.3	$ 3.0
Right-of-use assets obtained in exchange for lease liabilities	$ 57.2	$ —

See accompanying notes

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

1. Organization and Significant Accounting Policies

Organization and Business

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

Basis of Presentation and Principles of Consolidation

We have prepared the accompanying unaudited consolidated financial statements (the “financial statements”) in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission, or SEC, Regulation S-X. Accordingly, they do not include all of the information and disclosures required by 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 nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. We expect that revenues we generate from the sales of our products will fluctuate from quarter to quarter. We experience seasonality that is typical in our industry, with lower sales in the first quarter of each year compared to the fourth quarter of the previous year.

These financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2018 included in the Annual Report on Form 10-K that we filed with the SEC on February 21, 2019.

These financial statements include the accounts of DexCom, Inc. and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in our financial statements and the disclosures made in the accompanying notes. Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates.

Concentration of Credit Risk and Significant Customers

Financial instruments which potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investment securities, and accounts receivable. We limit our exposure to credit risk by placing our cash and investments with high credit quality financial institutions. We have also established guidelines regarding diversification of our investments and their maturities that are designed to maintain principal and maximize liquidity. We review these guidelines periodically and modify them to take advantage of trends in yields and interest rates and changes in our operations and financial position.

Three of our customers are significant. The following table sets forth the percentage of total revenues that the revenues of these customers represented for the periods shown:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Distributor A	17%	15%	16%	15%
Distributor B	11%	*	12%	13%
Distributor C	12%	*	10%	*

* less than 10%

The following table sets forth the percentage of accounts receivable that is attributable to our significant customersfor the periods shown:

	September 30, 2019	December 31, 2018
Distributor A	20%	19%
Distributor B	11%	15%
Distributor C	13%	*

* less than 10%

Revenue Recognition

We generate our revenue from the sale of our durable systems and disposable sensors (the Components). Our durable systems include a reusable transmitter and receiver. Disposable sensors are sold separately. We also 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 subsequent purchase of any amount of disposable sensors.

We sell our durable systems and disposable sensors throughtwo main sales channels: 1) directly to customers who use our products or organizations (the Direct Channel) and 2) to distribution partners who resell our products (the Distributor Channel).

In the Direct Channel, we sell the Components to customers and we receive payment directly from customers, organizations and third-party payors. Third-party payors primarily include commercial insurance companies and federal and state agencies (under Medicare and Medicaid programs).

Policy elections and ASC Topic 606 practical expedients taken

- We report revenue net of taxes collected from customers, which are subsequently remitted to governmental authorities;
- We account for shipping and handling activities that are performed after a customer has obtained control of a good as fulfillment costs rather than as separate performance obligations;
- We do not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer; and
- If we expect, at contract inception, that the period between the transfer of control and corresponding payment from the customer will be one year or less, we do not adjust the amount of consideration for the effects of a significant financing component.

Contracts and performance obligations

We consider customer purchase orders, which in most cases are governed by agreements with distributors or third-party payors, to be contracts with a customer. For each contract, we consider the obligation to transfer the Components to the customer, each of which are distinct, to be separate performance obligations. The Components are individually priced and can be purchased separately or bundled in a contract. We also provide free-of-charge software, mobile applications and updates for our DexCom Share® remote monitoring system. The standalone selling prices of our mobile applications and updates are based on an expected cost plus a margin approach.

Transaction price

Transaction price for the Components reflects the net consideration to which we expect to be entitled. Transaction price is typically based on contracted rates less any estimates of claim denials and historical reimbursement experience, which would include current and future expectations regarding reimbursement contracts, guidelines and payor mix, and less estimated variable consideration adjustments.

Variable consideration

Rebates. We estimate reductions to our revenues for rebates paid to payors, healthcare providers and distributors. Rebates are based on contractual arrangements or statutory requirements, which may vary by product, payor and individual payor plans. Our estimates are based on products sold, historical payor mix and, as available, known market events or trends and channel inventory data. We also take into consideration, as available, new information regarding changes in programs' regulations and guidelines that would impact the amount of the actual rebates and/or our expectations regarding future payor mix for these programs.

Product Returns. We generally provide a "30-day money back guarantee" program whereby first-time end-user customers may return the durable system. In accordance with the terms of their distribution agreements, most distributors do not have rights of return outside of our limited warranty. The distributors typically have a limited time frame to notify us of any missing, damaged, defective or non-conforming products. Our returns have historically been immaterial.

Revenue recognition

We recognize revenue when control is transferred to our customers. The timing of revenue recognition is based on the satisfaction of performance obligations. Substantially all of the performance obligations associated with the Components are satisfied at a point in time, which typically occurs at shipment. Terms of direct and distributor orders are generally Freight on Board (FOB) shipping point for U.S. orders or Free Carrier (FCA) shipping point for international orders. For certain of our distributors, control transfers at delivery of the product to the customer.

In cases where our free-of-charge software, mobile applications and updates are deemed to be separate performance obligations, revenue is recognized over time on a ratable basis over the estimated life of the durable systems.

Our sales of the durable systems include an assurance-type warranty which is accounted for based on the cost accrual method recognized as expense when the products are sold and is not considered a separate performance obligation.

See Note 9, "Business Segment and Geographic Information," for revenues disaggregated by geographic region and by sales channel.

Contract balances

The timing of revenue recognition, billing and cash collections results in the recording of trade receivables and deferred revenue in our consolidated balance sheets. We recognize a receivable in the period in which our right to the consideration is unconditional. We generally do not have contracts or performance obligations with a term of more than one year.

Payment terms vary by contract type and type of customer and generally range from 30 to 90 days.

Accounts receivable as of September 30, 2019 and December 31, 2018 included unbilled accounts receivable of $5.2 million and $5.1 million, respectively. Unbilled accounts receivable consist of revenue recognized for Components we have delivered but not yet invoiced to customers. We expect to invoice and collect all unbilled accounts receivable within twelve months.

Most of our deferred revenue as of September 30, 2019 is associated with certain of our free-of-charge software and mobile applications and will be recognized over the next twelve months. The table below shows revenue that we recognized as a result of changes in the contract liability balances in the periods shown.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In millions)	**2019**	**2018**	**2019**	**2018**
Revenue recognized in the period from:				
Amounts included in contract liabilities at the beginning of the period	$ 2.9	$ 5.0	$ 2.6	$ 1.9

Deferred cost of sales

Deferred cost of sales are associated with sales for which revenue recognition criteria are not met but product has shipped and released from inventory. These costs are recognized in cost of sales when the associated revenue is recognized. Deferred cost of sales are included in prepaid and other current assets in our consolidated balance sheets.

Incentive compensation costs

We generally expense incentive compensation associated with our internal sales force when incurred because the amortization period for such costs, if capitalized, would have been one year or less. We record these costs in selling, general and administrative expense in our consolidated statement of operations.

Leases

We adopted Accounting Standards Codification Topic 842 (ASC 842) utilizing the modified retrospective transition method at the beginning of the first quarter of 2019. Under ASC 842, we determine if an arrangement is a lease at inception. We record operating lease right-of-use assets and liabilities based on the present value of the lease payments over the lease term. In determining the present value of the lease payments, we use our incremental borrowing rate at the lease commencement date. We define the initial lease term to include the construction build-out period but to exclude lease extension periods when we are not reasonably certain to exercise our extension option. We record lease expense on a straight-line basis over the expected lease term. Lease costs which are variable and dependent on a rate, an index, or on usage of the asset are expensed in the period they are incurred.

We have facilities lease agreements with lease and non-lease components, such as common area maintenance. We generally account for the lease and non-lease components of these agreements as a single lease component.

We account for short-term lease expense on a straight-line basis over the lease term.

Net Income Per Share

Basic net income per share attributable to common stockholders is calculated by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the period and, when dilutive, potential common share equivalents.

Common share equivalents that we calculate using the treasury stock method include outstanding stock options and unvested RSUs that are settleable in shares of common stock and potential common shares from convertible securities that we intend to settle using a combination of shares of our common stock and cash. Common share equivalents that we calculate using the if-converted method include potential common shares from convertible securities that we intend to settle using only shares of our common stock.

The following table sets forth the computation of basic and diluted net income per share for the periods shown.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In millions)	**2019**	**2018**	**2019**	**2018**
Net income	$ 45.8	$ 46.6	$ 8.4	$ 52.6
Net income per common share:				
Basic	$ 0.50	$ 0.53	$ 0.09	$ 0.60
Diluted	$ 0.50	$ 0.52	$ 0.09	$ 0.59
Basic weighted average shares outstanding	91.3	88.5	90.9	88.0
Effect of potentially dilutive stock options	—	0.2	—	0.2
Effect of potentially dilutive restricted stock units	1.2	1.6	1.3	1.1
Diluted weighted average shares outstanding	92.5	90.3	92.2	89.3

Outstanding anti-dilutive securities not included in the diluted net income per share attributable to common stockholders calculations were as follows:

(In millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Unvested restricted stock units	—	—	0.3	0.3
Senior convertible notes due 2022	4.0	4.0	4.0	4.0
Senior convertible notes due 2023	5.2	—	5.2	—
2023 Warrants	5.2	—	5.2	—
Total	14.4	4.0	14.7	4.3

Recent Accounting Guidance

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02,*Leases (Topic 842)* (ASU 2016-02), which requires a lessee to recognize most leases on the consolidated balance sheet as lease liabilities with corresponding right-of-use assets. We adopted ASU 2016-02 utilizing the modified retrospective transition method at the beginning of the first quarter of 2019. See Note 2, “Leases,” for more information on the impact of our adoption of ASU 2016-02 and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12,*Derivatives and Hedging* (ASU 2017-12), which is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency regarding the scope and results of hedging programs. The guidance in this update is applied using a cumulative-effect adjustment to retained earnings at the beginning of the fiscal year of adoption. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Our adoption of ASU 2017-12 at the beginning of the first quarter of 2019 did not have a significant impact on our financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments -*Credit Losses: Measurement of Credit Losses on Financial Instruments*, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables and available-for-sale debt securities. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods, and early adoption is permitted. We expect to adopt the standard on its effective date in the first quarter of 2020. We believe the adoption will modify the way we analyze financial instruments, but currently do not expect the adoption to have a material financial impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04,*Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*(ASU 2017-04). This new guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. ASU 2017-04 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact that this guidance will have on our financial statements.

