MORGAN STANLEY
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Dated April 25, 2019

Filed Pursuant to Rule 433

Morgan Stanley Finance LLC Capped GEARS

Linked to a Basket of International Indices due April 30, 2021

**Fully and Unconditionally Guaranteed by Morgan Stanley**

Principal at Risk Securities

**Investment Description**

These Capped GEARS (the "Securities") are unsecured and unsubordinated debt securities issued by Morgan Stanley Finance LLC ("MSFL") and fully and unconditionally guaranteed by Morgan Stanley with returns linked to the performance of a weighted basket of international indices (the "Basket"), consisting of the Nikkei 225 Index, the EURO STOXX 50® Index, the Hang Seng Index, the MSCI Emerging Markets Index℠, the S&P/ASX 200 Index, the FTSE® 100 Index and the Swiss Market Index, each of which we refer to as an "Underlier" and together as the "Underliers." The Securities provide enhanced returns relative to the Underliers' actual positive performance up to a Maximum Gain, but

expose investors fully to the Basket's negative performance at maturity. If the Basket Return is greater than zero, MSFL will pay the Principal Amount at maturity plus a return equal to the product of (i) the Principal Amount multiplied by (ii) the Basket Return multiplied by (iii) the Upside Gearing of 3.0, up to the Maximum Gain, which will be set on the Trade Date and is expected to be at least 41.50%. If the Basket Return is zero, MSFL will pay the full Principal Amount at maturity. However, if the Basket Return is negative, MSFL will pay less than the full Principal Amount at maturity, resulting in a loss of principal to investors that is proportionate to the full negative Basket Return. The Securities are for investors who seek an equity basket-based return and who are willing to risk a loss on their principal, forgo current income and upside returns above the Maximum Gain in exchange for the Upside Gearing feature, as applicable at maturity. **Investing in the Securities involves significant risks. You will not receive interest or dividend payments during the term of the Securities. You may lose up to your entire investment in the Securities.**

**All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These Securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.**

**Features**

q **Enhanced Growth Potential Up to a Cap:** If the Basket Return is greater than zero, the Upside Gearing feature will provide leveraged exposure to any positive Basket Return, up to the Maximum Gain, and MSFL will pay the Principal Amount at maturity plus pay a return equal to the Basket Return multiplied by the Upside Gearing, up to the Maximum Gain. If the Basket Return is less than zero, investors will be fully exposed to the negative Basket Return at maturity.

q **Full Downside Market Exposure:** If the Basket Return is negative, investors will be exposed to the full downside performance of the Basket and MSFL will pay less than the full Principal Amount at maturity, resulting in a loss of principal to investors that is proportionate to the negative Basket Return. Accordingly, you may lose some or all of your Principal Amount. Any payment on the Securities is subject to our creditworthiness.

**Key Dates***

| | |
|---|---|
| Trade Date | April 25, 2019 |
| Settlement Date | April 30, 2019 |
| Final Valuation Date** | April 26, 2021 |
| Maturity Date** | April 30, 2021 |

*Expected.

**Subject to postponement in the event of a Market Disruption Event or for non-Index Business Days. See “Postponement of Final Valuation Date and Maturity Date” under “Additional Terms of the Securities.”

**The Securities are significantly riskier than conventional debt INSTRUMENTS. the terms of the securities may not obligate us TO REPAY any of the PRINCIPAL AMOUNT OF THE SECURITIES. the Securities CAN have downside MARKET risk SIMILAR TO the UnDERLIERS, WHICH CAN RESULT IN A LOSS OF SOME Or all OF YOUR INVESTMENT at maturity. This MARKET risk is in addition to the CREDIT risk INHERENT IN PURCHASING our DEBT OBLIGATIONS. You should not PURCHASE the Securities if you do not understand or are not comfortable with the significant risks INVOLVED in INVESTING IN the Securities. THE SECURITIES WILL NOT BE LISTED ON ANY SECURITIES EXCHANGE.**

**YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED UNDER ‘‘KEY RISKS’’ BEGINNING ON PAGE 5 OF THIS FREE WRITING PROSPECTUS BEFORE PURCHASING ANY SECURITIES. EVENTS RELATING TO ANY OF THOSE RISKS, OR OTHER RISKS AND UNCERTAINTIES, COULD ADVERSELY AFFECT THE MARKET VALUE OF, AND THE RETURN ON, YOUR SECURITIES.**

**Security Offering**

We are offering Capped GEARS Linked to a Basket of International Indices. The return on the Securities is limited by, and will be subject to, the predetermined Maximum Gain. The Securities are offered at a minimum investment of 100 Securities at the Price to Public listed below. The indicative Maximum Gain for the Securities is listed below. The actual Maximum Gain and Initial Levels will be determined on the Trade Date.

| Basket | Basket Weighting | Initial Level | Upside Gearing | Maximum Gain | Initial Basket Level | CUSIP | ISIN |
|---|---|---|---|---|---|---|---|
| Nikkei 225 Index (Bloomberg ticker: NKY) | 27.50% | | | | | | |
| EURO STOXX 50® Index (Bloomberg ticker: SX5E) | 22.50% | | | | | | |
| Hang Seng Index (Bloomberg ticker: | 15% | | 3.0 | At least 41.50%, which corresponds to a maximum Payment at Maturity of $14.15 per Security | 100 | 61768Y224 | US61768Y2248 |

| | |
|---|---|
| HSI) | |
| MSCI Emerging Markets Index℠ (Bloomberg ticker: MXEF) | 15% |
| S&P/ASX 200 Index (Bloomberg ticker: AS51) | 10% |
| FTSE® 100 Index (Bloomberg ticker: UKX) | 5% |
| Swiss Market Index (Bloomberg ticker: SMI) | 5% |

**See “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2. The Securities will have the terms set forth in the accompanying prospectus, prospectus supplement and index supplement and this free writing prospectus.**

*Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this free writing prospectus or the accompanying prospectus supplement, index supplement and prospectus. Any representation to the contrary is a criminal offense. The Securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.*

| | | | |
|---|---|---|---|
| Estimated value on the Trade Date | Approximately $9.702 per Security, or within $0.10 of that estimate. See “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2. | | |
| | Price to Public | Underwriting Discount(1) | Proceeds to Us(2) |
| Per Security | $10.00 | $0.20 | $9.80 |
| Total | $ | $ | $ |

(1) UBS Financial Services Inc., acting as dealer, will receive from Morgan Stanley & Co. LLC, the agent, a fixed sales commission of $0.20 for each Security it sells. For more information, please see “Supplemental Plan of Distribution; Conflicts of Interest” on page 36 of this free writing prospectus.

(2) See “Use of Proceeds and Hedging” on page 35.

The agent for this offering, Morgan Stanley & Co. LLC, is our affiliate and a wholly owned subsidiary of Morgan Stanley. See “Supplemental Plan of Distribution; Conflicts of Interest” on page 36 of this free writing prospectus.

Morgan Stanley UBS Financial Services Inc.

**Additional Information about Morgan Stanley, MSFL and the Securities**

Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by a prospectus supplement and an index supplement) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement, the prospectus supplement, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents for free by visiting EDGAR on the SEC website at.www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter or any dealer participating in this offering will arrange to send you the prospectus, the prospectus supplement and the index supplement if you so request by calling toll-free 1-(800)-584-6837.

You may access the accompanying prospectus supplement, index supplement and prospectus on the SEC website at.www.sec.gov as follows:

t Prospectus supplement dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011241/dp82788_424b2-seriesa.htm

t Index supplement dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011283/dp82797_424b2-indexsupp.htm

t Prospectus dated November 16, 2017: https://www.sec.gov/Archives/edgar/data/895421/000095010317011237/dp82798_424b2-base.htm

*References to "MSFL" refer only to MSFL, references to "Morgan Stanley" refer only to Morgan Stanley and references to "we," "our" and "us" refer to MSFL and Morgan Stanley collectively. In this document, the "Securities" refers to the Capped GEARS that are offered hereby. Also, references to the accompanying "prospectus", "prospectus supplement" and "index supplement" mean the prospectus filed by MSFL and Morgan Stanley dated November 16, 2017, the prospectus supplement filed by MSFL and Morgan Stanley dated November 16, 2017 and the index supplement filed by MSFL and Morgan Stanley dated November 16, 2017, respectively.*

You should rely only on the information incorporated by reference or provided in this free writing prospectus or the accompanying prospectus supplement, index supplement and prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this free writing prospectus or the accompanying prospectus supplement, index supplement and prospectus is accurate as of any date other than the date on the front of this document.

The Issue Price of each Security is $10. This price includes costs associated with issuing, selling, structuring and hedging the Securities, which are borne by you, and, consequently, the estimated value of the Securities on the Trade Date will be less than $10. We estimate that the value of each Security on the Trade Date will be approximately $9.702, or within $0.10 of that estimate. Our estimate of the value of the Securities as determined on the Trade Date will be set forth in the final pricing supplement.

*What goes into the estimated value on the Trade Date?*

In valuing the Securities on the Trade Date, we take into account that the Securities comprise both a debt component and a performance-based component linked to the Underliers. The estimated value of the Securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the Underliers, instruments based on the Underliers, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

*What determines the economic terms of the Securities?*

In determining the economic terms of the Securities, including the Upside Gearing and the Maximum Gain, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the Securities would be more favorable to you.

*What is the relationship between the estimated value on the Trade Date and the secondary market price of the Securities?*

The price at which MS & Co. purchases the Securities in the secondary market, absent changes in market conditions, including those related to the Underliers, may vary from, and be lower than, the estimated value on the Trade Date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 7 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underliers, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. currently intends, but is not obligated, to make a market in the Securities, and, if it once chooses to make a market, may cease doing so at any time.

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**Investor Suitability**

**The Securities may be suitable for you if:**

- You fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment in the Securities.

- You can tolerate the loss of some or all of your investment, and are willing to make an investment that has similar downside market risk as the Underliers included in the Basket.

- You understand and accept the risks associated with the Underliers.

- You are willing to hold the Securities to maturity, as set forth on the cover of this free writing prospectus, and accept that there may be little or no secondary market for the Securities.

- You believe the Basket will appreciate over the term of the Securities and that the appreciation is unlikely to exceed the Maximum Gain of at least 41.50% (the actual Maximum Gain will be determined on the Trade Date and will not be less than 41.50%).

- You understand and accept that your potential return is limited by the Maximum Gain, and you would be willing to invest in the Securities if the Maximum Gain were set equal to the minimum Maximum Gain indicated on the cover.

- You can tolerate fluctuations of the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Basket.

- You do not seek current income from your investment and are willing to forgo dividends paid on the stocks included in the Underliers.

- You are willing to assume our credit risk, and understand that if we default on our obligations you may not receive any amounts due to you including any repayment of principal.

**The Securities may not be suitable for you if:**

- You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment in the Securities.

- You cannot tolerate the loss of some or all of your investment, or you are not willing to make an investment that has similar downside market risk as the Underliers included in the Basket.
- You require an investment designed to provide a full return of principal at maturity.
- You do not understand and accept the risks associated with the Underliers.
- You are unable or unwilling to hold the Securities to maturity, as set forth on the cover of this free writing prospectus, or you seek an investment for which there will be an active secondary market.
- You believe that the level of the Basket will decline during the term of the Securities, or you believe the Basket will appreciate over the term of the Securities by a percentage that exceeds the Maximum Gain.
- You seek an investment that has unlimited return potential without a cap on appreciation.
- You would be unwilling to invest in the Securities if the Maximum Gain were set equal to the minimum Maximum Gain indicated on the cover (the actual Maximum Gain will be determined on the Trade Date).
- You prefer the lower risk, and, therefore, accept the potentially lower returns, of conventional debt securities with comparable maturities issued by us or another issuer with a similar credit rating.
- You seek current income from your investment or prefer to receive the dividends paid on the stocks included in the Underliers.
- You are not willing or are unable to assume the credit risk associated with us for any payment on the Securities, including any repayment of principal.

**The investor suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances, and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should also review "Key Risks" on page 5 of this free writing prospectus and "Risk Factors" beginning on page 7 of the accompanying prospectus for risks related to an investment in the Securities. For additional information about the Underliers, see the information set forth under "The Nikkei 225 Index," "The EURO STOXX® 50 Index," "The Hang Seng Index," "The MSCI Emerging Markets IndexSM," "The S&P/ASX 200 Index," "The FTSE® 100 Index and "The Swiss Market Index" on pages 17, 19, 21, 23, 25, 27 and 29, respectively.**

| Terms | |
|---|---|
| Issuer | Morgan Stanley Finance LLC |
| Guarantor | Morgan Stanley |
| Issue Price (per Security) | $10.00 per Security |
| Principal Amount | $10.00 per Security |
| Term | 2 years |
| Basket | The Securities are linked to a weighted basket of indices, each of which we refer to as an "Underlier," as follows: |

| | |
|---|---|
| Nikkei 225 Index | 27.50% |
| EURO STOXX 50® Index | 22.50% |
| Hang Seng Index | 15% |
| MSCI Emerging Markets Index℠ | 15% |
| S&P/ASX 200 Index | 10% |
| FTSE® 100 Index | 5% |
| Swiss Market Index | 5% |

| | |
|---|---|
| Upside Gearing | 3.0 |
| Payment at Maturity (per Security) | **If the Basket Return is greater than zero**, MSFL will pay you an amount equal to the lesser of:<br><br>$10 + [$10 × (Basket Return × Upside Gearing)]<br><br>and<br><br>$10 + ($10 × Maximum Gain).<br><br>**If the Basket Return is zero**, MSFL will pay you a cash payment of:<br><br>$10 per Security<br><br>**If the Basket Return is negative,** MSFL will pay you an amount calculated as follows:<br><br>$10 + ($10 × Basket Return)<br><br>**In this case, you will lose some or all of the principal amount of the Securities in an amount proportionate to the negative Basket Return.** |
| Basket Return | Final Basket Level – Initial Basket Level<br><br>Initial Basket Level |
| Maximum Gain | At least 41.50%, which corresponds to a maximum Payment at Maturity of $14.15 per Security. The actual Maximum Gain will be determined on the Trade Date. |
| Initial Basket Level | 100 |

| | |
|---|---|
| | On the Final Valuation Date, the Final Basket Level is calculated as: |
| Final Basket Level | 100 × [1 + (NKY Return × 27.50%) + (SX5E Return × 22.50%) + (HSI Return × 15%) + (MXEF Return × 15%) + (AS51 Return × 10%) + (UKX Return × 5%) + (SMI Return × 5%)]<br><br>Each of the returns set forth in the formula above refers to the return of the relevant Underlier, which represents the percentage change from the Initial Level for that Underlier to the Final Level for that Underlier. |
| Trade Date | April 25, 2019 |
| Settlement Date | April 30, 2019 |
| Final Valuation Date | April 26, 2021* |
| Maturity Date | April 30, 2021* |
| Initial Level | With respect to each Underlier, the Closing Level of such Underlier on the Trade Date. |
| Final Level | With respect to each Underlier, the Closing Level of such Underlier on the Final Valuation Date. |
| CUSIP / ISIN | 61768Y224 / US61768Y2248 |
| Calculation Agent | Morgan Stanley & Co. LLC |

*Subject to postponement in the event of a Market Disruption Event or for non-Index Business Days. See ‘Postponement of Final Valuation Date and Maturity Date” under the “Additional Terms of the Securities.”

Investment Timeline

| | |
|---|---|
| Trade Date | The Initial Levels are observed and the Initial Basket Level is set to 100.<br><br>The Maximum Gain is set. |
| Maturity Date | The Final Basket Level and Basket Return are determined on the Final Valuation Date.<br><br>**If the Basket Return is greater than zero**, MSFL will pay you a cash payment per Security equal to the lesser of: |

$10 + [$10 × (Basket Return × Upside Gearing)]

and

$10 + ($10 × Maximum Gain)

**If the Basket Return is zero**, MSFL will pay you a cash payment of $10 per $10 Security.

**If the Basket Return is negative on the Final Valuation Date**, MSFL will pay you a cash payment at maturity equal to:

$10 + ($10 × Basket Return)

**Under these circumstances, you will lose some or all of the principal amount of the Securities in an amount proportionate to the negative Basket Return.**

**INVESTING IN THE SECURITIES INVOLVES SIGNIFICANT RISKS. YOU MAY LOSE SOME OR ALL OF YOUR PRINCIPAL AMOUNT. ANY PAYMENT ON THE SECURITIES IS SUBJECT TO OUR CREDITWORTHINESS. IF WE WERE TO DEFAULT ON OUR PAYMENT OBLIGATIONS, YOU MAY NOT RECEIVE ANY AMOUNTS OWED TO YOU UNDER THE SECURITIES AND YOU COULD LOSE YOUR ENTIRE INVESTMENT.**

**Key Risks**

An investment in the Securities involves significant risks. Some of the risks that apply to the Securities are summarized here, but we urge you to also read the "Risk Factors" section of the accompanying prospectus. You should also consult your investment, legal, tax, accounting and other advisers before you invest in the Securities.