In August 2018, the FASB issued ASU No. 2018-13,*Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13), which adds and modifies certain disclosure requirements for fair value measurements. Under the new guidance, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, or valuation processes for Level 3 fair value measurements. However, public business entities will be required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and related changes in unrealized gains and losses included in other comprehensive income. ASU 2018-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact that this guidance will have on our financial statements.

In August 2018, the FASB issued ASU No. 2018-15,*Intangibles - Goodwill and Other – Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (ASU

2018-15). This new guidance requires a customer in a cloud computing arrangement to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. ASU 2018-15 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. Application of this guidance can be applied either prospectively or retrospectively. We are currently evaluating the impact that this guidance will have on our financial statements.

2. Leases

Impact of Adoption of ASC 842

We adopted ASC 842 utilizing the modified retrospective transition method through a $2.1 million cumulative-effect adjustment to retained earnings at the beginning of the first quarter of 2019. We will continue to report financial information for fiscal years prior to 2019 under the previous lease accounting standards. We elected the package of practical expedients permitted under the transition guidance in the new standard, which allowed us to carry forward the historical classification of leases that were in place as of January 1, 2019.

Under the previous lease accounting standards we were deemed the owner of our Mesa, Arizona building during the construction period. As a result of our adoption of ASC 842, we have de-recognized the estimated fair value of the building shell and the related lease liability as of December 31, 2018 and recorded the difference between the asset and liability as an adjustment to retained earnings at the beginning of the first quarter of 2019.

In addition, as a result of our adoption of ASC 842 we recorded operating lease right-of-use assets of $26.7 million, finance lease right-of-use assets of $15.3 million, operating lease liabilities of $40.4 million and finance lease liabilities of $15.9 million in our consolidated balance sheets at the beginning of the first quarter of 2019, with no material impact to our consolidated statement of operations.

Operating lease right-of-use assets and liabilities are presented separately in our consolidated balance sheets. Finance lease right-of-use assets are included in property and equipment and finance lease liabilities are included in accounts payable and accrued liabilities and in other long-term liabilities in our consolidated balance sheets.

Information About Our Leases

Our corporate headquarters are located in San Diego, California. Our manufacturing facilities are located in San Diego, California and Mesa, Arizona. We lease approximately 219,000 square feet of space in San Diego under leases that expire in February and March 2022. We have the option to renew each of these leases for two additional five-year terms. In San Diego we also lease approximately 87,000 square feet of space under a lease that expires in February 2022 with no renewal options and approximately 132,600 square feet of space under a sublease that expires in January 2022. We lease approximately 148,800 square feet of space in Mesa, Arizona under a lease that expires in March 2028. We have the option to renew this lease for four additional five-year terms. We have also entered into other domestic and international operating lease agreements, primarily for office and warehouse space, that expire at various times through September 2029.

The components of lease expense for the three and nine months ended September 30, 2019 were as follows:

(In millions)	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Finance lease cost:		
Amortization of right-of-use assets	$ 0.3	$ 0.8
Interest on lease liabilities	0.2	0.6
Operating lease cost	2.8	8.4
Short-term lease cost	1.3	3.3
Variable lease cost[(1)]	1.0	3.0
Total lease cost	$ 5.6	$ 16.1

(1) Variable lease costs are primarily related to common area maintenance charges and property taxes.

Other information related to leases was as shown in the table below. All figures include the leases recorded at the beginning of the first quarter of 2019 as a result of our adoption of ASC 842.

(Dollars in millions)	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 4.0	$ 10.0
Operating cash flows from finance leases	$ 0.2	$ 0.6
Financing cash flows from finance leases	$ 0.1	$ 0.4
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	$ 1.4	$ 41.7
Finance leases	$ —	$ 15.5
Weighted average remaining lease term in years:		
Operating leases	3.8	3.8
Finance leases	13.5	13.5
Weighted average discount rate:		
Operating leases	5.0%	5.0%
Finance leases	5.0%	5.0%

Amortization of operating lease right-of-use asset included in cash flows from operating activities in the Consolidated Statements of Cash Flows was $2.7 million and $6.7 million for the three and nine months ended September 30, 2019, respectively.

Future minimum lease payments under non-cancellable leases as of September 30, 2019 were as shown in the table below.

(In millions)	Operating Leases	Finance Leases
Remaining 2019	$ 4.1	$ 0.3
2020	16.9	1.3
2021	17.1	1.3
2022	6.3	1.4
2023	4.4	1.4
Thereafter	5.4	15.3
Total future lease cost	54.2	21.0
Less: Amount representing interest	(4.9)	(5.9)
Present value of future payments	49.3	15.1
Less: Short-term leases not recorded as a liability	(0.2)	—
Revised present value of future lease payments	49.1	15.1
Less: Current portion	(14.8)	(0.6)
Long-term portion	$ 34.3	$ 14.5

3. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

We estimate the fair value of our Level 1 financial instruments, which are in active markets, using unadjusted quoted market prices for identical instruments.

We obtain the fair values for our Level 2 financial instruments, which are not in active markets, from a primary professional pricing source that uses quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. Fair values obtained from this professional pricing source can also be based on pricing models whereby all significant observable inputs, including maturity dates, issue dates, settlement dates, 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 summarizes financial assets that we measured at fair value on a recurring basis as of September 30, 2019, classified in accordance with the fair value hierarchy. We sold the equity investment in Tandem Diabetes Care, Inc. that we held as of December 31, 2018 during the first quarter of 2019.

	Fair Value Measurements Using			
(In millions)	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 256.9	$ 45.0	$ —	$ 301.9
Debt securities, available for sale:				
U.S. government agencies	—	699.0	—	699.0
Commercial paper	—	277.9	—	277.9
Corporate debt	—	57.4	—	57.4
Total debt securities, available for sale	—	1,034.3	—	1,034.3
Total assets measured at fair value on a recurring basis	$ 256.9	$ 1,079.3	$ —	$ 1,336.2

The following table summarizes financial assets that we measured at fair value on a recurring basis as of December 31, 2018, classified in accordance with the fair value hierarchy.

	Fair Value Measurements Using			
(In millions)	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 199.3	$ 66.7	$ —	$ 266.0
Equity investment in Tandem Diabetes Care, Inc.	38.0	—	—	38.0
Debt securities, available for sale:				
U.S. government agencies	—	173.1	—	173.1
Commercial paper	—	36.2	—	36.2
Corporate debt	—	1.3	—	1.3
Total debt securities, available for sale	—	210.6	—	210.6
Total assets measured at fair value on a recurring basis	$ 237.3	$ 277.3	$ —	$ 514.6

There were no transfers between Level 1 and Level 2 securities during the three and nine months ended September 30, 2019 and 2018. There were no transfers into or out of Level 3 securities during the three and nine months ended September 30, 2019 and 2018.

We hold certain other investments that we do not measure at fair value on a recurring basis. The carrying values of these investments are not significant and we include them in other assets in our consolidated balance sheets. It is impracticable for us to estimate the fair value of these investments on a recurring basis due to the fact that these entities are privately held and limited information is available. We monitor the information that becomes available from time to time and adjust the carrying values of these investments if there are identified events or changes in circumstances that have a significant adverse effect on the fair values.

Fair Value of Senior Convertible Notes

The fair value, based on trading prices (Level 1), of our Senior Convertible Notes were as follows as of the dates indicated.

(In millions)	Fair Value Measurements Using Level 1 September 30, 2019	Fair Value Measurements Using Level 1 December 31, 2018
0.75% Senior Convertible Notes due 2022	$ 635.6	$ 540.2
0.75% Senior Convertible Notes due 2023	996.5	859.6
Total fair value of outstanding senior convertible notes	$ 1,632.1	$ 1,399.8

For more information on the carrying values and fair values of our 2022 Notes and 2023 Notes, see Note 5, "Debt."

Foreign Currency and Derivative Financial Instruments

From time to time we engage in limited hedging transactions to reduce foreign currency risks on certain intercompany balances. The fair values of these derivatives are based on quoted market prices, which are Level 1 inputs. As of September 30, 2019, we had no outstanding currency hedging transactions.

4. Balance Sheet Details

Short-Term Marketable Securities

Short-term marketable securities, consisting of equity securities and debt securities, were as follows as of the dates indicated.

	September 30, 2019			
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities, available for sale:				
U.S. government agencies	$ 698.6	$ 0.4	$ —	$ 699.0
Commercial paper	277.9	0.1	(0.1)	277.9
Corporate debt	57.4	—	—	57.4
Total debt securities, available for sale	1,033.9	0.5	(0.1)	1,034.3
Total marketable securities	$ 1,033.9	$ 0.5	$ (0.1)	$ 1,034.3

	December 31, 2018			
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Equity investment in Tandem Diabetes Care, Inc.	$ 2.0	$ 36.0	$ —	$ 38.0
Debt securities, available for sale:				
U.S. government agencies	173.2	—	(0.1)	173.1
Commercial paper	36.2	—	—	36.2
Corporate debt	1.3	—	—	1.3
Total debt securities, available for sale	210.7	—	(0.1)	210.6
Total marketable securities	$ 212.7	$ 36.0	$ (0.1)	$ 248.6

The following table reconciles the net gain recognized on equity securities during thethree and nine months ended September 30, 2019 and 2018 to the unrealized gain recognized during the periods on equity securities still held at the reporting date. We sold the equity investment in Tandem Diabetes Care, Inc. that we held as of December 31, 2018 during the first quarter of 2019 and did not have any outstanding equity securities as of September 30, 2019.

(In millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net gains and losses recognized during the period on equity securities	$ —	$ 34.9	$ (4.2)	$ 85.0
Less: Net gains and losses recognized during the period on equity securities sold during the period	—	(14.1)	4.2	(44.2)
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$ —	$ 20.8	$ —	$ 40.8

As of September 30, 2019 and December 31, 2018, all of our debt securities had contractual maturities of less than12 months. Gross realized gains and losses on sales of our debt securities during the three and nine months ended September 30, 2019 and 2018 were not significant.

We periodically review our portfolio of debt securities to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments we held at September 30, 2019 were not other-than-temporarily impaired. Unrealized losses on available-for-sale debt securities at that date were not significant and were due to changes in interest rates, including market credit spreads, and not due to increased credit risks associated with specific securities. We do not intend to sell these 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.

Inventory

(In millions)	September 30, 2019	December 31, 2018
Raw materials	$ 57.9	$ 30.8
Work-in-process	8.2	11.2
Finished goods	54.3	28.7
Total inventory	$ 120.4	$ 70.7

During the three and nine months ended September 30, 2019 we recorded excess and obsolete inventory charges of$6.8 million and $10.1 million, respectively, in cost of sales as a result of our ongoing assessment of sales demand and inventory on hand for each product line. During the three and nine months ended September 30, 2018 we recorded excess and obsolete inventory charges of$0.6 million and $6.1 million, respectively, in cost of sales primarily as a result of the approval and launch of our G6 system and our ongoing assessment of sales demand and inventory on hand for each product line.

Property and Equipment

(In millions)	September 30, 2019	December 31, 2018
Building and land	$ 15.5	$ 6.0
Furniture and fixtures	12.2	9.0
Computer software and hardware	32.8	29.2
Machinery and equipment	97.5	80.7
Leasehold improvements	96.6	80.7
Construction in progress	148.0	57.3
Total cost	402.6	262.9
Less accumulated depreciation and amortization	(101.6)	(79.8)
Total property and equipment, net	$ 301.0	$ 183.1

Building and Land. Although we do not legally own these premises, under previous lease accounting standards we were deemed the owner of the construction project during the construction period of our manufacturing facility in Mesa, Arizona under a build-to-suit lease arrangement. As a result of our adoption of ASC 842, we de-recognized the estimated fair value of the building shell that was included in “building and land” in our consolidated balance sheets as of December 31, 2018 and the related lease liability and recorded the difference between the asset and liability as an adjustment to retained earnings at the beginning of the first quarter of 2019. The September 30, 2019 balance in “building and land” represents our finance lease right-of-use assets as a result of our adoption of ASC 842.

Construction in Progress. The increase in construction in progress as of September 30, 2019 compared to December 31, 2018 is primarily due to continued investment in the expansion and automation of our production capabilities.

Accounts Payable and Accrued Liabilities

(In millions)	September 30, 2019	December 31, 2018
Accounts payable trade	$ 101.4	$ 75.5
Accrued tax, audit, and legal fees	20.3	11.7
Accrued rebates	74.6	36.1
Accrued warranty	7.5	6.8
Restructuring reserve	0.7	—
Other accrued liabilities	27.9	17.0
Total accounts payable and accrued liabilities	$ 232.4	$ 147.1

Accrued Rebates. The increase in the balance of accrued rebates as of September 30, 2019 compared with December 31, 2018 is due to increased sales volume in the pharmacy channel and to a lesser extent liabilities pending the outcome of ongoing discussions regarding the terms of one of our rebate agreements.

Restructuring Reserve. In February 2019, our Board of Directors approved a restructuring plan that will result in the transition of certain of our operations to the Philippines. We estimate that we will incur total pre-tax charges and costs of approximately $8.0 million, primarily for employee severance benefits under both ongoing and one-time benefit arrangements. We have incurred most of these costs in the first half of 2019 and expect the restructuring activities to be substantially complete by the end of 2019.

Other Long-Term Liabilities

(In millions)	September 30, 2019	December 31, 2018
Finance lease liabilities	$ 14.5	$ 7.3
Deferred rent	—	9.4
Other liabilities	3.1	3.3
Total other long-term liabilities	$ 17.6	$ 20.0

Our adoption of ASC 842 during the first quarter of 2019 affected the balances of finance lease liabilities and deferred rent. See Note 2, “Leases,” for more information.

5. Debt

Senior Convertible Notes

The following table shows the net carrying values, fair values, and if-converted values in excess of principal amounts for each of our senior convertible notes.

(In millions)	September 30, 2019	December 31, 2018
0.75% Senior Convertible Notes due 2022:		
Principal amount	$ 400.0	$ 400.0
Unamortized debt discount	(40.7)	(51.1)
Unamortized debt issuance costs	(5.0)	(6.3)
Net carrying amount of Senior Convertible Notes due 2022	354.3	342.6
0.75% Senior Convertible Notes due 2023:		
Principal amount	850.0	850.0
Unamortized debt discount	(148.1)	(171.8)
Unamortized debt issuance costs	(9.1)	(10.5)
Net carrying amount of Senior Convertible Notes due 2023	692.8	667.7
Total net carrying amount of senior convertible notes	$ 1,047.1	$ 1,010.3
Fair value of outstanding senior convertible notes:		
Senior Convertible Notes due 2022	$ 635.6	$ 540.2
Senior Convertible Notes due 2023	996.5	859.6
Total fair value of outstanding senior convertible notes	$ 1,632.1	$ 1,399.8
Amount by which the notes' if-converted value exceeds their principal amount:		
Senior Convertible Notes due 2022	$ 221.6	$ 125.4
Senior Convertible Notes due 2023	93.9	—
Total by which the notes' if-converted value exceeds their principal amount	$ 315.5	$ 125.4

The following table summarizes the components of interest expense and the effective interest rates for each of our senior convertible notes for the periods shown.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest expense recognized:				
0.75% Senior Convertible Notes due 2022:				
Contractual coupon interest	$ 0.8	$ 0.8	$ 2.3	$ 2.3
Accretion of debt discount	3.5	3.4	10.4	10.0
Amortization of debt issuance costs	0.4	0.4	1.2	1.2
Interest expense recognized on 2022 Notes	4.7	4.6	13.9	13.5
0.75% Senior Convertible Notes due 2023:				
Contractual coupon interest	1.6	—	4.8	—
Accretion of debt discount	8.0	—	23.7	—
Amortization of debt issuance costs	0.5	—	1.5	—
Interest expense recognized on 2023 Notes	10.1	—	30.0	—
Total interest expense recognized on senior notes	$ 14.8	$ 4.6	$ 43.9	$ 13.5
Effective interest rates:				
0.75% Senior Convertible Notes due 2022	5.1%	5.1%	5.1%	5.1%
0.75% Senior Convertible Notes due 2023	5.6%	—	5.6%	—

The discount on the senior convertible notes due 2022 is being amortized throughMay 15, 2022. Interest on the 2022 Notes began accruing upon issuance and is payable semi-annually on May 15 and November 15 of each year.

The discount on the senior convertible notes due 2023 is being amortized throughDecember 1, 2023. Interest on the 2023 Notes began accruing upon issuance and is payable semi-annually on June 1 and December 1 of each year.

0.75% *Senior Convertible Notes due 2022*

In June 2017, we completed an offering of$400.0 million aggregate principal amount of unsecured senior convertible notes with a stated interest rate of 0.75% and a maturity date of May 15, 2022 (the 2022 Notes). The net proceeds from the offering, after deducting initial purchasers' discounts and costs directly related to the offering, were approximately $389.0 million. The 2022 Notes may be settled in cash, stock, or a combination thereof, solely at our discretion. It is our current intent and policy to settle all 2022 Notes conversions in shares of our common stock. The initial conversion rate of the 2022 Notes is 10.0918 shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately$99.09 per share, subject to adjustments. We use the if-converted method for assumed conversion of the 2022 Notes to compute the weighted average shares of common stock outstanding for diluted earnings per share.

Since upon conversion by the holders we may elect to settle such conversion in shares of our common stock, cash, or a combination thereof, we accounted for the cash conversion option as an equity instrument classified to stockholders' equity. As a result, we recognized $72.6 million in additional paid-in-capital during 2017.

In the event of a fundamental change (as defined in the indenture related to the 2022 Notes), holders of the 2022 Notes have the right to require us to repurchase for cash all or a portion of their notes at a price equal to 100% of the principal amount of the 2022 Notes, plus any accrued and unpaid interest. Holders of the 2022 Notes who convert their notes in connection with a make-whole fundamental change (as defined in the indenture) or following the delivery by DexCom of a notice of redemption are, under certain circumstances, entitled to an increase in the conversion rate.

Prior to 5:00 p.m., New York City time, on the business day immediately preceding February 15, 2022, holders of the 2022 Notes may convert all or a portion of their notes, in multiples of $1,000 principal amount, only under the following circumstances:

(1) during any calendar quarter commencing after September 30, 2017 (and only during such calendar quarter), if the last reported sale price of common stock for at least 20 trading days (whether or not consecutive) during the period of30

consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to130% of the applicable conversion price of the Notes on each such trading day;

(2) during the five business day period after any five consecutive trading day period in which the trading price per$1,000 principal amount of the Notes for each day of that five day consecutive trading day period was less than98% of the product of the last reported sale price of common stock and the applicable conversion rate of the Notes on such trading day;

(3) if we call any or all of the Notes for redemption, at any time prior to the close on business on the scheduled trading day immediately preceding the redemption date; or

(4) upon the occurrence of specified corporate transactions.