- **Your investment in the Securities may result in a loss of up to your entire initial investment in the Securities** – The terms of the Securities differ from those of ordinary debt securities in that we will not pay interest or guarantee the payment of any of the Principal Amount at maturity. If the Basket Return is negative, you will be fully exposed to the negative Basket Return and MSFL will pay you less than your principal amount at maturity, resulting in a loss of principal that is proportionate to the decline in the Basket from the Initial Basket Level to the Final Basket Level. **Accordingly, you could lose the entire principal amount of the Securities.**

- **The Upside Gearing applies only if you hold the Securities to maturity –** You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, the price you receive will likely not reflect the full economic value of the Upside Gearing or the Securities themselves, and the return you realize may be less than 3.0 times the return of the Basket at the time of sale even if such return is positive and does not exceed the Maximum Gain. You can receive the full benefit of the Upside Gearing and earn up to the potential Maximum Gain only if you hold your Securities to maturity.

- **The appreciation potential is limited –** The appreciation potential of the Securities is limited by the Maximum Gain of at least 41.50% (which corresponds to a maximum Payment at Maturity of $14.15 per Security). The actual Maximum Gain and maximum Payment at Maturity will be determined on the Trade Date. Therefore, although the Upside Gearing enhances positive Basket Returns, you will not benefit from any positive Basket Return that, when multiplied by the Upside Gearing, exceeds the Maximum Gain. As a result, any increase in the Final Basket Level over the Initial Basket Level by more than approximately 13.83% (to be determined on the Trade Date) of the Initial Basket Level will not further increase the return on the Securities.

- **The Securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or our credit spreads may adversely affect the market value of the Securities** – You are dependent on our ability to pay all amounts due on the Securities at maturity and therefore you are subject to our credit risk. If we default on our obligations under the Securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the Securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in our credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the Securities.

- **As a finance subsidiary, MSFL has no independent operations and will have no independent assets** – As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

¨ **The Securities do not pay interest** – MSFL will not pay any interest with respect to the Securities over the term of the Securities.

¨ **The market price of the Securities may be influenced by many unpredictable factors** – Several factors, many of which are beyond our control, will influence the value of the Securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Securities in the secondary market (if at all), including:

- the value of the Underliers at any time,
- the volatility (frequency and magnitude of changes in value) of each of the Underliers,
- dividend rates on the securities included in the Underliers,
- interest and yield rates in the market,
- geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the Underliers or stock markets generally and which may affect the Final Levels,
- the time remaining until the Securities mature, and
- any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the terms of the Securities at the time of issuance and the price that you will receive if you are able to sell your Securities prior to maturity, as the Securities are comprised of both a debt component and a performance-based component linked to the Underliers, and these are the types of factors that also generally affect the values of debt securities and derivatives linked to the Underliers. For example, you may have to sell your Securities at a substantial discount from the principal amount of $10 per Security if the values of the Underliers at the time of sale are at, below or moderately above their Initial Levels or if market interest rates rise. You cannot predict the future performance of the Underliers based on their historical performance. If the Basket Return is negative, you will receive at maturity an amount that is less than the $10 Principal Amount of each Security by an amount proportionate to the negative Basket Return. Accordingly, you could lose up to your entire initial investment in the Securities. There can be no assurance that there will be any positive Basket Return so that you will receive at maturity an amount that is greater than the $10 Principal Amount for each Security you hold, or that you will not lose some or all of your investment.

¨ **Changes in the values of one or more of the Underliers may offset changes in the values of the others** – Movements in the values of the Underliers may not correlate with each other. At a time when the values of one or more Underliers increase, the values of the other Underliers may not increase as much, or may even decline. Therefore, in calculating the Basket Return, increases in the values of one or more Underliers may be moderated, or wholly offset, by lesser increases or declines in the values of the other Underliers. If the Final Basket Level is less than the Initial Basket Level, you will receive at maturity an amount that is less than the amount of your original investment in the Securities.

¨ **The Underliers are not equally weighted** – The Securities are linked to a basket of six Underliers, and the Underliers have significantly differed weights in determining the level of the Basket. The same percentage change in two of the Underliers could therefore have different effects on the Final Basket Level because of the unequal weighting. For example, if the weighting of one Underlier is greater than the weighting of another Underlier, a 5% decrease in the level of the Underlier with the greater weighting will have a greater impact on the Final Basket Level than a 5% increase in the level of the Underlier with the lesser weighting.

¨ **The amount payable on the Securities is not linked to the levels of the Underliers at any time other than the Final Valuation Date** – The Final Basket Level will be based on the Closing Levels of the Underliers on the Final Valuation Date, subject to postponement for non-Index Business Days and certain Market Disruption Events. Even if some or all of the Underliers appreciate prior to the Final Valuation Date but then drop by the Final Valuation Date, the Payment at Maturity may be significantly less than it would have been had the Payment at Maturity been linked to the levels of the Underliers prior to such drop. Although the actual levels of the Underliers on the stated Maturity Date or at other times during the term of the Securities may be higher than their Final Levels, the Payment at Maturity will be based solely on the Closing Levels of the Underliers on the Final Valuation Date as compared to their Initial Levels.

¨ **The Securities are subject to risks associated with investments in securities linked to the value of foreign equity (and especially emerging markets) securities** – The Securities are linked to the value of foreign equity securities. Investments in securities linked to the value of foreign equity securities involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. Although the equity securities included in the Underliers are traded in foreign currencies, the value of your Securities (as measured in U.S. dollars) will not be adjusted for any exchange rate fluctuations. Also, there is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the United States Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies. The prices of securities issued in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws. In addition, the stocks included in the MSCI Emerging Markets Index℠ have been issued by companies in various emerging markets countries, which pose further risks in addition to the risks associated with investing in foreign equity markets generally. Countries with emerging markets may have relatively unstable governments, may present the risks of nationalization of businesses, restrictions on foreign ownership and prohibitions on the repatriation of assets, and may have less protection of property rights than more developed countries. The economies of countries with emerging markets may be based on only a few industries, may be highly vulnerable to changes in local or global trade conditions, and may suffer from extreme and volatile debt burdens or inflation rates. Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of holdings difficult or impossible at times. Moreover, the economies in such countries may differ favorably or unfavorably from the economy in the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payment positions.

**The level of the MSCI Emerging Markets Index℠ is subject to currency exchange rate risk** – Because the level of the MSCI Emerging Markets Index℠ is related to the U.S. dollar value of stocks underlying the MSCI Emerging Markets Index℠, holders of the Securities will be exposed to currency exchange rate risk with respect the currencies in which the component securities trade. Exchange rate movements for a particular currency are volatile and are the result of numerous factors specific to that country including the supply of, and the demand for, those currencies, as well as government policy, intervention or actions, but are also influenced significantly from time to time by political or economic developments, and by macroeconomic factors and speculative actions related to each region. Further, currencies of emerging economies are often subject to more frequent and larger central bank interventions than the currencies of developed countries and are also more likely to be affected by drastic changes in monetary or exchange rate policies of the relevant country. The net exposure will depend on the extent to which the currencies of the component countries strengthen or weaken against the U.S. dollar and the relative weight of each currency. If, taking into account such weighting, the dollar strengthens against the currencies of the component securities of the MSCI Emerging Markets Index℠, the level of the MSCI Emerging Markets Index℠ will be adversely affected and the Payment at Maturity on the Securities may be reduced.

Of particular importance to potential currency exchange risk are:

- existing and expected rates of inflation;
- existing and expected interest rate levels;
- the balance of payments; and
- the extent of governmental surpluses or deficits in the countries represented in the MSCI Emerging Markets Index[SM] and the United States.

All of these factors are, in turn, sensitive to the monetary, fiscal and trade policies pursued by the governments of the countries represented in the MSCI Emerging Markets Index[SM], the United States and other countries important to international trade and finance.

- **Investing in the Securities is not equivalent to investing in the Underliers or the stocks composing the Underliers** – Investing in the Securities is not equivalent to investing in the Underliers or the stocks that constitute the Underliers. Investors in the Securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the stocks that constitute the Underliers. Investors in the Securities also will not participate in any appreciation of the Basket that, when multiplied by the Upside Gearing, exceeds the Maximum Gain, which could be significant. Additionally, the Underliers are not “total return” indices, which, in addition to reflecting the market prices of the stocks that constitute the Underliers, would also reflect dividends paid on such stocks. The return on the Securities will not include such a total return feature.

- **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the Securities in the Issue Price reduce the economic terms of the Securities, cause the estimated value of the Securities to be less than the Issue Price and will adversely affect secondary market prices** – Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the Securities in secondary market transactions will likely be significantly lower than the Issue Price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the Issue Price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the Securities in the Issue Price and the lower rate we are willing to pay as issuer make the economic terms of the Securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 7 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underliers, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

- **The estimated value of the Securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price** – These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the Securities than those generated by others, including other dealers in the market, if they attempted to value the Securities. In addition, the estimated value on the Trade Date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Securities in the secondary market (if any exists) at any time. The value of your Securities at any time after the date of this free writing prospectus will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price of the Securities may be influenced by many unpredictable factors” above.

- **Adjustments to any of the Underliers could adversely affect the value of the Securities** – The Underlier Publisher for each Underlier is responsible for calculating and maintaining such Underlier. The applicable Underlier Publisher may add, delete or substitute the stocks constituting such Underlier or make other methodological changes required by certain corporate events relating to the stocks constituting such Underlier, such as stock dividends, stock splits, spin-offs, rights offerings and extraordinary dividends, that could change the value of the Underlier. The Underlier Publisher may discontinue or suspend calculation or publication of any of the Underliers at any time. In these circumstances, the Calculation Agent will have the sole discretion to substitute a Successor Underlier that is comparable to the discontinued Underlier, and is permitted to consider indices that are calculated and published by the Calculation Agent or any of its affiliates. Any of these actions could adversely affect the value of any of the Underliers and, consequently, the value of the Securities.

- **The Securities will not be listed on any securities exchange and secondary trading may be limited** – The Securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Securities. MS & Co. currently intends, but is not obligated, to make a market in the Securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the Securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the Securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Securities easily. Since other broker-dealers may not participate significantly in the secondary market for the Securities, the price at which you may be able to trade your Securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the Securities, it is likely that there would be no secondary market for the Securities. Accordingly, you should be willing to hold your Securities to maturity.

¨ **Hedging and trading activity by our affiliates could potentially adversely affect the value of the Securities** – One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the Securities, including trading in the constituent stocks of the Underliers, in futures or options contracts on the Underliers or the constituent stocks of the Underliers, as well as in other instruments related to the Underliers. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Final Valuation Date approaches. MS & Co. and some of our other affiliates also trade the constituent stocks of the Underliers, in futures or options contracts on the constituent stocks of the Underliers, as well as in other instruments related to the Underliers, on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the Trade Date could potentially increase the Initial Levels of the Underliers, and, therefore, could increase the levels at or above which the Underliers must close on the Final Valuation Date so that investors do not suffer a loss on their initial investment in the Securities. Additionally, such hedging or trading activities during the term of the Securities, including on the Final Valuation Date, could adversely affect the Closing Levels of the Underliers on the Final Valuation Date, and, accordingly, the amount of cash payable at maturity, if any.

¨ **Potential conflict of interest** – As Calculation Agent, MS & Co. will determine the Initial Levels, the Final Levels, the Final Basket Level, the Basket Return and whether any Market Disruption Event has occurred, and will calculate the amount payable at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as Calculation Agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of Market Disruption Events and the selection of a Successor Underlier or calculation of the Final Basket Level in the event of a discontinuance of an Underlier or a Market Disruption Event. These potentially subjective determinations may adversely affect the payout to you at maturity, if any. For further information regarding these types of determinations, see "Additional Terms of the Securities—Postponement of Final Valuation Date and Maturity Date," "—Discontinuance of an Underlier; Alteration of Method of Calculation" and "—Calculation Agent and Calculations" below. In addition, MS & Co. has determined the estimated value of the Securities on the Trade Date.

¨ **Potentially inconsistent research, opinions or recommendations by Morgan Stanley, UBS or our or their respective affiliates** – Morgan Stanley, UBS and our or their respective affiliates may publish research from time to time on financial markets and other matters that may influence the value of the Securities, or express opinions or provide recommendations that are inconsistent with purchasing or holding the Securities. Any research, opinions or recommendations expressed by Morgan Stanley, UBS or our or their respective affiliates may not be consistent with each other and may be modified from time to time without notice. Investors should make their own independent investigation of the merits of investing in the Securities and the Underliers to which the Securities are linked.

¨

**Uncertain Tax Treatment – Please note that the discussions in this free writing prospectus concerning the U.S. federal income tax consequences of an investment in the Securities supersede the discussions contained in the accompanying prospectus supplement.**

Subject to the discussion under "What Are the Tax Consequences of the Securities" in this free writing prospectus, although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Securities due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP ("our counsel"), under current law, and based on current market conditions, each Security should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes. However, because our counsel's opinion is based in part on market conditions as of the date of this free writing prospectus, it is subject to confirmation on the Trade Date.

If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment for the Securities, the timing and character of income on the Securities might differ significantly from the tax treatment described herein. For example, under one possible treatment, the IRS could seek to recharacterize the Securities as debt instruments. In that event, U.S. Holders (as defined below) would be required to accrue into income original issue discount on the Securities every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the Securities as ordinary income. We do not plan to request a ruling from the IRS regarding the tax treatment of the Securities, and the IRS or a court may not agree with the tax treatment described in this free writing prospectus.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by Non-U.S. Holders (as defined below) should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Securities, possibly with retroactive effect.

**Both U.S. and Non-U.S. Holders should read carefully the discussion under "What Are the Tax Consequences of the Securities" in this free writing prospectus and consult their tax advisers regarding all aspects of the U.S. federal tax consequences of an investment in the Securities as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.**

Scenario Analysis and Examples at Maturity

The below scenario analysis and examples are provided for illustrative purposes only and are hypothetical. They do not purport to be representative of every possible scenario concerning increases or decreases in the level of the Basket relative to the Initial Basket Level. We cannot predict the Final Basket Level on the Final Valuation Date. You should not take the scenario analysis and these examples as an indication or assurance of the expected performance of the Basket. The numbers appearing in the examples below have been rounded for ease of analysis. The following scenario analysis and examples illustrate the payment at maturity for a $10.00 security on a hypothetical offering of the Securities, based on the following terms:

| | |
|---|---|
| Investment term: | 2 years |
| Initial Basket Level: | 100 |
| Hypothetical Maximum Gain: | 41.50%, which corresponds to a maximum Payment at Maturity of $14.15 per Security |
| | The actual Maximum Gain will be determined on the Trade Date. |
| Upside Gearing: | 3 |

**Example 1— The level of the Basket *increases* to a Final Basket Level of 105.** The Basket Return is greater than zero and expressed as a formula:

Basket Return = (105 - 100) / 100 = 5.00%

Because the Basket Return is greater than zero, the Payment at Maturity for each $10.00 Principal Amount of Securities is calculated as the lesser of:

(A) $10.00 + ($10.00 × Basket Return × Upside Gearing), and

(B) $10.00 + ($10.00 × Maximum Gain)

= the lesser of (A) $10.00 + ($10.00 × 5% × 3.0) and (B) $10.00 + ($10.00 × 41.50%)

= the lesser of (A) $10.00 + ($10.00 × 15%) and (B) $10.00 + ($10.00 × 41.50%)

= \$10.00 + (\$10.00 × 15%)

= \$10.00 + \$1.50

= \$11.50

Because the Basket Return of 5.00% multiplied by the Upside Gearing is less than the hypothetical Maximum Gain of 41.50%, the Payment at Maturity is equal to \$11.50 per \$10.00 Principal Amount of Securities, resulting in a total return on the Securities of 15.00%.

**Example 2— The level of the Basket *increases* to a Final Basket Level of 150.** The Basket Return is greater than zero and expressed as a formula:

Basket Return = (150 – 100) / 100 = 50.00%

Because the Basket Return is greater than zero, the Payment at Maturity for each \$10.00 Principal Amount of Securities is calculated as the lesser of:

| | |
|---|---|
| (A) \$10.00 | + (\$10.00 × Basket Return × Upside Gearing), and |
| (B) \$10.00 | + (\$10.00 × Maximum Gain) |
| | = the lesser of (A) \$10.00 + (\$10.00 × 50% × 3.0) and (B) \$10.00 + (\$10.00 × 41.50%) |
| | = the lesser of (A) \$10.00 + (\$10.00 × 150%) and (B) \$10.00 + (\$10.00 × 41.50%) |
| | = \$10.00 + (\$10.00 × 41.50%) |
| | = \$10.00 + \$4.15 |
| | = \$14.15 |

Because the Basket Return of 50% multiplied by the Upside Gearing is greater than the hypothetical Maximum Gain of 41.50%, the Payment at Maturity is equal to \$14.15 per \$10.00 Principal Amount of Securities, the hypothetical maximum Payment at Maturity on the Securities. This represents the hypothetical maximum amount payable over the 2-year term of the Securities.

**Example 3— The Final Basket Level is equal to the Initial Basket Level of 100.** The Basket Return is zero and expressed as a formula:

Basket Return = (100 – 100) / 100 = 0.00%

Payment at Maturity = $10.00

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Because the Basket Return is zero, the Payment at Maturity per Security is equal to the original $10.00 Principal Amount per Security, resulting in a zero percent return on the Securities.

**Example 4— The level of the Basket *decreases* to a Final Basket Level of 40.** The Basket Return is negative and expressed as a formula:

Basket Return = (40 - 100) / 100 = -60.00%

Payment at Maturity = $10 + ($10 × -60.00%) = $4.00

Because the Basket Return is negative, at maturity MSFL will pay less than the Principal Amount, resulting in a loss of principal that is proportionate to the negative Basket Return. Therefore, the Payment at Maturity is equal to $4.00 per $10.00 Principal Amount of Securities, resulting in a total loss on the Securities of 60.00%.

***If the Final Basket Level is below the Initial Basket Level on the Final Valuation Date, the Securities will be fully exposed to any decline in the Basket, and you will lose some or all of your Principal Amount at maturity.***

***Scenario Analysis – Hypothetical Payment at Maturity for each $10.00 Principal Amount of Securities.***

| Performance of the Basket* | | Performance of the Securities | | |
|---|---|---|---|---|
| Final Basket Level | Basket Return | Upside Gearing | Payment at Maturity | Return on Securities Purchased at $10.00(1) |
| 200 | 100.00% | 3.0 | $14.15 | 41.50% |
| 190 | 90.00% | 3.0 | $14.15 | 41.50% |
| 180 | 80.00% | 3.0 | $14.15 | 41.50% |
| 170 | 70.00% | 3.0 | $14.15 | 41.50% |
| 160 | 60.00% | 3.0 | $14.15 | 41.50% |
| 150 | 50.00% | 3.0 | $14.15 | 41.50% |
| 140 | 40.00% | 3.0 | $14.15 | 41.50% |
| 130 | 30.00% | 3.0 | $14.15 | 41.50% |
| 120 | 20.00% | 3.0 | $14.15 | 41.50% |
| 113.83 | 13.83% | 3.0 | $14.15 | 41.50% |
| 110 | 10.00% | 3.0 | $13.00 | 30.00% |
| 105 | 5.00% | 3.0 | $11.50 | 15.00% |
| 103 | 3.00% | 3.0 | $10.90 | 9.00% |
| 100 | 0.00% | N/A | $10.00 | 0.00% |
| 95 | -5.00% | N/A | $9.50 | -5.00% |
| 90 | -10.00% | N/A | $9.00 | -10.00% |
| 80 | -20.00% | N/A | $8.00 | -20.00% |
| 70 | -30.00% | N/A | $7.00 | -30.00% |
| 60 | -40.00% | N/A | $6.00 | -40.00% |
| 50 | -50.00% | N/A | $5.00 | -50.00% |
| 40 | -60.00% | N/A | $4.00 | -60.00% |
| 30 | -70.00% | N/A | $3.00 | -70.00% |
| 20 | -80.00% | N/A | $2.00 | -80.00% |
| 10 | -90.00% | N/A | $1.00 | -90.00% |
| 0 | -100.00% | N/A | $0.00 | -100.00% |

*. The Basket excludes cash dividend payments on stocks included in the Underliers.

(1) This “Return on Securities” is the number, expressed as a percentage, that results from comparing the Payment at Maturity per $10 Principal Amount Security to the purchase price of $10 per Security.

**What are the tax consequences of the Securities?**

**Prospective investors should note that the discussion under the section called "United States Federal Taxation" in the accompanying prospectus supplement does not apply to the Securities issued under this free writing prospectus and is superseded by the following discussion.**

The following summary is a general discussion of the principal U.S. federal income tax consequences and certain estate tax consequences of the ownership and disposition of the Securities. This discussion applies only to investors in the Securities who:

t purchase the Securities in the original offering; and

t hold the Securities as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code").

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as:

t certain financial institutions;

t insurance companies;

t certain dealers and traders in securities or commodities;

t investors holding the Securities as part of a "straddle," wash sale, conversion transaction, integrated transaction or constructive sale transaction;

t U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;

t partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

t regulated investment companies;

t real estate investment trusts; or

t tax-exempt entities, including "individual retirement accounts" or "Roth IRAs" as defined in Section 408 or 408A of the Code, respectively.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the Securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the Securities or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the Securities to you.

In addition, we will not attempt to ascertain whether any issuer of any shares to which a Security relates (such shares hereafter referred to as “Underlying Shares”) is treated as a “passive foreign investment company” (“PFIC”) within the meaning of Section 1297 of the Code. If any issuer of Underlying Shares were so treated, certain adverse U.S. federal income tax consequences might apply to a U.S. Holder upon the sale, exchange or settlement of the Securities. You should refer to information filed with the Securities and Exchange Commission or other governmental authorities by the issuers of the Underlying Shares and consult your tax adviser regarding the possible consequences to you if any issuer is or becomes a PFIC.

As the law applicable to the U.S. federal income taxation of instruments such as the Securities is technical and complex, the discussion below necessarily represents only a general summary. Moreover, the effect of any applicable state, local or non-U.S. tax laws is not discussed, nor are any alternative minimum tax consequences or consequences resulting from the Medicare tax on investment income.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date of this free writing prospectus, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. Persons considering the purchase of the Securities should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

**General**

Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Securities due to the lack of governing authority, in the opinion of our counsel, under current law, and based on current market conditions, each Security should be treated as a single financial contract that is an “open transaction” for U.S. federal income tax purposes. However, because our counsel’s opinion is based in part on market conditions as of the date of this free writing prospectus, it is subject to confirmation on the Trade Date.

**Due to the absence of statutory, judicial or administrative authorities that directly address the treatment of the Securities or instruments that are similar to the Securities for U.S. federal income tax purposes, no assurance can be given that the Internal Revenue Service (the “IRS”) or a court will agree with the tax treatment described herein. Accordingly, you should consult your tax adviser regarding all aspects of the U.S. federal tax consequences of an**

**investment in the Securities (including possible alternative treatments of the Securities). Unless otherwise stated, the following discussion is based on the treatment of the Securities as described in the previous paragraph.**

**Tax Consequences to U.S. Holders**

This section applies to you only if you are a U.S. Holder. As used herein, the term "U.S. Holder" means a beneficial owner of a Security that is, for U.S. federal income tax purposes:

t a citizen or individual resident of the United States;

t a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or

t an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

***Tax Treatment of the Securities***

Assuming the treatment of the Securities as set forth above is respected, the following U.S. federal income tax consequences should result.

*Tax Treatment Prior to Settlement.* A U.S. Holder should not be required to recognize taxable income over the term of the Securities prior to settlement, other than pursuant to a sale or exchange as described below.

*Tax Basis.* A U.S. Holder's tax basis in the Securities should equal the amount paid by the U.S. Holder to acquire the Securities.

*Sale, Exchange or Settlement of the Securities*. Upon a sale, exchange or settlement of the Securities, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized on the sale, exchange or settlement and the U.S. Holder's tax basis in the Securities sold, exchanged or settled. Subject to the discussion above regarding the possible application of Section 1297 of the Code, any gain or loss recognized upon the sale, exchange or settlement of the Securities should be long-term capital gain or loss if the U.S. Holder has held the Securities for more than one year at such time, and short-term capital gain or loss otherwise.

***Possible Alternative Tax Treatments of an Investment in the Securities***

Due to the absence of authorities that directly address the proper tax treatment of the Securities, no assurance can be given that the IRS will accept, or that a court will uphold, the treatment described above. In particular, the IRS could seek to analyze the U.S. federal income tax consequences of owning the Securities under Treasury regulations governing contingent payment debt instruments (the "Contingent Debt Regulations"). If the IRS were successful in asserting that the Contingent Debt Regulations applied to the Securities, the timing and character of income thereon would be significantly affected. Among other things, a U.S. Holder would be required to accrue into income original issue discount on the Securities every year at a "comparable yield" determined at the time of their issuance, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of the contingent payment on the Securities. Furthermore, any gain realized by a U.S. Holder at maturity or upon a sale, exchange or other disposition of the Securities would generally be treated as ordinary income, and any loss realized would be treated as ordinary loss to the extent of the U.S. Holder's prior accruals of original issue discount and as capital loss thereafter.

Other alternative federal income tax treatments of the Securities are also possible, which, if applied, could significantly affect the timing and character of the income or loss with respect to the Securities. In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Securities, possibly with retroactive effect. U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the Securities, including possible alternative treatments and the issues presented by this notice.

***Backup Withholding and Information Reporting***

Backup withholding may apply in respect of the payment on the Securities at maturity and the payment of proceeds from a sale, exchange or other disposition of the Securities, unless a U.S. Holder provides proof of an applicable exemption or a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. The amounts withheld under the backup withholding rules are not an additional tax and may be refunded, or credited against the U.S.

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Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. In addition, information returns may be filed with the IRS in connection with the payment on the Securities and the payment of proceeds from a sale, exchange or other disposition of the Securities, unless the U.S. Holder provides proof of an applicable exemption from the information reporting rules.

**Tax Consequences to Non-U.S. Holders**

This section applies to you only if you are a Non-U.S. Holder. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Security that is, for U.S. federal income tax purposes:

t an individual who is classified as a nonresident alien;

t a foreign corporation; or

t a foreign estate or trust.

The term "Non-U.S. Holder" does not include any of the following holders:

t a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes;

t certain former citizens or residents of the United States; or

t a holder for whom income or gain in respect of the Securities is effectively connected with the conduct of a trade or business in the United States.

Such holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the Securities.

***Tax Treatment upon Sale, Exchange or Settlement of the Securities***

*In general.* Assuming the treatment of the Securities as set forth above is respected, and subject to the discussions below concerning backup withholding and the possible application of Section 871(m) of the Code, a Non-U.S. Holder of the Securities generally will not be subject to U.S. federal income or withholding tax in respect of amounts paid to the Non-U.S. Holder.

Subject to the discussions regarding the possible application of Section 871(m) and FATCA, if all or any portion of a Security were recharacterized as a debt instrument, any payment made to a Non-U.S. Holder with respect to the Securities would not be subject to U.S. federal withholding tax, provided that:

t the Non-U.S. Holder does not own, directly or by attribution, ten percent or more of the total combined voting power of all classes of Morgan Stanley stock entitled to vote;

t the Non-U.S. Holder is not a controlled foreign corporation related, directly or indirectly, to Morgan Stanley through stock ownership;

t the Non-U.S. Holder is not a bank receiving interest under Section 881(c)(3)(A) of the Code, and

t the certification requirement described below has been fulfilled with respect to the beneficial owner.

*Certification Requirement.* The certification requirement referred to in the preceding paragraph will be fulfilled if the beneficial owner of a Security (or a financial institution holding a Security on behalf of the beneficial owner) furnishes to the applicable withholding agent an IRS Form W-8BEN (or other appropriate form) on which the beneficial owner certifies under penalties of perjury that it is not a U.S. person.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. Among the issues addressed in the notice is the degree, if any, to which any income with respect to instruments such as the Securities should be subject to U.S. withholding tax. It is possible that any Treasury regulations or other guidance promulgated after consideration of this issue could materially and adversely affect the withholding tax consequences of ownership and disposition of the Securities, possibly on a retroactive basis. Non-U.S. Holders should note that we currently do not intend to withhold on any payment made with respect to the Securities to Non-U.S. Holders (subject to compliance by such holders with the certification requirement described above and to the discussions below regarding Section 871(m) and FATCA). However, in the event of a change of law or any formal or informal guidance by the IRS, the U.S. Treasury Department or Congress, we may decide to withhold on payments made with respect to the Securities to Non-U.S. Holders, and we will not be required to pay any additional amounts with respect to amounts withheld. Accordingly, Non-U.S. Holders should consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of an investment in the Securities, including the possible implications of the notice referred to above.

***Section 871(m) Withholding Tax on Dividend Equivalents***

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Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an “Underlying Security”). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on the terms of the Securities and current market conditions, we expect that the Securities will not have a delta of one with respect to any Underlying Security on the Trade Date. However, we will provide an updated determination in the final pricing supplement. Assuming that the Securities do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the Securities should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If Section 871(m) withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the Securities.

***U.S. Federal Estate Tax***

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual’s gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), should note that, absent an applicable treaty exemption, the Securities may be treated as U.S. situs property subject to U.S. federal estate tax. Prospective investors that are non-U.S. individuals, or are entities of the type described above, should consult their tax advisers regarding the U.S. federal estate tax consequences of an investment in the Securities.

***Backup Withholding and Information Reporting***

Information returns may be filed with the IRS in connection with the payment on the Securities at maturity as well as in connection with the payment of proceeds from a sale, exchange or other disposition of the Securities. A Non-U.S. Holder may be subject to backup withholding in respect of amounts paid to the Non-U.S. Holder, unless such Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person for U.S. federal income tax purposes or otherwise establishes an exemption. Compliance with the certification procedures described above under “ Tax Treatment upon Sale, Exchange or Settlement of the Securities – Certification Requirement” will satisfy the certification requirements necessary to avoid backup withholding as well. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against the Non-U.S. Holder’s U.S. federal income tax liability and may entitle the Non-U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

**FATCA**

Legislation commonly referred to as “FATCA” generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity’s jurisdiction may modify these requirements. FATCA generally applies to certain financial instruments that are treated as paying U.S.-source interest or other U.S.-source “fixed or determinable annual or periodical” income. If the Securities were recharacterized as debt instruments, FATCA would apply to any payment of amounts treated as interest and to payments of gross proceeds of the disposition (including upon retirement) of the Securities. However, under recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply on payments of gross proceeds. If withholding were to apply to the Securities, we would not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the potential application of FATCA to the Securities.

**The discussion in the preceding paragraphs under “What Are the Tax Consequences of the Securities,” insofar as it purports to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal income tax consequences of an investment in the Securities.**

The Nikkei 225 Index

The Nikkei 225 Index is a stock index calculated, published and disseminated by Nikkei Inc. (formerly known as Nihon Keizai Shimbun, Inc.), which we refer to as Nikkei, that measures the composite price performance of selected Japanese stocks. The Nikkei 225 Index currently is based on 225 underlying stocks trading on the Tokyo Stock Exchange (the "TSE") representing a broad cross-section of Japanese industries. Stocks listed in the First Section of the TSE are among the most actively traded stocks on the TSE. All 225 Nikkei Underlying Stocks are stocks listed in the First Section of the TSE. Nikkei rules require that the 75 most liquid issues (one-third of the component count of the Nikkei 225 Index) be included in the Nikkei 225 Index. Nikkei first calculated and published the Nikkei 225 Index in 1970. The 225 companies included in the Nikkei 225 Index are divided into six sector categories: technology, financials, consumer goods, materials, capital goods/others and transportation and utilities. For additional information about the Nikkei 225 Index, see the information set forth under "Nikkei 225 Index" in the accompanying index supplement.