On or after February 15, 2022, until 5:00 p.m., New York City time, on the business day immediately preceding the maturity date, holders of the 2022 Notes may convert all or a portion of their notes regardless of the foregoing circumstances.

DexCom may not redeem the 2022 Notes prior to May 15, 2020. On or after May 15, 2020, DexCom may redeem for cash all or part of the 2022 Notes, at its option, if the last reported sale price of our common stock has been at least 140% of the conversion price then in effect for at least20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which DexCom provides notice of redemption. The redemption price will be equal to 100% of the principal amount of the 2022 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

No principal payments are due on the 2022 Notes prior to maturity. Other than restrictions relating to certain fundamental changes and consolidations, mergers or asset sales and customary anti-dilution adjustments, the indenture relating to the 2022 Notes includes customary terms and covenants, including certain events of default after which the 2022 Notes may be due and payable immediately.

Circumstance (1) listed above occurred during the quarters ended March 31, 2019 and September 30, 2019. As a result, the 2022 Notes became convertible at the option of the holders from April 1, 2019 through June 30, 2019 and will remain convertible at the option of the holder from October 1, 2019 through December 31, 2019.

Holders of 2022 Notes with an insignificant principal amount exercised their option to convert their 2022 Notes during the second quarter of 2019 and we settled these conversions with shares of our common stock. We continue to classify the carrying value of the liability component of the 2022 Notes as long-term debt, and the equity component of the 2022 Notes as permanent equity in our consolidated balance sheets as of September 30, 2019.

0.75% Senior Convertible Notes due 2023

In November 2018, we completed an offering of$850.0 million aggregate principal amount of unsecured senior convertible notes with a stated interest rate of 0.75% and a maturity date of December 1, 2023 (the 2023 Notes). The net proceeds from the offering, after deducting initial purchasers' discounts and costs directly related to the offering, were approximately $836.6 million. The 2023 Notes may be settled in cash, stock, or a combination thereof, solely at our discretion. It is our current intent and policy to settle all 2023 Notes conversions through combination settlement, satisfying the principal amount outstanding with cash and any note conversion value in excess of the principal amount in shares of our common stock. The initial conversion rate of the 2023 Notes is 6.0869 shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately$164.29 per share, subject to adjustments. We use the treasury stock method for assumed conversion of the 2023 Notes to compute the weighted average shares of common stock outstanding for diluted earnings per share. We entered into transactions for a convertible note hedge (the 2023 Note Hedge) and warrants (the 2023 Warrants) concurrently with the issuance of the 2023 Notes.

Since upon conversion by the holders we may elect to settle such conversion in shares of our common stock, cash, or a combination thereof, we accounted for the cash conversion option as an equity instrument classified to stockholders' equity. As a result, we recognized $174.4 million in additional paid-in capital during 2018.

Holders of the 2023 Notes have the right to require us to repurchase for cash all or a portion of their notes at100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the indenture relating to the notes). We will also be required to increase the conversion rate for holders who convert their 2023 Notes in connection with certain fundamental changes occurring prior to the maturity date or following the delivery by DexCom of a notice of redemption.

Holders of the 2023 Notes may convert all or a portion of their notes at their option prior to 5:00 p.m., New York City time, on the business day immediately preceding September 1, 2023, in multiples of $1,000 principal amount, only under the following circumstances:

(1) during any calendar quarter commencing after March 31, 2019 (and only during such calendar quarter), if the last reported sale price of common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price of the 2023 Notes on each such trading day;

(2) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the 2023 Notes for each day of that five-day consecutive trading day period was less than 98% of the product of the last reported sale price of common stock and the applicable conversion rate of the 2023 Notes on such trading day;

(3) if we call any or all of the 2023 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or

(4) upon the occurrence of specified corporate transactions.

On or after September 1, 2023, until 5:00 p.m., New York City time, on the second scheduled trading day immediately preceding the maturity date, holders of the 2023 Notes may convert all or a portion of their notes regardless of the foregoing circumstances.

DexCom may not redeem the 2023 Notes prior to December 1, 2021. On or after December 1, 2021 and prior to September 1, 2023, DexCom may redeem for cash all or part of the 2023 Notes, at its option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which DexCom provides notice of redemption. The redemption price will be equal to 100% of the principal amount of the 2023 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

No principal payments are due on the 2023 Notes prior to maturity. Other than restrictions relating to certain fundamental changes and consolidations, mergers or asset sales and customary anti-dilution adjustments, the indenture relating to the 2023 Notes includes customary terms and covenants, including certain events of default after which the 2023 Notes may be due and payable immediately. As of the date of these financial statements, we are unaware of any current events or market conditions that would allow holders to convert the 2023 Notes.

2023 Note Hedge

In connection with the offering of the 2023 Notes, in November 2018 we entered into convertible note hedge transactions with two of the initial purchasers of the 2023 Notes (the 2023 Counterparties) entitling us to purchase up to 5.2 million shares of our common stock at an initial price of $164.29 per share, each of which is subject to adjustment. The cost of the 2023 Note Hedge was $218.9 million and we accounted for it as an equity instrument by recognizing $218.9 million in additional paid-in capital during 2018. The 2023 Note Hedge will expire on December 1, 2023. The 2023 Note Hedge is expected to reduce the potential equity dilution upon any conversion of the 2023 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2023 Notes if the daily volume-weighted average price per share of our common stock exceeds the strike price of the 2023 Note Hedge. The strike price of the 2023 Note Hedge initially corresponds to the conversion price of the 2023 Notes and is subject to certain adjustments under the terms of the 2023 Note Hedge. An assumed exercise of the 2023 Note Hedge by us is considered anti-dilutive since the effect of the inclusion would always be anti-dilutive with respect to the calculation of diluted earnings per share.

2023 Warrants

In November 2018, we also sold warrants to the 2023 Counterparties to acquire up to 5.2 million shares of our common stock. The 2023 Warrants require net share settlement and a pro rated number of warrants will expire on each of the 60 scheduled trading days starting on March 1, 2024. We received $183.8 million in cash proceeds from the sale of the 2023 Warrants, which we recorded in additional paid-in capital during 2018. The 2023 Warrants could have a dilutive effect on our earnings per share to the extent that the price of our common stock during a given measurement period exceeds the strike price of the 2023 Warrants. The strike price of the 2023 Warrants is initially $198.38 per share and is subject to certain adjustments under the terms of the warrant agreements. We use the treasury share method for assumed conversion of the 2023 Warrants when computing the weighted average common shares outstanding for diluted earnings per share.

Revolving Credit Agreement

In December 2018, we entered into a five-year$200.0 million revolving credit agreement (the Credit Agreement) with JPMorgan Chase Bank, NA, as administrative agent, Bank of America, Silicon Valley Bank, Union Bank and Bank of the West. The Credit Agreement provides a $50.0 million sublimit for borrowings in Canadian Dollars, Euros, British Pounds, Swedish Krona, Japanese Yen and any other currency that is subsequently approved by the lenders and a sub-facility of up to $10.0 million for letters of credit. Subject to customary conditions and the approval of any lender whose commitment would be increased, we have the option to increase the maximum principal amount available under the Credit Agreement by up to an additional $300.0 million, resulting in a maximum available principal amount of $500.0 million. However, at this time none of the lenders have committed to provide any such increase in their commitments.

Revolving loans under the Credit Agreement bear interest at our choice of one of two base rates plus a range of applicable margin rates that are based on our leverage ratio. The first base rate is the highest of (a) the publicly announced JPMorgan Chase prime rate, (b) the federal funds rate, or (c) the overnight bank funding rate, and the applicable margin rate ranges from 0.375% to 1.000%. The second base rate is a LIBOR-based rate, and the applicable margin rate ranges from 1.375% to 2.000%. We will also pay a commitment fee of between0.2% and 0.3%, payable quarterly in arrears, on the average daily unused amount of the revolving facility based on our leverage ratio.

The Credit Agreement requires us to maintain a maximum leverage ratio and a minimum fixed charge coverage ratio. We were in compliance with these covenants as of September 30, 2019.

We drew no loans under the Credit Agreement during thethree and nine months ended September 30, 2019. As of September 30, 2019, we had no outstanding borrowings, $4.4 million in outstanding letters of credit, and a total available balance of $195.6 million under the Credit Agreement.

6. Contingencies

Litigation

On March 28, 2016, AgaMatrix, Inc., or AgaMatrix, filed a patent infringement lawsuit against us in the U.S. District Court for the District of Oregon, asserting that certain of our products infringe three patents held by AgaMatrix. (After filing suit, AgaMatrix reorganized its business and the Court granted AgaMatrix's motion to substitute the newly created entity WaveForm Technologies, Inc., as the plaintiff following AgaMatrix's transfer of the three asserted patents to WaveForm.) DexCom filed petitions for *inter partes* review with the Patent Trial and Appeal Board, or PTAB, of the U.S. Patent and Trademark Office, challenging each of the three asserted patents as being unpatentable in view of prior art. The PTAB issued a Final Written Decision for each of the first two patents on February 28, 2018, where the PTAB found the majority of asserted claims from the first patent unpatentable and the remaining claims under review not unpatentable. The PTAB found all claims under review from the second patent not unpatentable. On September 12, 2018, the PTAB found all of the asserted claims in the third patent unpatentable. In October 2018, we filed in the District Court a motion for summary judgment that all remaining asserted claims are invalid. The District Court granted that motion and, on August 23, 2019, entered judgment in our favor. On September 6, 2019, WaveForm appealed the judgment.

We have also filed several lawsuits against AgaMatrix. We filed a patent infringement lawsuit against Agamatrix in the United States District Court for the Central District of California, or C.D. Cal., in which a Final Judgment of non-infringement was entered by the C.D. Cal judge on February 23, 2018 and affirmed on appeal by the Federal Circuit on March 7, 2019. AgaMatrix was awarded attorneys' fees for this lawsuit. As of September 30, 2019, we have accrued an immaterial amount for those fees. The fee decision is currently on appeal to the Federal Circuit. On September 15, 2017, we filed a patent infringement lawsuit against AgaMatrix in the United States District Court for the District of Delaware, asserting certain single-point blood glucose monitoring products of AgaMatrix infringe two patents held by us. In addition, on September 18, 2017, we filed a Complaint against AgaMatrix in the International Trade Commission, referred to as the ITC, requesting that the ITC institute an investigation and issue an order excluding certain products of AgaMatrix from importation into or sale in the United States based on AgaMatrix's infringement of the same two patents asserted in the Delaware litigation. The investigation was terminated by the ITC on April 4, 2019 with a finding of non-infringement. The decision is currently on appeal.

Neither the outcome of these lawsuits nor the amount and range of potential loss associated with the lawsuits can be assessed at this time.Other than the attorneys' fees described above, as of September 30, 2019 we have accrued no amounts for contingent losses associated with these suits.

We are subject to various claims, complaints and legal actions that arise from time to time in the normal course of business, including commercial insurance, product liability 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 financial position or results of operations.

7. Income Taxes

Our effective tax rates for the three and nine months ended September 30, 2019 were 0.0% and 15.2%, compared to negative rates of 4.0% and 4.4% for the same periods of 2018. For the nine months ended September 30, 2019, the income tax expense is primarily attributable to foreign and state income tax expense as a result of current taxable income in those jurisdictions. No income tax benefit was recorded on losses in jurisdictions where valuation allowances are recorded against net deferred tax assets.

We maintain a full valuation allowance against our net deferred tax assets as of September 30, 2019 based on our assessment that it is not more likely than not these future benefits will be realized before expiration.

8. Stockholders' Equity

Share-Based Compensation Expense

The following table summarizes share-based compensation expense, net of capitalized amounts, for the periods shown.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2019	2018	2019	2018
Cost of sales	$ 2.2	$ 2.5	$ 6.9	$ 7.1
Research and development	8.1	8.1	25.8	24.8
Selling, general and administrative	14.1	16.5	46.4	45.4
Total share-based compensation expense included in net income	$ 24.4	$ 27.1	$ 79.1	$ 77.3

As of September 30, 2019, unrecognized estimated compensation costs related to unvested restricted stock units, or RSUs, and performance stock units, or PSUs, totaled $139.8 million and is expected to be recognized through 2022.

Restricted Stock Units

A summary of our RSU and PSU activity for the nine months ended September 30, 2019 is as follows:

(In millions, except weighted average grant date fair values)	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Nonvested at December 31, 2018	2.7	$ 69.19	$ 319.0
Granted	0.7	142.87	
Vested	(1.4)	68.89	
Forfeited	(0.2)	83.09	
Nonvested at September 30, 2019	1.8	$ 95.06	$ 276.0

The total vest date fair value of RSUs that vested during the nine months ended September 30, 2019 was $195.9 million. No PSUs vested during that period.

9. Business Segment and Geographic Information

Reportable Segments

An operating segment is identified as a component of a business that has discrete financial information available and for which the chief operating decision maker must decide the level of resource allocation. In addition, the guidance for segment reporting indicates certain quantitative materiality thresholds.

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.

Disaggregation of Revenue

DexCom is domiciled in the United States. We sell our durable systems and disposable sensors through a direct sales force in the United States, Canada and some countries in Europe, and through distribution arrangements in the United States, Canada, Australia, New Zealand, and in some countries in Europe, Asia, Latin America, the Middle East and Africa. We disaggregate our revenue from contracts by major sales channel and geography as we believe they best depict how the nature, amount and timing of revenues and cash flows are affected by economic factors.

Revenues by geographic region

During the three and nine months ended September 30, 2019 and 2018, no country outside of the United States generated revenue that represented more than 10% of our total revenue.

The following tables set forth revenues disaggregated by ourtwo primary geographical markets, United States and outside of the United States, based on the geographic location to which we deliver the Components:

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
(In millions)	**Amount**	**% of Total**	**Amount**	**% of Total**
Revenues:				
United States	$ 308.8	78%	$ 202.4	76%
Outside of the United States	87.5	22%	64.3	24%
Total revenues	$ 396.3	100%	$ 266.7	100%

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
(In millions)	**Amount**	**% of Total**	**Amount**	**% of Total**
Revenues:				
United States	$ 785.6	78%	$ 537.4	77%
Outside of the United States	227.6	22%	156.2	23%
Total revenues	$ 1,013.2	100%	$ 693.6	100%

Revenues by customer sales channel

The following tables set forth revenues disaggregated by customer sales channel:

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
(In millions)	**Amount**	**% of Total**	**Amount**	**% of Total**
Revenues:				
Distributor	$ 270.4	68%	$ 154.6	58%
Direct	125.9	32%	112.1	42%
Total revenues	$ 396.3	100%	$ 266.7	100%

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
(In millions)	**Amount**	**% of Total**	**Amount**	**% of Total**
Revenues:				
Distributor	$ 680.0	67%	$ 431.3	62%
Direct	333.2	33%	262.3	38%
Total revenues	$ 1,013.2	100%	$ 693.6	100%

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 not purely historical regarding DexCom's or its management's intentions, beliefs, expectations and strategies for the future. 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 comparable terminology. Forward-looking statements are made as of the date of this report, deal with future events, are subject to various risks and uncertainties, and actual results could differ materially from those anticipated in those forward-looking statements. The risks and uncertainties that could cause actual results to differ materially are more fully described under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018, elsewhere in this Quarterly Report, and in our other reports filed with the SEC. 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. You should read the following discussion and analysis together with our financial statements and related notes in Part I, Item 1 of this Quarterly Report.

Overview

We are a medical device company primarily focused on the design, development and commercialization of continuous glucose monitoring, or CGM, systems for use by people with diabetes and by healthcare providers. We received approval from the Food and Drug Administration, or FDA, and commercialized our first product in 2006. We launched our latest generation system, the DexCom G6® integrated Continuous Glucose Monitoring System, or G6, in 2018. Unless the context requires otherwise, the terms "we," "us," "our," the "company," or "DexCom" refer to DexCom, Inc. and its subsidiaries.

We sell our durable CGM systems and disposable sensors through a direct sales force in the United States, Canada and some countries in Europe, and through distribution arrangements in the United States, Canada, Australia, New Zealand and some countries in Europe, Asia, Latin America, the Middle East and Africa.

We plan to develop future generations of technologies that are focused on improved performance and convenience and that will enable intelligent insulin administration. We also are exploring how to extend our offerings to other opportunities, including for people with Type 2 diabetes that are non-insulin using, people with pre-diabetes, people who are obese, people who are pregnant, and in the hospital setting. We will continue to develop a networked platform with open architecture, connectivity and transmitters capable of communicating with other devices and software systems. We also intend to expand our efforts to accumulate CGM patient data and metrics and apply predictive modeling and machine learning to generate interactive CGM insights that can inform patient behavior.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which we have prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are more fully described in Note 1 to the financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. The accounting policies and estimates which are most critical to a full understanding and evaluation of our reported financial results are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. There were no material changes to our critical accounting policies during the nine months ended September 30, 2019.

Results of Operations

Financial Overview

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Q3 2019 - Q3 2018 $ Change	Q3 2019 - Q3 2018 % Change
Total revenues	$ 396.3	$ 266.7	$ 129.6	49 %
Gross profit	246.9	168.6	78.3	46 %
Gross profit as a percent of total revenues	62%	63%		
Operating income	56.0	13.9	42.1	303 %
Net income	45.8	46.6	(0.8)	(2)%
Diluted net income per share	$ 0.50	$ 0.52	$ (0.02)	(4)%

(Dollars in millions, except per share amounts)	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	YTD 2019 - YTD 2018 $ Change	YTD 2019 - YTD 2018 % Change
Total revenues	$ 1,013.2	$ 693.6	$ 319.6	46 %
Gross profit	622.2	441.1	181.1	41 %
Gross profit as a percent of total revenues	61%	64%		
Operating income (loss)	40.8	(21.7)	62.5	(288)%
Net income	8.4	52.6	(44.2)	(84)%
Diluted net income per share	$ 0.09	$ 0.59	$ (0.50)	(85)%

Revenue, Cost of Sales and Gross Profit

We sell our durable CGM systems and disposable sensors through a direct sales force and through distribution arrangements. Most of our distributors stock our products and fulfill orders for our products from their inventory.

We expect that revenues we generate from the sales of our products will fluctuate from quarter to quarter. We experience seasonality that is typical in our industry, with lower sales in the first quarter of each year compared to the fourth quarter of the previous year. This seasonal sales pattern relates to U.S. annual insurance deductible resets and unfunded flexible spending accounts.

Cost of sales includes direct labor and materials costs related to each product sold or produced, including assembly, test labor and scrap, as well as factory overhead supporting our manufacturing operations. Factory overhead includes facilities, material procurement and control, manufacturing engineering, quality assurance, supervision and management. These costs are primarily salary, fringe benefits, share-based compensation, facility expense, supplies and purchased services. A portion of our costs are currently fixed due to our moderate level of production volumes compared to our potential capacity. All of our manufacturing costs are included in cost of sales.