Nikkei, the publisher of the Nikkei 225 Index, has the copyright to the Nikkei 225 Index. All rights to the Nikkei 225 Index are owned by Nikkei. Nikkei has the right to change the contents of the Nikkei 225 Index and to cease compilation and publication of the Nikkei 225 Index. In addition, Nikkei has no relationship to us or the securities; it does not sponsor, endorse, authorize, sell or promote the securities, and has no obligation or liability in connection with the administration, marketing or trading of the securities or with the calculation of the return on your investment. For more information, see "Nikkei 225 Index" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the Nikkei 225 Index for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the Nikkei 225 Index on April 23, 2019 was 22,259.74. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the Nikkei 225 Index should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the Nikkei 225 Index on the Final Valuation Date.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 16,291.31 | 14,008.47 | 14,827.83 |
| 4/1/2014 | 6/30/2014 | 15,376.24 | 13,910.16 | 15,162.10 |
| 7/1/2014 | 9/30/2014 | 16,374.14 | 14,778.37 | 16,173.52 |
| 10/1/2014 | 12/31/2014 | 17,935.64 | 14,532.51 | 17,450.77 |
| 1/1/2015 | 3/31/2015 | 19,754.36 | 16,795.96 | 19,206.99 |
| 4/1/2015 | 6/30/2015 | 20,868.03 | 19,034.84 | 20,235.73 |
| 7/1/2015 | 9/30/2015 | 20,841.97 | 16,930.84 | 17,388.15 |
| 10/1/2015 | 12/31/2015 | 20,012.40 | 17,722.42 | 19,033.71 |
| 1/1/2016 | 3/31/2016 | 19,033.71 | 14,952.61 | 16,758.67 |
| 4/1/2016 | 6/30/2016 | 17,572.49 | 14,952.02 | 15,575.92 |

| | | | | |
|---|---|---|---|---|
| 7/1/2016 | 9/30/2016 | 17,081.98 | 15,106.98 | 16,449.84 |
| 10/1/2016 | 12/31/2016 | 19,494.53 | 16,251.54 | 19,114.37 |
| 1/1/2017 | 3/31/2017 | 19,633.75 | 18,787.99 | 18,909.26 |
| 4/1/2017 | 6/30/2017 | 20,230.41 | 18,335.63 | 20,033.43 |
| 7/1/2017 | 9/30/2017 | 20,397.58 | 19,274.82 | 20,356.28 |
| 10/1/2017 | 12/31/2017 | 22,939.18 | 20,356.28 | 22,764.94 |
| 1/1/2018 | 3/31/2018 | 24,124.15 | 20,617.86 | 21,454.30 |
| 4/1/2018 | 6/30/2018 | 23,002.37 | 21,292.29 | 22,304.51 |
| 7/1/2018 | 9/30/2018 | 24,120.04 | 21,546.99 | 24,120.04 |
| 10/1/2018 | 12/31/2018 | 24,270.62 | 19,155.74 | 20,014.77 |
| 1/1/2019 | 3/31/2019 | 21,822.04 | 19,561.96 | 21,205.81 |
| 4/1/2019 | 4/23/2019* | 22,277.97 | 21,505.31 | 22,259.74 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the "Quarterly High," "Quarterly Low" and "Quarterly Close" data indicated are for this shortened period only.

The graph below illustrates the performance of the Nikkei 225 Index from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the Nikkei 225 Index is not indicative of the future performance of the Nikkei 225 Index.***

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The EURO STOXX 50® Index

The EURO STOXX 50® Index was created by STOXX Limited, which is owned by Deutsche Börse AG and SIX Group AG. Publication of the EURO STOXX 50® Index began on February 26, 1998, based on an initial index value of 1,000 at December 31, 1991. The EURO STOXX 50® Index is composed of 50 component stocks of market sector leaders from within the STOXX 600 Supersector Indices, which includes stocks selected from the Eurozone. The component stocks have a high degree of liquidity and represent the largest companies across all market sectors. For additional information about the EURO STOXX 50® Index, see the information set forth under "EURO STOXX 50® Index" in the accompanying index supplement.

"EURO STOXX 50®" and "STOXX®" are registered trademarks of STOXX Limited. For more information, see "EURO STOXX 50® Index" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the EURO STOXX 50® Index for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the EURO STOXX 50® Index on April 23, 2019 was 3,503.85. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the EURO STOXX 50® Index should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the EURO STOXX 50® Index on the Final Valuation Date.

| Quarter Begin | Quarter End | Quarterly High | Quarterly Low | Quarterly Close |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 3,172.43 | 2,962.49 | 3,161.60 |
| 4/1/2014 | 6/30/2014 | 3,314.80 | 3,091.52 | 3,228.24 |
| 7/1/2014 | 9/30/2014 | 3,289.75 | 3,006.83 | 3,225.93 |
| 10/1/2014 | 12/31/2014 | 3,277.38 | 2,874.65 | 3,146.43 |
| 1/1/2015 | 3/31/2015 | 3,731.35 | 3,007.91 | 3,697.38 |
| 4/1/2015 | 6/30/2015 | 3,828.78 | 3,424.30 | 3,424.30 |
| 7/1/2015 | 9/30/2015 | 3,686.58 | 3,019.34 | 3,100.67 |
| 10/1/2015 | 12/31/2015 | 3,506.45 | 3,069.05 | 3,267.52 |
| 1/1/2016 | 3/31/2016 | 3,178.01 | 2,680.35 | 3,004.93 |
| 4/1/2016 | 6/30/2016 | 3,151.69 | 2,697.44 | 2,864.74 |
| 7/1/2016 | 9/30/2016 | 3,091.66 | 2,761.37 | 3,002.24 |
| 10/1/2016 | 12/31/2016 | 3,290.52 | 2,954.53 | 3,290.52 |
| 1/1/2017 | 3/31/2017 | 3,500.93 | 3,230.68 | 3,500.93 |
| 4/1/2017 | 6/30/2017 | 3,658.79 | 3,409.78 | 3,441.88 |

| | | | | |
|---|---|---|---|---|
| 7/1/2017 | 9/30/2017 | 3,594.85 | 3,388.22 | 3,594.85 |
| 10/1/2017 | 12/31/2017 | 3,697.40 | 3,503.96 | 3,503.96 |
| 1/1/2018 | 3/31/2018 | 3,672.29 | 3,278.72 | 3,361.50 |
| 4/1/2018 | 6/30/2018 | 3,592.18 | 3,340.35 | 3,395.60 |
| 7/1/2018 | 9/30/2018 | 3,527.18 | 3,293.36 | 3,399.20 |
| 10/1/2018 | 12/31/2018 | 3,414.16 | 2,937.36 | 3,001.42 |
| 1/1/2019 | 3/31/2019 | 3,409.00 | 2,954.66 | 3,351.71 |
| 4/1/2019 | 4/23/2019* | 3,503.85 | 3,385.38 | 3,503.85 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the “Quarterly High,” “Quarterly Low” and “Quarterly Close” data indicated are for this shortened period only.

The graph below illustrates the performance of the EURO STOXX 50® Index from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the EURO STOXX 50® Index is not indicative of the future performance of the EURO STOXX 50® Index.***

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The Hang Seng Index

The Hang Seng Index was developed, and is calculated, maintained and published, by Hang Seng Indexes Company (formerly HIS Services Limited), a wholly owned subsidiary of the Hang Seng Bank, and was first calculated and published on November 24, 1969. The Hang Seng Index is a market capitalization weighted stock market index of the Hong Kong Stock Exchange (the "HKSE") and purports to be an indicator of the performance of the Hong Kong stock market. Only companies with a primary listing on the Main Board of the HKSE are eligible to be constituents of the Hang Seng Index. For additional information about the Hang Seng Index, see the information set forth under "Hang Seng Index" in the accompanying index supplement.

"Hang Seng® Index" is a trademark of Hang Seng Indexes Company. For more information, see "Hang Seng Index" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the Hang Seng Index for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the Hang Seng Index on April 23, 2019 was 29,963.24. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the Hang Seng Index should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the Hang Seng Index on the Final Valuation Date.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 23,340.05 | 21,182.16 | 22,151.06 |
| 4/1/2014 | 6/30/2014 | 23,319.17 | 21,746.26 | 23,190.72 |
| 7/1/2014 | 9/30/2014 | 25,317.95 | 22,932.98 | 22,932.98 |
| 10/1/2014 | 12/31/2014 | 24,111.98 | 22,585.84 | 23,605.04 |
| 1/1/2015 | 3/31/2015 | 24,909.90 | 23,485.41 | 24,900.89 |
| 4/1/2015 | 6/30/2015 | 28,442.75 | 25,082.75 | 26,250.03 |
| 7/1/2015 | 9/30/2015 | 26,282.32 | 20,556.60 | 20,846.30 |
| 10/1/2015 | 12/31/2015 | 23,151.94 | 20,846.30 | 21,914.40 |
| 1/1/2016 | 3/31/2016 | 21,914.40 | 18,319.58 | 20,776.70 |
| 4/1/2016 | 6/30/2016 | 21,622.25 | 19,694.33 | 20,794.37 |
| 7/1/2016 | 9/30/2016 | 24,099.70 | 20,495.29 | 23,297.15 |
| 10/1/2016 | 12/31/2016 | 23,952.50 | 21,574.76 | 22,000.56 |
| 1/1/2017 | 3/31/2017 | 24,593.12 | 22,000.56 | 24,111.59 |
| 4/1/2017 | 6/30/2017 | 26,063.06 | 23,825.88 | 25,764.58 |

| | | | | |
|---|---|---|---|---|
| 7/1/2017 | 9/30/2017 | 28,159.77 | 25,340.85 | 27,554.30 |
| 10/1/2017 | 12/31/2017 | 30,003.49 | 27,554.30 | 29,919.15 |
| 1/1/2018 | 3/31/2018 | 33,154.12 | 29,459.63 | 30,093.38 |
| 4/1/2018 | 6/30/2018 | 31,541.08 | 28,356.26 | 28,955.11 |
| 7/1/2018 | 9/30/2018 | 28,955.11 | 26,345.04 | 27,788.52 |
| 10/1/2018 | 12/31/2018 | 27,788.52 | 24,585.53 | 25,845.70 |
| 1/1/2019 | 3/31/2019 | 29,466.28 | 25,064.36 | 29,051.36 |
| 4/1/2019 | 4/23/2019* | 30,157.49 | 29,562.02 | 29,963.24 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the “Quarterly High,” “Quarterly Low” and “Quarterly Close” data indicated are for this shortened period only.

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The graph below illustrates the performance of the Hang Seng Index from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the Hang Seng Index is not indicative of the future performance of the Hang Seng Index.***

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The MSCI Emerging Markets Index$^{SM}$

The MSCI Emerging Markets Index$^{SM}$ is a stock index calculated, published and disseminated daily by MSCI Inc. ("MSCI") and is intended to provide performance benchmarks for certain emerging equity markets including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

For additional information about the MSCI Emerging Markets Index$^{SM}$, see the information set forth under "MSCI Emerging Markets Index$^{SM}$" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the MSCI Emerging Markets Index$^{SM}$ for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the MSCI Emerging Markets Index$^{SM}$ on April 23, 2019 was 1,089.76. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the MSCI Emerging Markets Index$^{SM}$ should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the MSCI Emerging Markets Index$^{SM}$ on the Final Valuation Date.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 1,002.66 | 916.56 | 994.65 |
| 4/1/2014 | 6/30/2014 | 1,057.59 | 993.12 | 1,050.78 |
| 7/1/2014 | 9/30/2014 | 1,100.98 | 1,005.33 | 1,005.33 |
| 10/1/2014 | 12/31/2014 | 1,016.07 | 909.98 | 956.31 |
| 1/1/2015 | 3/31/2015 | 993.82 | 934.73 | 974.57 |
| 4/1/2015 | 6/30/2015 | 1,067.01 | 959.42 | 972.25 |
| 7/1/2015 | 9/30/2015 | 971.91 | 771.77 | 792.05 |
| 10/1/2015 | 12/31/2015 | 868.56 | 771.22 | 794.14 |
| 1/1/2016 | 3/31/2016 | 836.80 | 688.52 | 836.80 |
| 4/1/2016 | 6/30/2016 | 853.69 | 781.84 | 834.10 |
| 7/1/2016 | 9/30/2016 | 927.29 | 819.19 | 903.46 |
| 10/1/2016 | 12/31/2016 | 918.68 | 838.96 | 862.27 |
| 1/1/2017 | 3/31/2017 | 973.08 | 861.88 | 958.37 |
| 4/1/2017 | 6/30/2017 | 1,019.11 | 952.92 | 1,010.80 |
| 7/1/2017 | 9/30/2017 | 1,112.92 | 1,002.48 | 1,081.72 |

| | | | | |
|---|---|---|---|---|
| 10/1/2017 | 12/31/2017 | 1,158.45 | 1,081.72 | 1,158.45 |
| 1/1/2018 | 3/31/2018 | 1,273.07 | 1,142.85 | 1,170.88 |
| 4/1/2018 | 6/30/2018 | 1,184.13 | 1,046.71 | 1,069.52 |
| 7/1/2018 | 9/30/2018 | 1,092.36 | 1,003.33 | 1,047.91 |
| 10/1/2018 | 12/31/2018 | 1,046.40 | 934.80 | 965.78 |
| 1/1/2019 | 3/31/2019 | 1,070.95 | 949.57 | 1,058.13 |
| 4/1/2019 | 4/23/2019* | 1,096.39 | 1,070.09 | 1,089.76 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the “Quarterly High,” “Quarterly Low” and “Quarterly Close” data indicated are for this shortened period only.

The graph below illustrates the performance of the MSCI Emerging Markets Index[SM] from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the MSCI Emerging Markets Index[SM] is not indicative of the future performance of the MSCI Emerging Markets Index[SM].***

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The S&P/ASX 200 Index

The S&P/ASX 200 Index is Australia's large-capitalization tradable equity index and Australia's institutional benchmark. The S&P/ASX 200 Index measures the performance of the 200 largest index-eligible stocks listed on the Australian Securities Exchange by float-adjusted market capitalization. Only stocks that are actively and regularly traded are considered for inclusion in the S&P/ASX 200 Index. The index is float-adjusted, and, as of August 2014, covers approximately 80% of Australian equity market capitalization. For additional information about the S&P/ASX 200 Index, see the information set forth under "S&P/ASX 200 Index" in the accompanying index supplement.