Quarter Ended September 30, 2019 Compared to Quarter Ended September 30, 2018

(Dollars in millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Q3 2019 - Q3 2018 $ Change	Q3 2019 - Q3 2018 % Change
Total revenues	$ 396.3	$ 266.7	$ 129.6	49%
Cost of sales	149.4	98.1	51.3	52%
Gross profit	$ 246.9	$ 168.6	$ 78.3	46%
Gross profit as a percent of total revenue	62%	63%		

Revenues. Total revenues increased $129.6 million or 49% for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The 2019 revenue increase was primarily driven by increased sales volume of the Components due to the continued growth of our worldwide customer base, partially offset by pricing pressure due to the evolution of our channel strategy and product mix. Disposable sensor and other revenue comprised approximately80% of total revenues and durable systems revenue comprised approximately 20% of total revenues for the three months ended September 30, 2019. Disposable sensor and other revenue comprised approximately 73% of total revenues and durable systems revenue comprised approximately27% of total revenues for the three months ended September 30, 2018.

Cost of Sales. Cost of sales increased $51.3 million or 52% for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 primarily due to increased sales volume. The gross profit of$246.9 million or 62% of total revenues for the three months ended September 30, 2019 increased $78.3 million compared to $168.6 million or 63% of total revenues for the same period in2018. The third quarter 2019 increase in gross profit dollars was driven primarily by increased revenues, partially offset by higher excess and obsolete inventory charges compared with thethird quarter of 2018. The third quarter 2019 decrease in gross margin percentage is primarily a function of the evolution of our channel strategy and product mix as we launch new products and expand internationally.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

	Nine Months Ended September 30,		YTD 2019 - YTD 2018	
(Dollars in millions)	**2019**	**2018**	**$ Change**	**% Change**
Total revenues	$ 1,013.2	$ 693.6	$ 319.6	46%
Cost of sales	391.0	252.5	138.5	55%
Gross profit	$ 622.2	$ 441.1	$ 181.1	41%
Gross profit as a percent of total revenue	61%	64%		

Revenues. Total revenues increased $319.6 million or 46% for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The 2019 revenue increase was primarily driven by increased sales volume of the Components due to the continued growth of our worldwide customer base, partially offset by pricing pressure due to the evolution of our channel strategy and product mix. Disposable sensor and other revenue comprised approximately 78% of total revenues and durable systems revenue comprised approximately22% of total revenues for the nine months ended September 30, 2019. Disposable sensor and other revenue comprised approximately 73% of total revenues and durable systems revenue comprised approximately27% of total revenues for the nine months ended September 30, 2018.

Cost of Sales. Cost of sales increased $138.5 million or 55% for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily due to increased sales volume. The gross profit of$622.2 million or 61% of total revenues for the nine months ended September 30, 2019 increased $181.1 million compared to $441.1 million or 64% of total revenues for the same period in2018. The year-to-date 2019 increase in gross profit dollars was driven primarily by increased revenues, partially offset by higher warranty, freight, and excess and obsolete inventory charges compared with the same period of 2018.

The year-to-date 2019 decrease in gross margin percentage is primarily a function of the evolution of our channel strategy and product mix as we launch new products and expand internationally. Our year-to-date 2019 gross margin percentage was also impacted by higher warranty and freight charges compared with the same period of 2018 in addition to investments to scale infrastructure as we drive significant production capacity expansion in 2019.

Operating Expenses

Our research and development expenses primarily consist of engineering and research expenses related to our continuous glucose monitoring technology, clinical trials, regulatory expenses, quality assurance programs, materials and products for clinical trials. Research and development expenses are primarily related to employee compensation, including salary, fringe benefits, share-based compensation, and temporary employee expenses. We also incur significant expenses to operate our clinical trials including clinical site reimbursement, clinical trial product and associated travel expenses. Our research and development expenses also include fees for design services, contractors and development materials.

Our selling, general and administrative expenses primarily consist of salary, fringe benefits and share-based compensation for our executive, financial, sales, marketing, information technology and administrative functions. Other significant expenses include commissions, marketing and advertising, IT software license costs, insurance, professional fees for our outside legal counsel and independent auditors, litigation expenses, patent application expenses and consulting expenses.

On February 21, 2019, we announced a restructuring plan that will result in the transition of certain of our operations to the Philippines. The restructuring plan is designed to reduce operating expenses in order to improve cost competitiveness, enable strategic flexibility, and increase the scalability of certain business functions. We expect the restructuring plan to impact approximately 350 full time employees, or approximately 13% of our total full time workforce as of December 31, 2018. We estimate that we will incur pre-tax charges and costs of approximately $8.0 million, primarily for employee severance benefits under both ongoing and one-time benefit arrangements. We have incurred most of these costs in the first half of 2019 and expect the restructuring activities to be substantially complete by the end of 2019.

Quarter Ended September 30, 2019 Compared to Quarter Ended September 30, 2018

	Three Months Ended September 30,		Q3 2019 - Q3 2018	
(Dollars in millions)	**2019**	**2018**	**$ Change**	**% Change**
Research and development	$ 66.7	$ 50.1	$ 16.6	33%
as a % of total revenue	17%	19%		
Selling, general and administrative	124.2	104.6	19.6	19%
as a % of total revenue	31%	39%		
Total operating expenses	$ 190.9	$ 154.7	$ 36.2	23%
as a % of total revenue	48%	58%		

Research and Development. Research and development expense increased $16.6 million or 33% for the three months ended September 30, 2019 compared to the same period of 2018. The increase was primarily due to $9.0 million in additional salaries, bonus, and payroll-related costs, $3.2 million in additional supplies costs, and $1.9 million in additional facilities costs.

Selling, General and Administrative. Selling, general and administrative expense increased $19.6 million or 19% for the three months ended September 30, 2019 compared to the same period of 2018. The increase was primarily due to higher sales-related costs commensurate with revenue growth and the continued commercialization of our products in the United States and international markets. Significant elements of the increase in selling, general, and administrative expenses included $5.2 million in additional third party service provider fees, $3.9 million in additional consulting fees, $2.8 million in additional depreciation, $2.3 million in marketing expenses, and $1.2 million in higher sales commissions.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

	Nine Months Ended September 30,		YTD 2019 - YTD 2018	
(Dollars in millions)	**2019**	**2018**	**$ Change**	**% Change**
Research and development	$ 194.7	$ 142.1	$ 52.6	37%
as a % of total revenue	19%	20%		
Selling, general and administrative	386.7	320.7	66.0	21%
as a % of total revenue	38%	46%		
Total operating expenses	$ 581.4	$ 462.8	$ 118.6	26%
as a % of total revenue	57%	67%		

Research and Development. Research and development expense increased $52.6 million or 37% for the nine months ended September 30, 2019 compared to the same period of 2018. The increase was primarily due to $29.9 million in additional salaries, bonus, and payroll-related costs, $7.2 million in additional supplies costs, $4.4 million in additional facilities costs, and a $3.2 million milestone payment under our collaborative research and development agreement with Verily Life Sciences.

Selling, General and Administrative. Selling, general and administrative expense increased $66.0 million or 21% for the nine months ended September 30, 2019 compared to the same period of 2018. The increase was primarily due to higher sales-related costs commensurate with revenue growth and the continued commercialization of our products in the United States and international markets. Significant elements of the increase in selling, general, and administrative expenses included $14.3 million in additional third party service provider fees, $12.7 million in additional salaries, bonus and payroll-related costs, $9.1 million in additional consulting fees, $7.4 million in restructuring charges, $6.9 million in additional depreciation, and $6.4 million in higher sales commissions.

Non-Operating Income and Expenses

Interest Expense

Interest expense is related to our 2022 Notes and 2023 Notes and to commitment fees for unused balances on our revolving Credit Agreement.

Interest expense increased $10.2 million to $15.1 million for the three months ended September 30, 2019 compared to $4.9 million for the three months ended September 30, 2018. The increase was primarily due to an additional $10.1 million of interest expense for the 2023 Notes, which were issued in November 2018.

Interest expense increased $30.5 million to $45.0 million for the nine months ended September 30, 2019 compared to $14.5 million for the nine months ended September 30, 2018. The increase was primarily due to an additional $30.0 million of interest expense for the 2023 Notes, which were issued in November 2018.

Income (Loss) from Equity Investments

Loss from equity investments of $4.2 million for the nine months ended September 30, 2019 and income from equity investments of $34.9 million and $85.0 million for the three and nine months ended September 30, 2018, respectively, consists solely of realized and unrealized gains and losses on our equity investment in Tandem Diabetes Care, Inc. We sold all of our remaining equity investment in Tandem during the first quarter of 2019.

Interest and Other Income (Expense), Net

Interest income is related to our marketable debt securities portfolio. Interest income was $7.4 million and $21.5 million for the three and nine months ended September 30, 2019, respectively, compared to $2.5 million and $6.2 million for the three and nine months ended September 30, 2018, respectively. Average invested balances and average interest rates both increased during 2019 compared to 2018.

Other income (expense) for the three and nine months ended September 30, 2019 and 2018 consists primarily of foreign currency transaction gains and losses due the effects of foreign currency fluctuations.