"Standard & Poor's®," "S&P®" and "S&P/ASX 200®" are trademarks of Standard and Poor's Financial Services LLC. For more information, see "S&P/ASX 200 Index" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the S&P/ASX 200 Index for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the S&P/ASX 200 Index on April 23, 2019 was 6,319.417. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the S&P/ASX 200 Index should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the S&P/ASX 200 Index on the Final Valuation Date.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 5,462.309 | 5,070.311 | 5,394.831 |
| 4/1/2014 | 6/30/2014 | 5,536.073 | 5,358.948 | 5,395.747 |
| 7/1/2014 | 9/30/2014 | 5,658.511 | 5,264.217 | 5,292.812 |
| 10/1/2014 | 12/31/2014 | 5,549.130 | 5,152.343 | 5,411.018 |
| 1/1/2015 | 3/31/2015 | 5,975.491 | 5,299.237 | 5,891.505 |
| 4/1/2015 | 6/30/2015 | 5,982.694 | 5,422.487 | 5,459.010 |
| 7/1/2015 | 9/30/2015 | 5,706.715 | 4,918.429 | 5,021.629 |
| 10/1/2015 | 12/31/2015 | 5,351.565 | 4,909.555 | 5,295.900 |
| 1/1/2016 | 3/31/2016 | 5,295.900 | 4,765.346 | 5,082.785 |
| 4/1/2016 | 6/30/2016 | 5,408.017 | 4,924.385 | 5,233.375 |
| 7/1/2016 | 9/30/2016 | 5,587.392 | 5,197.500 | 5,435.921 |
| 10/1/2016 | 12/31/2016 | 5,699.068 | 5,156.556 | 5,665.800 |
| 1/1/2017 | 3/31/2017 | 5,896.229 | 5,610.972 | 5,864.905 |
| 4/1/2017 | 6/30/2017 | 5,956.523 | 5,665.721 | 5,721.494 |
| 7/1/2017 | 9/30/2017 | 5,785.102 | 5,655.420 | 5,681.610 |
| 10/1/2017 | 12/31/2017 | 6,088.143 | 5,651.766 | 6,065.129 |

| | | | | |
|---|---|---|---|---|
| 1/1/2018 | 3/31/2018 | 6,135.807 | 5,759.365 | 5,759.365 |
| 4/1/2018 | 6/30/2018 | 6,232.134 | 5,751.924 | 6,194.633 |
| 7/1/2018 | 9/30/2018 | 6,352.236 | 6,128.717 | 6,207.561 |
| 10/1/2018 | 12/31/2018 | 6,185.486 | 5,467.639 | 5,646.400 |
| 1/1/2019 | 3/31/2019 | 6,263.885 | 5,557.755 | 6,180.731 |
| 4/1/2019 | 4/23/2019* | 6,319.417 | 6,181.259 | 6,319.417 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the "Quarterly High," "Quarterly Low" and "Quarterly Close" data indicated are for this shortened period only.

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The graph below illustrates the performance of the S&P/ASX 200 Index from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the S&P/ASX 200 Index is not indicative of the future performance of the S&P/ASX 200 Index.***

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The FTSE® 100 Index

The FTSE® 100 Index, which is calculated, published and disseminated by FTSE Russell, is a free-float-adjusted index which measures the composite price performance of stocks of the largest 100 companies (determined on the basis of market capitalization) traded on the London Stock Exchange. The 100 stocks included in the FTSE® 100 Index (the "FTSE Underlying Stocks") are selected from a reference group of stocks trading on the London Stock Exchange which are in turn selected by excluding certain stocks that have low liquidity based on public float, accuracy and reliability of prices, size and number of trading days. The FTSE Underlying Stocks are selected from this reference group by selecting 100 stocks with the largest market value. For additional information about the FTSE® 100 Index, see the information set forth under "FTSE™ 100 Index" in the accompanying index supplement.

"FTSE™" and "Footsie™" are trademarks of London Stock Exchange Plc and The Financial Times Limited. For more information, see "FTSE™ 100 Index" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the FTSE® 100 Index for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the FTSE® 100 Index on April 23, 2019 was 7,523.07. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the FTSE® 100 Index should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the FTSE® 100 Index on the Final Valuation Date.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 6,865.86 | 6,449.27 | 6,598.37 |
| 4/1/2014 | 6/30/2014 | 6,878.49 | 6,541.61 | 6,743.94 |
| 7/1/2014 | 9/30/2014 | 6,877.97 | 6,567.36 | 6,622.72 |
| 10/1/2014 | 12/31/2014 | 6,750.76 | 6,182.72 | 6,566.09 |
| 1/1/2015 | 3/31/2015 | 7,037.67 | 6,366.51 | 6,773.04 |
| 4/1/2015 | 6/30/2015 | 7,103.98 | 6,520.98 | 6,520.98 |
| 7/1/2015 | 9/30/2015 | 6,796.45 | 5,898.87 | 6,061.61 |
| 10/1/2015 | 12/31/2015 | 6,444.08 | 5,874.06 | 6,242.32 |
| 1/1/2016 | 3/31/2016 | 6,242.32 | 5,536.97 | 6,174.90 |
| 4/1/2016 | 6/30/2016 | 6,504.33 | 5,923.53 | 6,504.33 |
| 7/1/2016 | 9/30/2016 | 6,941.19 | 6,463.59 | 6,899.33 |
| 10/1/2016 | 12/31/2016 | 7,142.83 | 6,693.26 | 7,142.83 |
| 1/1/2017 | 3/31/2017 | 7,429.81 | 7,099.15 | 7,322.92 |
| 4/1/2017 | 6/30/2017 | 7,547.63 | 7,114.36 | 7,312.72 |
| 7/1/2017 | 9/30/2017 | 7,542.73 | 7,215.47 | 7,372.76 |

| | | | | |
|---|---|---|---|---|
| 10/1/2017 | 12/31/2017 | 7,687.77 | 7,300.49 | 7,687.77 |
| 1/1/2018 | 3/31/2018 | 7,778.64 | 6,888.69 | 7,056.61 |
| 4/1/2018 | 6/30/2018 | 7,877.45 | 7,030.46 | 7,636.93 |
| 7/1/2018 | 9/30/2018 | 7,776.65 | 7,273.54 | 7,510.20 |
| 10/1/2018 | 12/31/2018 | 7,510.28 | 6,584.68 | 6,728.13 |
| 1/1/2019 | 3/31/2019 | 7,355.31 | 6,692.66 | 7,279.19 |
| 4/1/2019 | 4/23/2019* | 7,523.07 | 7,317.38 | 7,523.07 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the “Quarterly High,” “Quarterly Low” and “Quarterly Close” data indicated are for this shortened period only.

The graph below illustrates the performance of the FTSE® 100 Index from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the FTSE® 100 Index is not indicative of the future performance of the FTSE® 100 Index.***

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The Swiss Market Index

The Swiss Market Index ("SMI®") represents approximately 85% of the free-float capitalization of the Swiss equity market. The Swiss Market Index consists of the 20 largest and most liquid equities of the Swiss Performance Index®. The composition of the Swiss Market Index is reviewed annually, and in order to ensure a high degree of continuity in the composition of the Swiss Market Index, the component stocks are subject to a special procedure for adding them to the Swiss Market Index or removing them based on free-float market capitalization and liquidity. For additional information about the Swiss Market Index, see the information set forth under "Swiss Market Index" in the accompanying index supplement.

SMI® is a trademark of SIX Swiss Exchange. For more information, see "Swiss Market Index" in the accompanying index supplement.

Historical Information

The following table sets forth the published high and low Closing Levels, as well as the end-of-quarter Closing Levels, of the Swiss Market Index for each quarter in the period from January 1, 2014 through April 23, 2019. The Closing Level of the Swiss Market Index on April 23, 2019 was 9,635.07. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The historical Closing Levels of the Swiss Market Index should not be taken as an indication of future performance, and no assurance can be given as to the Closing Level of the Swiss Market Index on the Final Valuation Date.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/1/2014 | 3/31/2014 | 8,532.99 | 8,092.53 | 8,453.82 |
| 4/1/2014 | 6/30/2014 | 8,752.86 | 8,280.53 | 8,554.52 |
| 7/1/2014 | 9/30/2014 | 8,840.17 | 8,274.65 | 8,835.14 |
| 10/1/2014 | 12/31/2014 | 9,212.85 | 8,057.54 | 8,983.37 |
| 1/1/2015 | 3/31/2015 | 9,396.29 | 7,899.59 | 9,128.98 |
| 4/1/2015 | 6/30/2015 | 9,471.46 | 8,780.91 | 8,780.91 |
| 7/1/2015 | 9/30/2015 | 9,526.79 | 8,278.07 | 8,513.41 |
| 10/1/2015 | 12/31/2015 | 9,016.56 | 8,375.31 | 8,818.09 |
| 1/1/2016 | 3/31/2016 | 8,818.09 | 7,496.62 | 7,807.89 |
| 4/1/2016 | 6/30/2016 | 8,292.45 | 7,594.49 | 8,020.15 |
| 7/1/2016 | 9/30/2016 | 8,320.99 | 7,898.21 | 8,139.01 |
| 10/1/2016 | 12/31/2016 | 8,259.45 | 7,593.20 | 8,219.87 |
| 1/1/2017 | 3/31/2017 | 8,704.39 | 8,219.87 | 8,658.89 |
| 4/1/2017 | 6/30/2017 | 9,127.61 | 8,529.28 | 8,906.89 |
| 7/1/2017 | 9/30/2017 | 9,176.99 | 8,814.54 | 9,157.46 |
| 10/1/2017 | 12/31/2017 | 9,452.32 | 9,084.04 | 9,381.87 |

| | | | | |
|---|---|---|---|---|
| 1/1/2018 | 3/31/2018 | 9,611.61 | 8,509.29 | 8,740.97 |
| 4/1/2018 | 6/30/2018 | 9,000.89 | 8,456.95 | 8,609.30 |
| 7/1/2018 | 9/30/2018 | 9,201.22 | 8,529.59 | 9,087.99 |
| 10/1/2018 | 12/31/2018 | 9,175.21 | 8,195.64 | 8,429.30 |
| 1/1/2019 | 3/31/2019 | 9,525.92 | 8,429.30 | 9,477.84 |
| 4/1/2019 | 4/23/2019* | 9,635.07 | 9,484.91 | 9,635.07 |

* Available information for the indicated period includes data for less than the entire calendar quarter, and, accordingly, the “Quarterly High,” “Quarterly Low” and “Quarterly Close” data indicated are for this shortened period only.

The graph below illustrates the performance of the Swiss Market Index from January 1, 2008 through April 23, 2019, based on information from Bloomberg. ***Past performance of the Swiss Market Index is not indicative of the future performance of the Swiss Market Index.***

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Additional Terms of the Securities

If the terms discussed in this free writing prospectus differ from those discussed in the prospectus supplement, index supplement or prospectus, the terms contained in this free writing prospectus will control.

**Some Definitions**

We have defined some of the terms that we use frequently in this free writing prospectus below:

t “Closing Level” on any Index Business Day means (i) with respect to each of the Nikkei 225 Index, the EURO STOXX 50® Index, the Hang Seng Index, the S&P/ASX 200 Index, the FTSE® 100 Index and the Swiss Market Index, the closing value of such Underlier, or any Successor Underlier (as defined under “—Discontinuance of an Underlier; Alteration of Method of Calculation” below) published at the regular weekday close of trading on such Index Business Day by the Underlier Publisher for such Underlier, and (ii) with respect to the MSCI Emerging Markets Index$^{\text{SM}}$, the closing value of such Underlier or any Successor Underlier reported by Bloomberg Financial Services, or any successor reporting service the Calculation Agent may select, on that Index Business Day. In certain circumstances, the Closing Level for an Underlier will be based on the alternate calculation of such Underlier as described under “—Discontinuance of an Underlier; Alteration of Method of Calculation.”

The Closing Level of the MSCI Emerging Markets Index$^{\text{SM}}$ reported by Bloomberg Financial Services may be lower or higher than the official Closing Level of such Underlier published by the Underlier Publisher of such Underlier.

t “Underlier Publisher” means, with respect to the Nikkei 225 Index, Nikkei Inc. or any successor thereto; with respect to the SX5E Index, STOXX Limited or any successor thereto; with respect to the HSI Index, Hang Seng Indexes Company or any successor thereto; with respect to the MSCI Emerging Markets Index$^{\text{SM}}$, MSCI Inc., or any successor thereto; with respect to the S&P/ASX 200 Index, S&P Dow Jones Indices or any successor thereto; with respect to the FTSE® 100 Index, FTSE Russell or any successor thereto; and with respect to the Swiss Market Index, SIX Group Ltd. or any successor thereto.

t “Index Business Day” means, with respect to each Underlier, a day, as determined by the Calculation Agent, on which trading is generally conducted on the Relevant Exchange, other than a day on which trading on any Relevant Exchange is scheduled to close prior to the time of the posting of its regular final weekday closing price.

t “Market Disruption Event” means, with respect to each Underlier:

(i) the occurrence or existence of any of:

(a) a suspension, absence or material limitation of trading of stocks then constituting 20 percent or more of the value of such Underlier (or Successor Underlier (as defined below under "—Discontinuance of an Underlier; Alteration of Method of Calculation")) on the Relevant Exchange for such securities for more than two hours of trading or during the one-half hour period preceding the close of the principal trading session on such Relevant Exchange, or

(b) a breakdown or failure in the price and trade reporting systems of any Relevant Exchange as a result of which the reported trading prices for stocks then constituting 20 percent or more of the value of such Underlier (or Successor Underlier) during the last one-half hour preceding the close of the principal trading session on such Relevant Exchange are materially inaccurate, or

(c) the suspension, material limitation or absence of trading on any major U.S. securities market for trading in futures or options contracts or exchange-traded funds related to such Underlier (or Successor Underlier) for more than two hours of trading or during the one-half hour period preceding the close of the principal trading session on such market,

in each case as determined by the Calculation Agent in its sole discretion; and

(ii) a determination by the Calculation Agent in its sole discretion that any event described in clause (i) above materially interfered with our ability or the ability of any of our affiliates to unwind or adjust all or a material portion of the hedge position with respect to the Securities.

For the purpose of determining whether a Market Disruption Event exists at any time with respect to any Underlier, if trading in a security included in such Underlier is materially suspended or materially limited at that time, then the relevant percentage contribution of that security to the value of such Underlier shall be based on a comparison of (x) the portion of the value of such Underlier attributable to that security relative to (y) the overall value of such Underlier, in each case immediately before that suspension or limitation.

For the purpose of determining whether a Market Disruption Event has occurred with respect to any Underlier: (1) a limitation on the hours or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the Relevant Exchange or market, (2) a decision to permanently discontinue trading in the relevant futures or options contract or any exchange-traded fund will not constitute a Market Disruption Event, (3) a suspension of trading in futures or options contracts or exchange-traded funds on such Underlier by the primary securities market trading in such contracts or funds by reason of (a) a price change exceeding limits set by such securities exchange or market, (b) an imbalance of orders relating to such contracts or funds, or (c) a disparity in bid and ask quotes relating to such contracts or funds will constitute a suspension, absence or material limitation of trading in futures or options contracts or exchange-traded funds related to such Underlier and (4) a "suspension, absence or material limitation of

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trading” on any Relevant Exchange or on the primary market on which futures or options contracts or exchange-traded funds related to such Underlier are traded will not include any time when such securities market is itself closed for trading under ordinary circumstances.

“Relevant Exchange” means, with respect to each Underlier, the primary exchange(s) or market(s) of trading for (i) any t security then included in such Underlier, or any Successor Underlier, and (ii) any futures or options contracts related to such Underlier or to any security then included in such Underlier.

**Postponement of Final Valuation Date and Maturity Date**

If the scheduled Final Valuation Date is not an Index Business Day with respect to any Underlier or if a Market Disruption Event occurs on such date with respect to any Underlier, the Closing Level with respect to such affected Underlier (but not the unaffected Underliers) for such date will be determined on the immediately succeeding Index Business Day on which no Market Disruption Event occurs with respect to such affected Underlier. The Final Basket Level will be determined on the date on which the Closing Level for each of the Underliers for such date has been determined; provided that the Closing Level for any affected Underlier with respect to the Final Valuation Date will not be determined on a date later than the fifth scheduled Index Business Day after the scheduled Final Valuation Date. If such date is not an Index Business Day or if there is a Market Disruption Event with respect to the affected Underlier on such date, the Calculation Agent will determine the Closing Level of such Underlier on such date in accordance with the formula for calculating such Underlier last in effect prior to the commencement of the Market Disruption Event (or prior to the non-Index Business Day), without rebalancing or substitution, using the closing price (or, if trading in the relevant securities has been materially suspended or materially limited, its good faith estimate of the closing price that would have prevailed but for such suspension, limitation or non-Index Business Day) on such date of each security most recently constituting such Underlier.

If the Final Valuation Date is postponed so that it falls less than two business days prior to the scheduled Maturity Date, the Maturity Date will be the second business day following the Final Valuation Date, as postponed.

**Alternate Exchange Calculation in case of an Event of Default**

If an event of default with respect to the Securities shall have occurred and be continuing, the amount declared due and payable upon any acceleration of the Securities (the “Acceleration Amount”) will be an amount, determined by the Calculation Agent in its sole discretion, that is equal to the cost of having a Qualified Financial Institution, of the kind and selected as described below, expressly assume all our payment and other obligations with respect to the Securities as of that day and as if no default or acceleration had occurred, or to undertake other obligations providing substantially equivalent economic value to you with respect to the Securities. That cost will equal:

- o the lowest amount that a Qualified Financial Institution would charge to effect this assumption or undertaking, plus

- o the reasonable expenses, including reasonable attorneys' fees, incurred by the holders of the Securities in preparing any documentation necessary for this assumption or undertaking.

During the Default Quotation Period for the Securities, which we describe below, the holders of the Securities and/or we may request a Qualified Financial Institution to provide a quotation of the amount it would charge to effect this assumption or undertaking. If either party obtains a quotation, it must notify the other party in writing of the quotation. The amount referred to in the first bullet point above will equal the lowest—or, if there is only one, the only—quotation obtained, and as to which notice is so given, during the Default Quotation Period. With respect to any quotation, however, the party not obtaining the quotation may object, on reasonable and significant grounds, to the assumption or undertaking by the Qualified Financial Institution providing the quotation and notify the other party in writing of those grounds within two business days after the last day of the Default Quotation Period, in which case that quotation will be disregarded in determining the Acceleration Amount.

Notwithstanding the foregoing, if a voluntary or involuntary liquidation, bankruptcy or insolvency of, or any analogous proceeding is filed with respect to MSFL or Morgan Stanley, then depending on applicable bankruptcy law, your claim may be limited to an amount that could be less than the Acceleration Amount.

If the maturity of the Securities is accelerated because of an event of default as described above, we shall, or shall cause the Calculation Agent to, provide written notice to the Trustee at its New York office, on which notice the Trustee may conclusively rely, and to the Depositary of the Acceleration Amount and the aggregate cash amount due, if any, with respect to the Securities as promptly as possible and in no event later than two business days after the date of such acceleration.

*Default Quotation Period*

The Default Quotation Period is the period beginning on the day the Acceleration Amount first becomes due and ending on the third business day after that day, unless:

- o no quotation of the kind referred to above is obtained, or

- o every quotation of that kind obtained is objected to within five business days after the due date as described above.

If either of these two events occurs, the Default Quotation Period will continue until the third business day after the first business day on which prompt notice of a quotation is given as described above. If that quotation is objected to as described above within five business days after that first business day, however, the Default Quotation Period will continue as described in the prior sentence and this sentence.

In any event, if the Default Quotation Period and the subsequent two business day objection period have not ended before the Final Valuation Date, then the Acceleration Amount will equal the principal amount of the Securities.

*Qualified Financial Institutions*

For the purpose of determining the Acceleration Amount at any time, a Qualified Financial Institution must be a financial institution organized under the laws of any jurisdiction in the United States or Europe, which at that time has outstanding debt obligations with a stated maturity of one year or less from the date of issue and rated either:

o A-2 or higher by Standard & Poor's Ratings Services or any successor, or any other comparable rating then used by that rating agency, or

o P-2 or higher by Moody's Investors Service or any successor, or any other comparable rating then used by that rating agency.

**Discontinuance of an Underlier; Alteration of Method of Calculation**

If an Underlier Publisher of the relevant Underlier discontinues publication of such Underlier and the Underlier Publisher or another entity (including MS & Co.) publishes a successor or substitute index that the Calculation Agent determines, in its sole discretion, to be comparable to such discontinued Underlier (such index being referred to herein as a "Successor Underlier"), then any subsequent Closing Level for the discontinued Underlier will be determined by reference to the published value of such Successor Underlier at the regular weekday close of trading on any Index Business Day that the Closing Level for such Underlier is to be determined, and, to the extent the Closing Level of the Successor Underlier differs from the Closing Level of the relevant Underlier at the time of such substitution, proportionate adjustments will be made by the Calculation Agent for purposes of calculating payments on the Securities.

Upon any selection by the Calculation Agent of a Successor Underlier, the Calculation Agent will cause written notice thereof to be furnished to the Trustee, to us and to the Depositary, as holder of the Securities, within three business days of such selection. We expect that such notice will be made available to you, as a beneficial owner of such Securities, in accordance with the standard rules and procedures of the Depositary and its direct and indirect participants.

If an Underlier Publisher discontinues publication of the relevant Underlier prior to, and such discontinuance is continuing on, the Final Valuation Date and the Calculation Agent determines, in its sole discretion, that no Successor

Underlier is available at such time, then the Calculation Agent will determine the Closing Level for such Underlier for such date. The Closing Level of such Underlier will be computed by the Calculation Agent in accordance with the formula for and method of calculating such Underlier last in effect prior to such discontinuance, using the closing price (or, if trading in the relevant securities has been materially suspended or materially limited, its good faith estimate of the closing price that would have prevailed but for such suspension or limitation) at the close of the principal trading session of the Relevant Exchange on the Final Valuation Date of each security most recently constituting such Underlier without any rebalancing or substitution of such securities following such discontinuance. Notwithstanding these alternative arrangements, discontinuance of the publication of any Underlier may adversely affect the value of the Securities.

If at any time the method of calculating an Underlier or Successor Underlier, or the value thereof, is changed in a material respect, or if an Underlier or Successor Underlier is in any other way modified so that such index does not, in the opinion of the Calculation Agent, fairly represent the value of such index had such changes or modifications not been made, then, from and after such time, the Calculation Agent will, at the close of business in New York City on each date on which the Closing Level for such index is to be determined, make such calculations and adjustments as, in the good faith judgment of the Calculation Agent, may be necessary in order to arrive at a value of a stock index comparable to such Underlier or Successor Underlier, as the case may be, as if such changes or modifications had not been made, and the Calculation Agent will calculate the Closing Level with reference to such Underlier or Successor Underlier, as adjusted. Accordingly, if the method of calculating such Underlier or Successor Underlier is modified so that the value of such index is a fraction of what it would have been if it had not been modified (e.g., due to a split in such index), then the Calculation Agent will adjust such index in order to arrive at a value of such Underlier or Successor Underlier as if it had not been modified (e.g., as if such split had not occurred).

**Trustee**

The “Trustee” for each offering of notes issued under our Senior Debt Indenture, including the Securities, will be The Bank of New York Mellon, a New York banking corporation.

**Agent**

The “agent” is MS & Co.

**Calculation Agent and Calculations**

The “Calculation Agent” for the Securities will be MS & Co. As Calculation Agent, MS & Co. will determine, among other things, the Initial Levels, the Final Levels, the Final Basket Level, the Basket Return and the Payment at Maturity.

All determinations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will, in the absence of manifest error, be conclusive for all purposes and binding on you, the Trustee and us.

All calculations with respect to the Payment at Maturity will be rounded to the nearest one billionth, with five ten-billionths rounded upward (e.g., .9876543215 would be rounded to .987654322); all dollar amounts related to determination of the

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amount of cash payable per Security will be rounded to the nearest ten-thousandth, with five one hundred-thousandths rounded upward (e.g., .76545 would be rounded up to .7655); and all dollar amounts paid on the aggregate number of Securities will be rounded to the nearest cent, with one-half cent rounded upward.

Because the Calculation Agent is our affiliate, the economic interests of the Calculation Agent and its affiliates may be adverse to your interests, as an owner of the Securities, including with respect to certain determinations and judgments that the Calculation Agent must make in determining the Final Basket Level or whether a Market Disruption Event has occurred. See "—Discontinuance of an Underlier; Alteration of Method of Calculation," and the definition of Market Disruption Event. MS & Co. is obligated to carry out its duties and functions as Calculation Agent in good faith and using its reasonable judgment.

**Issuer Notice to Registered Security Holders, the Trustee and the Depositary**

In the event that the Maturity Date of the Securities is postponed due to a postponement of the Final Valuation Date, the Issuer shall give notice of such postponement and, once it has been determined, of the date to which the Maturity Date has been rescheduled (i) to each registered holder of the Securities by mailing notice of such postponement by first class mail, postage prepaid, to such registered holder's last address as it shall appear upon the registry books, (ii) to the Trustee by facsimile confirmed by mailing such notice to the Trustee by first class mail, postage prepaid, at its New York office and (iii) to The Depository Trust Company (the "Depositary") by telephone or facsimile confirmed by mailing such notice to the Depositary by first class mail, postage prepaid. Any notice that is mailed to a registered holder of the Securities in the manner herein provided shall be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder receives the notice. The Issuer shall give such notice as promptly as possible, and in no case later than (i) with respect to notice of postponement of the Maturity Date, the business day immediately preceding the scheduled Maturity Date and (ii) with respect to notice of the date to which the Maturity Date has been rescheduled, the business day immediately following the Final Valuation Date as postponed.

The Issuer shall, or shall cause the Calculation Agent to, (i) provide written notice to the Trustee and to the Depositary of the amount of cash, if any, to be delivered with respect to each stated principal amount of the Securities, on or prior to 10:30 a.m. (New York City time) on the business day preceding the Maturity Date, and (ii) deliver the aggregate cash amount due with respect to the Securities, if any, to the Trustee for delivery to the Depositary, as holder of the Securities, on the Maturity Date.

Additional Information About the Securities

Use of Proceeds and Hedging

The proceeds from the sale of the Securities will be used by us for general corporate purposes. We will receive, in aggregate, $10 per Security issued, because, when we enter into hedging transactions in order to meet our obligations under the Securities, our hedging counterparty will reimburse the cost of the Agent's commissions. The costs of the Securities borne by you and described on page 2 above comprise the Agent's commissions and the cost of issuing, structuring and hedging the Securities. See also "Use of Proceeds" in the accompanying prospectus.

On or prior to the Trade Date, we will hedge our anticipated exposure in connection with the Securities, by entering into hedging transactions with our affiliates and/or third party dealers. We expect our hedging counterparties to take positions in the constituent stocks of the Underliers, in futures or options contracts on the Underliers or the constituent stocks of the Underliers, as well as in other instruments related to the Underliers that they may wish to use in connection with such hedging. Such purchase activity could increase the Initial Levels of the Underliers, and, therefore, could increase the levels at or above which the Underliers must close on the Final Valuation Date so that you do not suffer a loss on your initial investment in the Securities. In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the Securities, including on the Final Valuation Date, by purchasing and selling the constituent stocks of the Underliers, futures or options contracts on the Underliers or the constituent stocks of the Underliers, as well as other instruments related to the Underliers that we may wish to use in connection with such hedging activities, including by purchasing or selling any such securities or instruments on the Final Valuation Date. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Final Valuation Date approaches. We cannot give any assurance that our hedging activities will not affect the levels of the Underliers, and, therefore, adversely affect the value of the Securities or the amount payable at maturity, if any.

Benefit Plan Investor Considerations

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also "Plans"). ERISA Section 406 and Code Section 4975 generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the Securities are acquired by or with the assets of a Plan with respect to which MS & Co. or any of its affiliates is a service provider or other party in interest, unless the Securities are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the Securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Code Section 4975(d)(20) provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than "adequate consideration" in connection with the transaction (the so-called "service provider" exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the Securities.

Because we may be considered a party in interest with respect to many Plans, the Securities may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the Securities will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the Securities that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such Securities on behalf of or with "plan assets" of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the

Code (“Similar Law”) or (b) its purchase, holding and disposition of these Securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Securities on behalf of or with “plan assets” of any Plan consult with their counsel regarding the availability of exemptive relief.

The Securities are contractual financial instruments. The financial exposure provided by the Securities is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the Securities. The Securities have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the Securities.

Each purchaser or holder of any Securities acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the Securities, (B) the purchaser or holder’s investment in the Securities, or (C) the exercise of or failure to exercise any rights we have under or with respect to the Securities;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the Securities and (B) all hedging transactions in connection with our obligations under the Securities;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the Securities has exclusive responsibility for ensuring that its purchase, holding and disposition of the Securities do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any Securities to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this document is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of these Securities should consult and rely on their own counsel and advisers as to whether an investment in these Securities is suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the Securities if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morgan Stanley Wealth Management or a family member and the employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the Securities by the account, plan or annuity.

**Supplemental Plan of Distribution; Conflicts of Interest**

MS & Co. will act as the agent for this offering. We will agree to sell to MS & Co., and MS & Co. will agree to purchase, all of the Securities at the issue price less the underwriting discount indicated on the cover of this document. UBS Financial Services Inc., acting as dealer, will receive from MS & Co. a fixed sales commission of $0.20 for each Security it sells.

MS & Co. is our affiliate and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the Securities. When MS & Co. prices this offering of Securities, it will determine the economic terms of the Securities, including the level of the Maximum Gain, such that for each Security the estimated value on the Trade Date will be no lower than the minimum level described in “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2.

MS & Co. will conduct this offering in compliance with the requirements of Rule 5121 of the Financial Industry Regulatory Authority, Inc. (“FINRA”), regarding a FINRA member firm’s distribution of the securities of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account.

In order to facilitate the offering of the Securities, the agent may engage in transactions that stabilize, maintain or otherwise affect the price of the Securities. Specifically, the agent may sell more Securities than it is obligated to purchase in connection with the offering, creating a naked short position in the Securities, for its own account. The agent must close out any naked short position by purchasing the Securities in the open market. A naked short position is more likely to be created if the agent is concerned that there may be downward pressure on the price of the

Securities in the open market after pricing that could adversely affect investors who purchase in the offering. As an additional means of facilitating the offering, the agent may bid for, and purchase, the Securities or the constituent stocks of the Underliers in the open market to stabilize the price of the Securities. Any of these activities may raise or maintain the market price of the Securities above independent market levels or prevent or retard a decline in the market price of the Securities. The agent is not required to engage in these activities, and may end any of these activities at any time. An affiliate of the agent has entered into a hedging transaction with us in connection with this offering of Securities. See “—Use of Proceeds and Hedging” above.

**Form of Securities**

The Securities will be issued in the form of one or more fully registered global securities which will be deposited with, or on behalf of, the Depositary and will be registered in the name of a nominee of the Depositary. The Depositary’s nominee will be the only registered holder of the Securities. Your beneficial interest in the Securities will be evidenced solely by entries on the books of the securities intermediary acting on your behalf as a direct or indirect participant in the Depositary. In this free writing prospectus, all references to payments or notices to you will mean payments or notices to the Depositary, as the registered holder of the Securities, for distribution to participants in accordance with the Depositary’s procedures. For more information regarding the Depositary and book entry notes, please read “Form of Securities—The Depositary” in the accompanying prospectus supplement and “Securities Offered on a Global Basis Through the Depositary” in the accompanying prospectus.

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Our G4 PLATINUM and G5 Mobile systems are more invasive than current self-monitored glucose testing systems, including single-point finger stick devices, and people with diabetes may be unwilling to insert a sensor in their body, especially if their current diabetes management involves no more than two finger sticks per day. Moreover, people with diabetes may not perceive the benefits of continuous glucose monitoring and may be unwilling to change their current treatment regimens. In addition, physicians tend to be slow to change their medical treatment practices because of perceived liability risks arising from the use of new products. Physicians may not recommend or prescribe our products until (i) there is more long-term clinical evidence to convince them to alter their existing treatment methods, (ii) there are additional recommendations from prominent physicians that our products are effective in monitoring glucose levels and (iii) reimbursement or insurance coverage is more widely available. We cannot predict when, if ever, physicians and people with diabetes may adopt more widespread use of continuous glucose monitoring systems, including our systems. If our systems do not achieve an adequate level of acceptance by people with diabetes, physicians and healthcare payors, we may not generate significant product revenue and we may not become profitable.

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Current uncertainty in global economic and political conditions makes it particularly difficult to predict product demand and other related matters and makes it more likely that our actual results could differ materially from expectations.

Our operations and performance depend on worldwide economic and political conditions, which have been adversely impacted by continued global economic uncertainty, political instability and military hostilities in multiple geographies, concerns over the downgrade of U.S. sovereign debt and continued sovereign debt, monetary and financial uncertainties in Europe and other foreign countries. These conditions have and may continue to make it difficult for our customers and potential customers to afford our products, and could cause our customers to stop using our products or to use them less frequently. If that were to occur, we may experience a decrease in revenue and our performance may be negatively impacted. In addition, the pressure on consumers to absorb more of their own health care costs has resulted in some cases in higher deductibles and limits on durable medical equipment, which may cause seasonality in purchasing patterns. Furthermore, during economic uncertainty, our customers have experienced job losses and may continue to experience issues gaining timely access to sufficient health insurance or credit, which could result in their unwillingness to purchase products or an impairment of their ability to make timely payments to us. We cannot predict the reoccurrence of any economic slowdown or the strength or sustainability of the economic recovery, worldwide, in the United States, or in our industry. These and other economic factors could have a material adverse effect on our financial condition and operating results.