Income Tax Expense (Benefit)

We recorded income tax expense of $0.0 million and income tax benefit of $1.8 million on pre-tax income of $45.8 million and $44.8 million for the three months ended September 30, 2019 and September 30, 2018, respectively. We recorded income tax expense of $1.5 million and income tax benefit of $2.2 million on pre-tax income of $9.9 million and $50.4 million, for the nine months ended September 30, 2019 and September 30, 2018, respectively. For the nine months ended September 30, 2019, the income tax expense is attributable to foreign and state income tax expense as a result of current taxable income in those jurisdictions. The income tax benefits in the prior periods are primarily attributable to a refund of foreign withholding tax, partially offset by state and foreign income tax expense. No income tax benefit was recorded on losses in jurisdictions where valuation allowances are recorded against net deferred tax assets.

We maintain a full valuation allowance against our net deferred tax assets as of September 30, 2019 based on our assessment that it is not more likely than not these future benefits will be realized before expiration. We analyze our ability to realize our deferred tax assets quarterly, weighing all available positive and negative evidence of future taxable income. A release of some or all of our valuation allowance will result in a material income tax benefit in our financial statements.

Liquidity and Capital Resources

Overview, Capital Resources, and Capital Requirements

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations, proceeds from our convertible notes issuances, and access to our revolving line of credit. Our primary uses of cash have been for research and development programs, selling and marketing activities, capital expenditures, acquisitions of businesses, and debt service costs. Historically we have not generated significant cash flows from operations. However, as we have grown our profitability profile has continued to improve.

We expect that cash provided by our operations may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, working capital requirements and capital deployment decisions. We have historically invested our cash primarily in U.S. dollar-denominated, investment grade, highly liquid obligations of U.S. government-sponsored enterprises, commercial paper, corporate debt, and money market funds. Certain of these investments are subject to general credit, liquidity and other market risks. The general condition of the financial markets and the economy may increase those risks and may affect the value and liquidity of investments and restrict our ability to access the capital markets.

Our future capital requirements will depend on many factors, including but not limited to:

- the revenue generated by sales of our approved products and other future products;
- the expenses we incur in manufacturing, developing, selling and marketing our products;
- the quality levels of our products and services;
- the third-party reimbursement of our products for our customers;
- our ability to efficiently scale our operations to meet demand for our current and any future products;
- the costs, timing and risks of delays of additional regulatory approvals;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the rate of progress and cost of our clinical trials and other development activities;
- the success of our research and development efforts;
- the emergence of competing or complementary technological developments;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the acquisition of businesses, products and technologies and our ability to integrate and manage any acquired businesses, products and technologies; and
- the evolution of the international expansion of our business.

We expect that existing cash and cash flows from our future operations will generally be sufficient to fund our ongoing core business. As current borrowing sources become due, we may be required to access the capital markets for additional funding. As we assess inorganic growth strategies, we may need to supplement our internally generated cash flow with outside sources. In the event that we are required to access the debt market, we believe that we will be able to secure reasonable borrowing rates. As part of our liquidity strategy, we will continue to monitor our current level of earnings and cash flow generation as well as our ability to access the market in light of those earning levels.

A substantial portion of our operations are located in the United States, and the majority of our sales since inception have been made in U.S. dollars. Accordingly, our assessment is that we have no material net exposure to foreign currency exchange rate fluctuations at this time. However, as our business in markets outside of the United States continues to increase, we will be exposed to foreign currency exchange risk related to our foreign operations. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies, primarily the British Pound, the Euro, and the Canadian Dollar, could adversely affect our financial results, including our revenues, revenue growth rates, gross margins, income and losses as well as assets and liabilities. We will continue to monitor and manage our financial exposures due to exchange rate fluctuations as an integral part of our overall risk management program.

Our cash, cash equivalents and short-term marketable securities totaled$1.430 billion as of September 30, 2019. None of those funds were restricted and approximately 98% of those funds were located in the U.S. We intend to reinvest a substantial portion of our foreign earnings in those businesses, and we currently do not anticipate that we will need funds generated by foreign operations to fund our domestic operations.

Our cash, cash equivalents and short-term marketable securities as ofSeptember 30, 2019 increased by $44.3 million from December 31, 2018 due to the factors described in “Cash Flows” below. We believe that our cash, cash equivalents, and marketable securities balances, projected cash contributions from our commercial operations, and our $200.0 million revolving line of credit, of which $195.6 million remains available, will be sufficient to meet our anticipated seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments, debt service requirements, and other liquidity requirements associated with our operations for at least the next 12 months.

Revolving Credit Agreement

In December 2018, we entered into a five-year$200.0 million revolving Credit Agreement, including a sub-facility of up to$10.0 million for letters of credit. Subject to customary conditions and the approval of any lender whose commitment would be increased, we have the option to increase the maximum principal amount available under the Credit Agreement by up to an additional $300.0 million, resulting in a maximum available principal amount of $500.0 million. However, at this time none of the lenders have committed to provide any such increase in their commitments. Revolving loans under the Credit Agreement will be available for general corporate purposes, including working capital and capital expenditures. As of September 30, 2019, we had no outstanding borrowings, $4.4 million in outstanding letters of credit, and a total available balance of $195.6 million under the Credit Agreement. We monitor counterparty risk associated with the institutional lenders that are providing the credit facility. We currently believe that the credit facility will be available to us should we choose to borrow under it.

See Note 5 to the financial statements in Part I, Item 1 of this Quarterly Report for more information about the terms of the Credit Agreement.

Senior Convertible Notes

In June 2017, we completed an offering of $400.0 million aggregate principal amount of unsecured senior convertible notes with a stated interest rate of 0.75% and a maturity date of May 15, 2022 (the 2022 Notes). Holders may elect to convert the 2022 Notes any time on or after February 15, 2022 for shares of our common stock. The 2022 Notes may be settled in cash, stock, or a combination thereof, solely at our discretion. Interest on the 2022 Notes began accruing upon issuance and is payable semi-annually on May 15 and November 15 of each year.

In November 2018, we completed an offering of $850.0 million aggregate principal amount of unsecured senior convertible notes with a stated interest rate of 0.75% and a maturity date of December 1, 2023 (the 2023 Notes). Holders may elect to convert the 2023 Notes any time on or after September 1, 2023 for shares of our common stock. The 2023 Notes may be settled in cash, stock, or a combination thereof, solely at our discretion. Interest on the 2023 Notes began accruing upon issuance and is payable semi-annually on June 1 and December 1 of each year.

We used a portion of the net proceeds from the offering of the 2022 Notes to repay $75.0 million of borrowings under our previous credit facility in 2017. We used a portion of the net proceeds from the offering of the 2023 Notes to repurchase 0.8 million shares of our common stock for $100.0 million in 2018. The remainder of the net proceeds from the 2022 Notes and the 2023 Notes offerings are available for general corporate purposes and capital expenditures, including working capital needs. We may also use the net proceeds to expand our current business through in-licensing or acquisitions of, or investments in, other businesses, products or technologies; however, we do not have any significant commitments with respect to any such acquisitions or investments at this time.

2023 Note Hedge

In connection with the offering of the 2023 Notes, in November 2018 we entered into convertible note hedge transactions (the 2023 Note Hedge) with two of the initial purchasers of the 2023 Notes (the 2023 Counterparties) entitling us to purchase up to 5.2 million shares of our common stock at an initial price of $164.29 per share, each of which is subject to adjustment. The cost of the 2023 Note Hedge was $218.9 million and it will expire on December 1, 2023. The 2023 Note Hedge is expected to reduce the potential equity dilution upon any conversion of the 2023 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2023 Notes if the daily volume-weighted average price per share of our common stock exceeds the strike price of the 2023 Note Hedge. The strike price of the 2023 Note Hedge initially corresponds to the conversion price of the 2023 Notes and is subject to certain adjustments under the terms of the 2023 Note Hedge.

2023 Warrants

In November 2018, we also sold warrants (the 2023 Warrants) to the 2023 Counterparties to acquire up to 5.2 million shares of our common stock for cash proceeds of $183.8 million. The 2023 Warrants require net share settlement and a pro-rated number of warrants will expire on each of the 60 scheduled trading days starting on March 1, 2024.

See Note 5 to the financial statements in Part I, Item 1 of this Quarterly Report for more information about the 2022 Notes, the 2023 Notes, the 2023 Note Hedge, and the 2023 Warrants.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated. See the financial statements in Part I, Item 1 of this Quarterly Report for complete consolidated statements of cash flows for these periods.

	Nine Months Ended September 30,		
(In millions)	**2019**	**2018**	**Change**
Net cash provided by operating activities	$ 170.8	$ 89.5	$ 81.3
Net cash used in investing activities	(920.9)	(170.7)	(750.2)
Net cash provided by financing activities	10.8	8.8	2.0
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1.7)	(1.4)	(0.3)
Decrease in cash, cash equivalents and restricted cash	$ (741.0)	$ (73.8)	$ (667.2)

As of September 30, 2019, we had $1.430 billion in cash, cash equivalents and short-term marketable securities, which is an increase of $44.3 million compared to $1.386 billion as of December 31, 2018. The primary cash flows during the nine months ended September 30, 2019 are described below.

Operating Cash Flows

Net cash provided by operating activities during the nine months ended September 30, 2019 was comprised of net income of $8.4 million, net changes in working capital balances of $7.1 million and $155.3 million of net non-cash expenses. Net non-cash expenses were primarily related to share-based compensation, non-cash interest expense for our senior convertible notes, depreciation and amortization, and a loss on the sale of our remaining equity investment in Tandem Diabetes Care, Inc.

Net cash provided by operating activities during the nine months ended September 30, 2018 was comprised of net income of $52.6 million, net changes in working capital balances of $7.7 million, and $29.2 million of net non-cash expenses. Net non-cash expenses were primarily related to share-based compensation, depreciation and amortization, non-cash interest expense for our senior convertible notes, and income of $85.0 million on our equity investment in Tandem Diabetes Care, Inc.