We depend on clinical investigators and clinical sites to enroll patients in our clinical trials and other third parties to manage the trials and to perform related data collection and analysis, and, as a result, we may face costs and delays that are outside of our control.

We rely on clinical investigators and clinical sites to enroll patients in our clinical trials and other third parties to manage the trial and to perform related data collection and analysis. However, we may not be able to control the amount and timing of resources that clinical sites may devote to our clinical trials. If these clinical investigators and clinical sites fail to enroll a sufficient number of patients in our clinical trials or fail to ensure compliance by patients with clinical protocols or fail to comply with regulatory requirements, we will be unable to complete these trials, which could prevent us from obtaining regulatory approvals for our products. Our agreements with clinical investigators and clinical sites for clinical testing place substantial responsibilities on these parties and, if these parties fail to perform as expected, our trials could be delayed or terminated. If these clinical investigators, clinical sites or other third parties do not carry out their contractual duties or obligations or fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated, or the clinical data may be rejected by the FDA, and we may be unable to obtain regulatory approval for, or successfully commercialize, our products.

Healthcare reforms, changes in healthcare policies and changes to third-party reimbursements for our products may affect demand for our products.

Comprehensive healthcare legislation, signed into law in March 2010, imposes stringent compliance, recordkeeping, and reporting requirements on companies in various sectors of the life sciences industry, with which we may need to comply, and enhanced penalties for non-compliance with the new healthcare regulations. The impact of this legislation remains unclear, and costs of compliance with this legislation, or any future amendments thereto, could result in certain risks and expenses that we may have to assume.

Other political and regulatory influences are also subjecting our industry to significant changes, and we cannot predict whether new regulations will emerge at the federal or state level, or abroad. The U.S. government may in the future consider healthcare policies and proposals intended to curb rising healthcare costs, including those that could significantly affect reimbursement for healthcare products such as our systems. These policies have included, and may in the future include: basing reimbursement policies and rates on clinical outcomes, the comparative effectiveness and costs of different treatment technologies and modalities; imposing price controls and taxes on medical device providers; and other measures. Future significant changes in the healthcare systems in the United States or elsewhere could also have a negative impact on the demand for our current and future products. These include changes that may reduce reimbursement rates for our products and changes that may be proposed or implemented by the current or future U.S. Presidential administration or Congress.

In addition, the comprehensive healthcare reform legislation included an annual excise tax on the sale of medical devices equal to 2.3% of the price of the device starting on January 1, 2013, which does not include, under Internal Revenue Service (“IRS”) guidance, our existing systems as they are medical devices deemed to be generally purchased by the general public at retail under such legislation.  The Protecting Americans from Tax Hikes Act of 2015 was enacted on December 18, 2015, which provides a two-year moratorium on the medical device excise tax.

As a result, as of December 31, 2015, we believed that our current ambulatory products were exempt from the excise tax, except for our G4 PLATINUM system for professional use which is subject to the excise tax. The current tax liability related to our G4 PLATINUM system for professional use is immaterial, but may become material in the future. Notwithstanding our belief, if the IRS were to determine that this tax applies to any of our current or future products, our future operating results could be harmed, which in turn could cause the price of our stock to decline. In addition, because of the uncertainty surrounding these issues, the impact of this tax has not been reflected in our forward guidance.

We may be liable for contamination or other harm caused by materials that we handle, and changes in environmental regulations could cause us to incur additional expense.

Our research and development and clinical processes involve the handling of potentially harmful biological materials as well as hazardous materials. We are subject to federal, state and local laws and regulations governing the use, handling, storage and disposal of hazardous and biological materials and we incur expenses relating to compliance with these laws and regulations. If violations of environmental, health and safety laws occur, we could be held liable for damages, penalties and costs of remedial actions. These expenses or this liability could have a significant negative impact on our financial condition. We may violate environmental, health and safety laws in the future as a result of human error, equipment failure or other causes. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations. We are subject to potentially conflicting and changing regulatory agendas of political, business and environmental groups. Changes to or restrictions on permitting requirements or processes, hazardous or biological material storage or handling might require an unplanned capital investment or relocation. Failure to comply with new or existing laws or regulations could harm our business, financial condition and results of operations.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing our products abroad.

We conduct limited commercial and marketing efforts in Canada, Europe, Australia, New Zealand, the Middle East, Latin America, Asia and Africa with respect to our continuous glucose monitoring systems and may seek to market our products in other regions in the future. Outside the United States, we can market a product only if we receive a marketing authorization and, in some cases, pricing approval, from the appropriate regulatory authorities. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval in addition to other risks. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. In addition, in order to obtain the approval of our products in certain foreign jurisdictions, we may need to obtain a Certificate to Foreign Government from the FDA. The FDA may refuse to issue a Certificate to Foreign Government in certain instances, including without limitation, during the pendency of any outstanding warning letter. As a result, we may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market outside the United States on a timely basis, or at all.

Our success will depend on our ability to attract and retain our personnel.

We are highly dependent on our senior management, especially Terry Gregg, our Executive Chairman, Kevin Sayer, our President and Chief Executive Officer, Steven R. Pacelli, our Executive Vice President of Strategy and Corporate Development, Jorge Valdes, our Executive Vice President and Chief Technical Officer, Andrew K. Balo, our Executive Vice President of Clinical, Regulatory, and Quality, and Richard Doubleday, our Executive Vice President and Chief Commercial Officer. Our success will depend on our ability to retain our current management and to attract and retain qualified personnel in the future, including sales persons, scientists, clinicians, engineers and other highly skilled personnel. Competition for senior management personnel, as well as sales persons, scientists, clinicians and engineers, is intense and we may not be able to retain our personnel. The loss of the services of members of our senior management, scientists, clinicians or engineers could prevent the implementation and completion of our objectives, including the commercialization of our current products and the development and introduction of additional products. The loss of a member of our senior management or our professional staff would require the remaining executive officers to divert immediate and substantial attention to seeking a replacement. Each of our officers may terminate their employment at any time without notice and without cause or good reason. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees.

We expect to continue to expand our operations and grow our research and development, manufacturing, sales and marketing, product development and administrative operations. We expect this expansion to place a significant strain on our management and it will require hiring a significant number of qualified personnel. Accordingly, recruiting and retaining such personnel will be critical to our success. There is intense competition from other companies and research and academic institutions for qualified personnel in the areas of our activities. If we fail to identify, attract, retain and motivate these skilled personnel, we may be unable to continue our development and commercialization activities.

We may face risks associated with acquisitions of companies, products and technologies and our business could be harmed if we are unable to address these risks.

If we are presented with appropriate opportunities, we could acquire or make other investments in complementary companies, products or technologies. In March 2012, we acquired SweetSpot. We may not realize the anticipated benefit of the acquisition of SweetSpot or any future acquisition, or the realization of the anticipated benefits may require greater expenditures than anticipated by us. We will likely face risks, uncertainties and disruptions associated with the integration process, including difficulties in the integration of the operations and services of any acquired company, integration of acquired technology with our products, diversion of our management's attention from other business concerns, the potential loss of key employees or customers of the acquired businesses and impairment charges if future acquisitions are not as successful as we originally anticipate. If we fail to successfully integrate other companies, products or technologies that we acquire, our business could be harmed. Furthermore, we may have to incur debt or issue equity securities to pay for any additional future acquisitions or investments, the issuance of which could be dilutive to our existing shareholders. In addition, our operating results may suffer because of acquisition-related costs or amortization expenses or charges relating to acquired intangible assets.

Compliance with regulations relating to public company corporate governance matters and reporting is time consuming and expensive.

Many laws and regulations, notably those adopted in connection with the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, new SEC regulations and The NASDAQ Stock Market listing rules, impose obligations on public companies, such as ours, which have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. Compliance with these laws and regulations, including enhanced new disclosures, has required and will continue to require substantial management time and oversight and the incurrence of significant accounting and legal costs. The effects of new laws and regulations remain unclear and will likely require substantial management time and oversight and require us to incur significant additional accounting and legal costs. Additionally, changes to existing accounting rules or standards, such as the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards, may adversely impact our reported financial results and business, and may require us to incur greater accounting fees.

If we are unable to successfully maintain effective internal control over financial reporting, investors may lose confidence in our reported financial information and our stock price and our business may be adversely impacted.

As a public company, we are required to maintain internal control over financial reporting and our management is required to evaluate the effectiveness of our internal control over financial reporting as of the end of each fiscal year. If we are not successful in maintaining effective internal control over financial reporting, there could be inaccuracies or omissions in the consolidated financial information we are required to file with the SEC. Additionally, even if there are no inaccuracies or omissions, we will be required to publicly disclose the conclusion of our management that our internal control over financial reporting or disclosure controls and procedures are not effective. These events could cause investors to lose confidence in our reported financial information, adversely impact our stock price, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits that could be costly to resolve and distract management’s attention, limit our ability to access the capital markets or cause our stock to be delisted from The NASDAQ Global Select Market or any other securities exchange on which it is then listed.

Valuation of share-based payments, which we are required to perform for purposes of recording compensation expense under authoritative guidance for share-based payment, involves assumptions that are subject to change and difficult to predict.

We record compensation expense in the consolidated statement of operations for share-based payments, such as employee stock options, restricted stock units and employee stock purchase plan shares, using the fair value method. The requirements of the authoritative guidance for share-based payment have and will continue to have a material effect on our future financial results reported under U.S. GAAP and make it difficult for us to accurately predict the impact on our future financial results.

For instance, estimating the fair value of share-based payments is highly dependent on assumptions regarding the future exercise behavior of our employees and changes in our stock price. The actual values realized upon the exercise, expiration, early termination or forfeiture of share-based payments might be significantly different than our estimates of the fair values of those awards as determined at the date of grant. If there are errors in our input assumptions for our valuations models, we may inaccurately calculate actual or estimated compensation expense for share-based payments.

The authoritative guidance for share-based payment could also adversely impact our ability to provide accurate guidance on our future financial results as assumptions that are used to estimate the fair value of share-based payments are based on estimates and judgments that may differ from period to period. We may also be unable to accurately predict the amount and timing of the recognition of tax benefits associated with share-based payments as they are highly dependent on the exercise behavior of our employees and the price of our stock relative to the exercise price of each outstanding stock option.

For those reasons, among others, the authoritative guidance for share-based payment may create variability and uncertainty in the share-based compensation expense we will record in future periods, which could adversely impact our stock price and increase our expected stock price volatility as compared to prior periods.

Changes in financial accounting standards or practices or existing taxation rules or practices may cause adverse unexpected revenue and/or expense fluctuations and affect our reported results of operations.

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practice have occurred and may occur in the future. The method in which we market and sell our products may have an impact on the manner in which we recognize revenue. In addition, changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. Additionally, changes to existing accounting rules or standards, such as the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards, may adversely impact our reported financial results and business, and may further require us to incur greater accounting fees.

The SEC ”conflict minerals” rule has caused us to incur additional expenses, could limit the supply and increase the cost of certain metals used in manufacturing our products, and could make us less competitive in our target markets.

We are required to disclose the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The requirement mandates companies to obtain sourcing data from suppliers, engage in supply chain due diligence, and file annually with the SEC a specialized disclosure report on Form SD covering the prior calendar year. The rule could limit our ability to source at competitive prices and to secure sufficient quantities of certain minerals used in the manufacture of our products, specifically tantalum, tin, gold and tungsten, as the number of suppliers that provide conflict-free minerals may be limited. In addition, we have incurred, and may continue to incur, material costs associated with complying with the rule, such as costs related to the determination of the origin, source and chain of custody of the minerals used in our products, the adoption of conflict minerals-related governance policies, processes and controls, and possible changes to products or sources of supply as a result of such activities. Within our supply chain, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the data collection and due diligence procedures that we implement, which may harm our reputation. Furthermore, we may encounter challenges in satisfying those customers that require that all of the components of our products be certified as conflict free, and if we cannot satisfy these customers, they may choose a competitor’s products. We continue to investigate the presence of conflict materials within our supply chain.

Risks Related to Our Common Stock

Our stock price is highly volatile and investing in our stock involves a high degree of risk, which could result in substantial losses for investors.

Historically, the market price of our common stock, like the securities of many other medical products companies, fluctuates and could continue to be volatile in the future. From January 1, 2015 through February 23, 2016, the closing price of our common stock on the NASDAQ Global Select Market was as high as $101.91 per share and as low as

$53.38 per share.

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The market price of our common stock is influenced by many factors that are beyond our control, including the following:

- securities analyst coverage or lack of coverage of our common stock or changes in their estimates of our financial performance;
- variations in quarterly operating results;
- future sales of our common stock by our stockholders;
- investor perception of us and our industry;
- announcements by us or our competitors of significant agreements, acquisitions or capital commitments;
- changes in market valuation or earnings of our competitors;
- general economic conditions;
- regulatory actions;
- legislation and political conditions; and
- terrorist acts.

Please also refer to the factors described above in this "Risk Factors" section. In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated and disproportionate to the operating performance of companies in our industry. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance.

Further, securities class action litigation has often been brought against public companies that experience periods of volatility in the market prices of their securities. Securities class action litigation could result in substantial costs and a diversion of our management's attention and resources.

If our financial performance fails to meet the expectations of investors and public market analysts, the market price of our common stock could decline.

Our revenues and operating results may fluctuate significantly from quarter to quarter. We believe that period-to-period comparisons of our operating results may not be meaningful and should not be relied on as an indication of our future performance. If quarterly revenues or operating results fall below the expectations of investors or public market analysts, the trading price of our common stock could decline substantially. Factors that might cause quarterly fluctuations in our operating results include:

- our inability to manufacture an adequate supply of product at appropriate quality levels and acceptable costs;
- possible delays in our research and development programs or in the completion of any clinical trials;
- a lack of acceptance of our products in the marketplace by physicians and people with diabetes;
- the inability of customers to receive reimbursements from third-party payors;
- failures to comply with regulatory requirements, which could lead to withdrawal of products from the market;
- our failure to continue the commercialization of any of our continuous glucose monitoring systems;
- competition;
- inadequate financial and other resources; and
- global and political economic conditions, political instability and military hostilities.

The fall in our common stock trading price that occurred in early February 2016, is an example of these risks.

Failure to comply with covenants in our loan agreement with Silicon Valley Bank and Oxford Finance LLC could result in our inability to borrow additional funds and adversely impact our business.

We have entered into a loan and security agreement with the Silicon Valley Bank and Oxford Finance LLC to fund our business operations. This loan and security agreement imposes numerous financial and other restrictive covenants on our operations, including covenants relating to our general profitability and our liquidity. As of December 31, 2015, we were in compliance with the covenants imposed by the loan and security agreement. If we violate these or any other covenants, any outstanding amounts under these agreements could become due and payable prior to their stated maturity dates, each lender could proceed against any collateral in our operating accounts and our ability to borrow funds in the future may be restricted or eliminated. These restrictions may also limit our ability to borrow additional funds and pursue other business opportunities or strategies that we would otherwise consider to be in our best interests.

The issuance of shares by us in the future or sales of shares by our stockholders may cause the market price of our common stock to drop significantly, even if our business is performing well.

This issuance of shares by us in the future or sales of shares by our stockholders may cause the market price of our common stock to decline, perhaps significantly, even if our business is performing well. The market price of our common stock could also decline if there is a perception that sales of our shares are likely to occur in the future. This might also make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Also, we may issue securities in connection with future financings and acquisitions, and those shares could dilute the holdings of other stockholders.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future and the terms of our loan and security agreement restrict our ability to declare or pay any dividends. As a result, stockholders may only receive a return on their investment in our common stock if the market price of our common stock increases.