Investing Cash Flows

Net cash used in investing activities during the nine months ended September 30, 2019 was primarily comprised of $785.0 million for net purchases of marketable securities and other equity investments and $135.9 million for capital expenditures.

Net cash used in investing activities during the nine months ended September 30, 2018 was primarily comprised of $110.0 million for net purchases of marketable securities and other equity investments, $49.4 million for capital expenditures, and $11.3 million cash used in an acquisition during the third quarter of 2018.

Financing Cash Flows

Net cash provided by financing activities during the nine months ended September 30, 2019 was primarily comprised of $11.9 million from the issuance of common stock under our employee stock plans.

Net cash provided by financing activities during the nine months ended September 30, 2018 was primarily comprised of $10.6 million from the issuance of common stock under our employee stock plans.

Contractual Obligations

We presented our contractual obligations as of December 31, 2018 in our Annual Report on Form 10-K for the year then ended. There were no significant changes to our contractual obligations during the nine months ended September 30, 2019.

We adopted ASC 842, *Leases,* utilizing the modified retrospective transition method at the beginning of the first quarter of 2019.As a result of our adoption of ASC 842, we recorded operating lease right-of-use assets of $26.7 million and operating lease liabilities of $40.4 million in our consolidated balance sheets. See Note 2 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Off-Balance Sheet Arrangements

As of September 30, 2019, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements and the potential impact of these pronouncements on our financial statements, see Note 1 to the financial statements in Part I, Item 1 of this Quarterly Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The primary objective of our investment activities is to preserve our capital for the purpose of funding operations while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and short-term investments in a variety of securities, including money market funds, U.S. Treasury debt and corporate debt securities. We also may borrow funds through our credit facility that exposes our cash flow to interest rate risk. These borrowings are short term in nature and are reset based on market indices. Due to the short-term nature of our investments and borrowings, we believe that we have no material exposure to interest rate risk.

Market Price Sensitive Instruments

In order to reduce potential equity dilution, in connection with the issuance of the 2023 Notes, we entered into the 2023 Hedge which entitles us to purchase shares of our common stock. Upon conversion of the 2023 Notes, the 2023 Hedge is expected to reduce the equity dilution if the daily volume-weighted average price per share of our common stock exceeds the strike price of the hedge. We also entered into warrant transactions with the counterparties of the 2023 Hedge entitling them to acquire shares of our common stock. The warrant transactions could have a dilutive effect on our earnings per share to the extent that the average price of our common stock during a given quarterly or annual measurement period exceeds the strike price of the warrants. See Note 5 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Foreign Currency Risk

A substantial portion of our operations are located in the United States, and the majority of our sales since inception have been made in United States dollars. Accordingly, our assessment is that we do not have any material net exposure to foreign currency exchange rate fluctuations at this time. However, as our business in markets outside of the United States continues to increase, we will be exposed to foreign currency exchange risk related to our foreign operations. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies, primarily the British Pound, the Euro, and the Canadian Dollar, could adversely affect our financial results, including our revenues, revenue growth rates, gross margins, income and losses as well as assets and liabilities.

We translate the financial statements of our foreign subsidiaries with functional currencies other than the U.S. dollar into the U.S. dollar for consolidation using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. We record net gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany receivables and payables of a long-term nature as a separate component of stockholders' equity. These adjustments will affect net income only upon sale or liquidation of the underlying investment in foreign subsidiaries.

We record exchange rate fluctuations resulting from the translation of the short-term intercompany balances between domestic entities and our foreign subsidiaries as foreign currency transaction gains or losses and include them in interest and other income (expense), net in our consolidated statement of operations. From time to time we enter into foreign currency forward contracts for certain intercompany balances in order to partially offset the impact from fluctuation of the foreign currency rates. We record derivative instruments in other current assets or other current liabilities in our consolidated balance sheets consistent with the nature of the instrument at period end. As of September 30, 2019, we had no outstanding currency hedging transactions.

Notional principal amounts provide one measure of the transaction volume outstanding as of period end, but they do not represent the amount of our exposure to market loss. Estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments. We monitor and manage our financial exposures due to exchange rate fluctuations as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce potentially adverse effects on our financial results.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Regulations under the Securities Exchange Act of 1934 require public companies to maintain "disclosure controls and procedures," which are defined to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and timely communicated to management, including our Chief Executive Officer and Chief Financial Officer, recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report of the effectiveness of our disclosure controls and procedures. Based on their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective for this purpose.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Limitation on Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 28, 2016, AgaMatrix, Inc., or AgaMatrix, filed a patent infringement lawsuit against us in the U.S. District Court for the District of Oregon, asserting that certain of our products infringe three patents held by AgaMatrix. (After filing suit, AgaMatrix reorganized its business and the Court granted AgaMatrix's motion to substitute the newly created entity WaveForm Technologies, Inc., as the plaintiff following AgaMatrix's transfer of the three asserted patents to WaveForm.) DexCom filed petitions for *inter partes* review with the Patent Trial and Appeal Board, or PTAB, of the U.S. Patent and Trademark Office, challenging each of the three asserted patents as being unpatentable in view of prior art. The PTAB issued a Final Written Decision for each of the first two patents on February 28, 2018, where the PTAB found the majority of asserted claims from the first patent unpatentable and the remaining claims under review not unpatentable. The PTAB found all claims under review from the second patent not unpatentable. On September 12, 2018, the PTAB found all of the asserted claims in the third patent unpatentable. In October 2018, we filed in the District Court a motion for summary judgment that all remaining asserted claims are invalid. The District Court granted that motion and, on August 23, 2019, entered judgment in our favor. On September 6, 2019, WaveForm appealed the judgment.

We have also filed several lawsuits against AgaMatrix. We filed a patent infringement lawsuit against Agamatrix in the United States District Court for the Central District of California, or C.D. Cal., in which a Final Judgment of non-infringement was entered by the C.D. Cal judge on February 23, 2018 and affirmed on appeal by the Federal Circuit on March 7, 2019. AgaMatrix was awarded attorneys' fees for this lawsuit. As of September 30, 2019, we have accrued an immaterial amount for those fees. The fee decision is currently on appeal to the Federal Circuit. On September 15, 2017, we filed a patent infringement lawsuit against AgaMatrix in the United States District Court for the District of Delaware, asserting certain single-point blood glucose monitoring products of AgaMatrix infringe two patents held by us. In addition, on September 18, 2017, we filed a Complaint against AgaMatrix in the International Trade Commission, referred to as the ITC, requesting that the ITC institute an investigation and issue an order excluding certain products of AgaMatrix from importation into or sale in the United States based on AgaMatrix's infringement of the same two patents asserted in the Delaware litigation. The investigation was terminated by the ITC on April 4, 2019 with a finding of non-infringement. The decision is currently on appeal.

Neither the outcome of these lawsuits nor the amount and range of potential loss associated with the lawsuits can be assessed at this time.Other than the attorneys' fees described above, as of September 30, 2019 we have accrued no amounts for contingent losses associate with these suits.

We are subject to various claims, complaints and legal actions that arise from time to time in the normal course of business, including commercial insurance, product liability 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 believe we are party to any currently pending legal proceedings, the outcome of which could have a material adverse effect on our business, financial condition or results of operations. There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

Our short and long-term success is subject to numerous risks and uncertainties, many of which involve factors that are difficult to predict or beyond our control. Before making a decision to invest in, hold or sell our common stock, stockholders and potential stockholders should carefully consider the risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2018, in addition to the other information contained in or incorporated by reference into this Quarterly Report on Form 10-Q, as well as the other information we file with the Securities and Exchange Commission. If any of the risks described in that Annual Report are realized, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that case, the value of our common stock could decline and stockholders may lose all or part of their investment. Furthermore, additional risks and uncertainties of which we are currently unaware, or which we currently consider to be immaterial, could have a material adverse effect on our business, financial condition or results of operations. Refer to our disclaimer regarding forward-looking statements at the beginning of Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Quarterly Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as a part of this Quarterly Report.

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Provided Herewith
31.01	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).	—	—	—	—	X
31.02	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).	—	—	—	—	X
32.01	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*	—	—	—	—	X
32.02	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*	—	—	—	—	X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X

* This certification is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that DexCom specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEXCOM, INC.
(Registrant)

Dated:	November 6, 2019	By:	/s/ KEVIN R. SAYER
			Kevin R. Sayer, Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)
Dated:	November 6, 2019	By:	/s/ QUENTIN S. BLACKFORD
			Quentin S. Blackford, Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin R. Sayer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DexCom, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 6, 2019

By: /s/ Kevin R. Sayer

Kevin R. Sayer
Chairman of the Board of Directors, President and
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Quentin S. Blackford, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DexCom, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 6, 2019	By:	/s/ Quentin S. Blackford
		Quentin S. Blackford
		Chief Financial Officer and Chief Operating Officer
		(Principal Financial and Accounting Officer)

Exhibit 32.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C SECTION 1350

The undersigned, Kevin R. Sayer, President and Chief Executive Officer of DexCom, Inc. (the “Company”), pursuant to 18 U.S.C. §1350, hereby certifies that:

(i) the quarterly Report on Form 10-Q for the period ended September 30, 2019 of the Company (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2019

/s/ Kevin R. Sayer

Kevin R. Sayer
Chairman of the Board of Directors, President and
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.02

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350

The undersigned, Quentin S. Blackford, Chief Financial Officer of DexCom, Inc. (the "Company"), pursuant to 18 U.S.C. §1350, hereby certifies:

(i) the quarterly Report on Form 10-Q for the period ended September 30, 2019 of the Company (the "Report") fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 6, 2019

/s/ Quentin S. Blackford

Quentin S. Blackford
Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)