Anti-takeover effects of our charter documents and Delaware law could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

In addition, there are provisions in our certificate of incorporation and bylaws, as well as provisions in the Delaware General Corporation Law, that may discourage, delay or prevent a change of control that might otherwise be beneficial to stockholders. For example:

- our Board of Directors may, without stockholder approval, issue shares of preferred stock with special voting or economic rights;
- our stockholders do not have cumulative voting rights and, therefore, each of our directors can only be elected by holders of a majority of our outstanding common stock;
- a special meeting of stockholders may only be called by a majority of our Board of Directors, the Chairman of our Board of Directors, or our Chief Executive Officer;
- our stockholders may not take action by written consent;
- our Board of Directors is divided into three classes, only one of which is elected each year; and
- we require advance notice for nominations for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table summarizes the facilities we lease as of December 31, 2015, including the location and size of each principal facility, and their designated use.

| Location | Approximate Square Feet | Operation | Lease Expiration Dates |
|---|---|---|---|
| San Diego, CA | 327,000 | Laboratory, Manufacturing, Research and Development, Warehouse, General and Administrative, Sales and Marketing | 2022* |
| Portland, OR | 4,100 | Research and Development, General and Administrative | 2017 |
| Fort Lauderdale, FL | 3,500 | Research and Development | 2015 |
| Stockholm, Sweden | 300 | Sales | 2017 |

* not including renewals that would be at our option to extend the term of this lease for two additional five-year terms.

On February 1, 2016, we leased an additional 132,600 square feet of office space in San Diego, CA through January 2022. For additional detail see Note 10 “Subsequent Events” in the Notes to our Consolidated Financial Statements in this Form 10-K.

We believe our facilities are adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed.

## ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims, complaints and legal actions that arise from time to time in the normal course of business. 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 operations or financial position. 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, consolidated financial position, results of operations or cash flows.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

DexCom's common stock is traded on the NASDAQ Global Select Market under the symbol "DXCM." As of February 18, 2016, there were approximately 51 stockholders of record, excluding stockholders whose shares were held in nominee or street name by brokers. We have not paid any cash dividends, do not currently have plans to do so in the foreseeable future and the terms of our loan and security agreement restrict our ability to declare or pay any dividends.

The following table sets forth the high and low intraday sales price per share for DexCom's common stock for the periods indicated:

| | High | Low |
|---|---|---|
| Year Ended December 31, 2015 | | |
| First Quarter | $64.64 | $53.30 |
| Second Quarter | $80.57 | $60.80 |
| Third Quarter | $103.29 | $76.46 |
| Fourth Quarter | $89.44 | $70.29 |
| | High | Low |
| Year Ended December 31, 2014 | | |
| First Quarter | $49.83 | $34.13 |
| Second Quarter | $42.46 | $28.09 |
| Third Quarter | $46.37 | $34.67 |
| Fourth Quarter | $58.32 | $38.77 |

Neither we nor any affiliated purchaser repurchased any of our equity securities in fiscal year 2015.

The information required by this Item concerning shares reserved for issuance under our equity compensation plans is incorporated by reference to information set forth in the Proxy Statement.

ITEM 6. SELECTED FINANCIAL DATA

The consolidated statements of operations data for the years ended December 31, 2015, 2014, and 2013 and the consolidated balance sheet data as of December 31, 2015 and 2014 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The statements of operations data for the years ended December 31, 2012 and 2011 and the consolidated balance sheet data as of December 31, 2013, 2012 and 2011 have been derived from our audited financial statements not included in this Annual Report. The following selected financial data should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and consolidated financial statements and related notes to those statements included elsewhere in this Annual Report.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (in millions, except per share data) | | | | |
| Consolidated Statements of Operations Data: | | | | | |
| Product revenue | $400.7 | $257.1 | $157.1 | $93.0 | $65.9 |
| Development grant and other revenue | 1.3 | 2.1 | 2.9 | 6.9 | 10.4 |
| Total revenue | 402.0 | 259.2 | 160.0 | 99.9 | 76.3 |
| Product cost of sales | 123.6 | 82.3 | 58.1 | 48.3 | 36.6 |
| Development and other cost of sales | — | 0.6 | 1.8 | 5.0 | 3.8 |
| Total cost of sales | 123.6 | 82.9 | 59.9 | 53.3 | 40.4 |
| Gross profit | 278.4 | 176.3 | 100.1 | 46.6 | 35.9 |
| Operating expenses: | | | | | |
| Research and development | 137.5 | 69.4 | 44.8 | 38.3 | 29.6 |
| Selling, general and administrative | 198.0 | 128.4 | 84.2 | 64.0 | 51.1 |
| Total operating expenses | 335.5 | 197.8 | 129.0 | 102.3 | 80.7 |
| Operating loss | (57.1) | (21.5) | (28.9) | (55.7) | (44.8) |
| Interest and other income | — | — | — | 0.1 | 0.1 |
| Interest expense | (0.4) | (0.8) | (0.9) | (0.2) | — |
| Loss before income taxes | (57.5) | (22.3) | (29.8) | (55.8) | (44.7) |
| Income tax expense (benefit) | 0.1 | 0.1 | — | (1.3) | — |
| Net loss | $(57.6) | $(22.4) | $(29.8) | $(54.5) | $(44.7) |
| Basic and diluted net loss per share attributable to common stockholders(1) | $(0.72) | $(0.30) | $(0.42) | $(0.79) | $(0.68) |
| Shares used to compute basic and diluted net loss per share attributable to common stockholders(1) | 79.8 | 75.2 | 71.1 | 68.7 | 65.6 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (in millions) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash, cash equivalents, and short-term marketable securities | $115.2 | $83.6 | $54.6 | $48.7 | $82.0 |
| Working capital | 164.4 | 105.3 | 61.0 | 58.1 | 89.8 |
| Total assets | 292.0 | 184.6 | 122.5 | 106.0 | 120.5 |
| Long term obligations | 3.9 | 3.8 | 6.3 | 9.5 | 1.3 |
| Total stockholders' equity | 221.2 | 140.2 | 84.1 | 77.0 | 104.5 |

(1) See Note 2 of the notes to our consolidated financial statements for a description of the method used to compute basic and diluted net loss per share attributable to common stockholders.

## ITEM 7. 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” and elsewhere in this report, and our other reports filed with the SEC. Except as required by law, we assume no obligation to update any of the forward-looking statements after the date of this report or to conform these forward-looking statements to actual results.

### Overview

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

From inception to 2006, we devoted substantially all of our resources to start-up activities, raising capital and research and development, including product design, testing, manufacturing and clinical trials. Since 2006, we have devoted considerable resources to the commercialization of our ambulatory continuous glucose monitoring systems, including the SEVEN PLUS, G4 PLATINUM and G5 Mobile, as well as the continued research and clinical development of our technology platform.

As of December 31, 2015, we generated $1.1 billion of product and development grant and other (non-product) revenue, and we have incurred net losses in each year since our inception in May 1999. As of December 31, 2015, we had an accumulated deficit of $555.4 million. We expect our losses to continue as we proceed with our commercialization and research and development activities. We have financed our operations primarily through offerings of equity securities and debt, and the sales of our products.

### Financial Operations

#### Revenue

We sell our durable systems and disposable units through a direct sales force in the United States and through distribution arrangements in the United States, Canada, Australia, New Zealand, and in portions of Europe, Asia, the Middle East, Latin America and Africa. We have contracts with certain distributors who stock our products, and we refer to these distributors as Stocking Distributors, whereby the distributors fulfill orders for our product from their inventory. We also have contracts with certain distributors that do not stock our products, but rather products are shipped directly to the customer by us on behalf of our distributor, and we refer to these distributors as Drop-Ship Distributors. We expect that revenues we generate from the sales of our products will fluctuate from quarter to quarter. Between 2008 and 2015, we entered into joint development and collaboration agreements with Animas and Tandem, as well as other third parties under agreements that have since expired or been terminated, under which we recognized development grant and other revenue received pursuant to each agreement ratably over the term of the development period. We recognize development milestones associated with each agreement as revenue upon achievement of each milestone if the milestone is considered substantive.

#### Cost of Sales

Product 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 product cost of sales. Development and other cost of sales consists primarily of salaries, fringe benefits, facility expense, and supplies directly attributable to our development or service contracts.

Research and Development

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.

Selling, General and Administrative

Our selling, general and administrative expenses primarily consist of salary, fringe benefits and share-based compensation for our executive, financial, sales, marketing and administrative functions. Other significant expenses include trade show expenses, sales samples, insurance, professional fees for our outside legal counsel and independent auditors, litigation expenses, patent application expenses and consulting expenses.

Results of Operations

Fiscal year ended December 31, 2015 Compared to December 31, 2014

Revenue, Cost of Sales and Gross Profit

Product revenues increased $143.6 million to $400.7 million for the twelve months ended December 31, 2015 compared to $257.1 million for the twelve months ended December 31, 2014 based primarily on increased sales volume of our disposable sensors due to the continued growth of our installed base of customers using our G4 PLATINUM and G5 Mobile systems and durable systems to both new and existing customers. Revenue attributable to our disposable sensors and durable systems was approximately 70% and 30%, respectively, of total product revenue, for each of the twelve months ended December 31, 2015 and 2014. There were no sales of the SEVEN PLUS, during the twelve months ended December 31, 2015. Sales of the SEVEN PLUS represented less than 1% of our revenues for the twelve months ended December 31, 2014.

Product cost of sales increased $41.3 million to $123.6 million for the twelve months ended December 31, 2015 compared to $82.3 million for the twelve months ended December 31, 2014 primarily due to increased sales volume. The product gross profit of $277.1 million for the twelve months ended December 31, 2015 increased $102.3 million compared to $174.8 million for the same period in 2014, primarily due to increased revenue. In conjunction with the FDA approval and launch of the G4 PLATINUM with Share during the first quarter of 2015, the product gross profit for the twelve months ended December 31, 2015 included $2.0 million in additional excess and obsolete inventory.

Revenue from products shipped to our Drop-Ship Distributors' customers was $39.0 million, or 10%, of our total revenues for the twelve months ended December 31, 2015 compared to $31.8 million, or 12%, of our total revenues for the twelve months ended December 31, 2014. Revenue from products shipped to Stocking Distributors was $244.0 million, or 61%, of our total revenues for the twelve months ended December 31, 2015 compared to $143.2 million, or 55%, of our total revenues for the twelve months ended December 31, 2014.

Development grant and other revenues decreased $0.8 million to $1.3 million for the twelve months ended December 31, 2015 compared to $2.1 million for the twelve months ended December 31, 2014. We did not incur any development and other cost of sales during the twelve months ended December 31, 2015. Development and other cost of sales was $0.6 million during the twelve months ended December 31, 2014. The decrease in development grant and other revenues during the twelve months ended December 31, 2015 was primarily due to the completion of development activities with Edwards. The decrease in costs associated with development was primarily due to fewer development obligations during the period with respect to our collaboration and development arrangements.

Research and Development. Research and development expense increased $68.1 million to $137.5 million for the twelve months ended December 31, 2015, compared to $69.4 million for the twelve months ended December 31, 2014. The increase was primarily due to the upfront fee related to Verily Collaboration Agreement costs, additional headcount and costs to support development of future products. Significant elements of the increase in research and development costs included $36.5 million in non-cash expense associated with the issuance of 404,591 shares in August 2015 related to the Verily Collaboration Agreement, $12.4 million in additional salaries, bonus and payroll related costs, and $11.5 million in additional share-based compensation costs driven by the higher grant date fair value of awards as a result of our increased stock price.

Selling, General and Administrative. Selling, general and administrative expense increased $69.6 million to $198.0 million for the twelve months ended December 31, 2015, compared to $128.4 million for the twelve months ended December 31, 2014. The increase was primarily due to higher headcount related selling costs, marketing campaigns and information technology infrastructure costs to support revenue growth and the continued commercialization of our products.

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Significant elements of the increase in selling, general, and administrative expenses included $17.6 million in additional share-based compensation costs driven by the higher grant date fair value of awards as a result of our increased stock price, $16.3 million in additional salaries, bonus, and payroll related costs, $10.0 million in additional marketing costs, and $2.8 million in additional facilities costs.

Interest Expense. Interest expense was $0.4 million and $0.8 million for the twelve months ended December 31, 2015 and 2014, respectively, and is related to our Loan Agreement.

Income Tax Expense. Income tax expense was $0.1 million for each of the twelve months ended December 31, 2015 December 31, 2014. Income tax expense is primarily related to state minimum taxes and foreign income taxes related to our subsidiary in Sweden.

Fiscal year ended December 31, 2014 Compared to December 31, 2013

Revenue, Cost of Sales and Gross Profit

Product revenue increased $100.0 million to $257.1 million for the twelve months ended December 31, 2014, compared to $157.1 million for the twelve months ended December 31, 2013 based primarily on increased sales volume of our durable systems and disposable sensors, due to the continued growth of our installed base of customers using our G4 PLATINUM system. Revenue attributable to our disposable sensors and durable systems was approximately 70% and 30%, respectively, of total product revenue, for each of the twelve months ended December 31, 2014 and 2013. Sales of the SEVEN PLUS represented less than 1% of our revenues for the twelve months ended December 31, 2014 and approximately 9% of our revenues for the twelve months ended December 31, 2013.

Product cost of sales increased $24.2 million to $82.3 million for the twelve months ended December 31, 2014 compared to $58.1 million for the twelve months ended December 31, 2013 primarily due to increased sales volume. The product gross profit of $174.8 million for the twelve months ended December 31, 2014 increased $75.8 million compared to $99.0 million for the same period in 2013, primarily due to increased revenue and the greater sales mix of our higher margin G4 PLATINUM system compared to our SEVEN PLUS system.

Revenue from products shipped to our Drop-Ship Distributors' customers was $31.8 million, or 12%, of our total revenues for the twelve months ended December 31, 2014, compared to $23.4 million, or 15%, of our total revenues for the twelve months ended December 31, 2013. Revenue from the shipment of products to Stocking Distributors was $143.2 million, or 55%, of our total revenues for the twelve months ended December 31, 2014, compared to $70.5 million, or 44%, of our total revenues for the twelve months ended December 31, 2013.

Development grant and other revenues decreased $0.8 million to $2.1 million for the twelve months ended December 31, 2014, compared to $2.9 million for the twelve months ended December 31, 2013. Development and other cost of sales decreased $1.2 million to $0.6 million for the twelve months ended December 31, 2014, compared to $1.8 million for the twelve months ended December 31, 2013. The decrease in development grant and other revenues during the twelve months ended December 31, 2014 was primarily due to the termination of a Research and Development Agreement with Roche Diagnostics Operations, Inc. in February 2013 and the completion of development activities under the Collaboration Agreement with Edwards, partially offset by the $1.0 million milestone received in July 2014 from Tandem related to their regulatory submission to the FDA of a CGM- enabled insulin pump. The decrease in costs associated with development was primarily due to fewer development obligations during the period with respect to our collaboration and development arrangements.

Research and Development. Research and development expense increased $24.6 million to $69.4 million for the twelve months ended December 31, 2014, compared to $44.8 million for the twelve months ended December 31, 2013. The increase was primarily due to additional non-cash share-based compensation costs and additional headcount and consulting costs to support development of future products. Significant elements of the increase in research and development costs included $8.5 million in additional share-based compensation, $8.2 million in additional consulting costs, and $6.2 million in additional salaries, bonus and payroll related costs, partially offset by $2.8 million in lower non-cash charges related to fair value adjustments of the SweetSpot acquisition contingent consideration resulting from updates to assumed probability of achievement of milestones and adjustments to the discount periods.

Selling, General and Administrative. Selling, general and administrative expense increased $44.2 million to $128.4 million for the twelve months ended December 31, 2014, compared to $84.2 million for the twelve months ended

December 31, 2013. The increase was primarily due to higher headcount related selling costs and information technology infrastructure costs to support revenue growth and the continued commercialization of our products. Significant elements of the increase in selling, general, and administrative expenses included $15.0 million in additional share-based compensation costs, $10.7 million in additional salaries, bonus, and payroll related costs, $4.6 million in additional sales commissions, and $1.5 million in additional temporary labor costs.

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Interest Expense. Interest expense was $0.8 million and $0.9 million for the twelve months ended December 31, 2014 and 2013, respectively, and is related to our Loan Agreement.

Income Tax Expense/Benefit. Income tax expense was $0.1 million for the twelve months ended December 31, 2014, compared to a benefit of $12,000 for the twelve months ended December 31, 2013. The increase in income tax expense was due to increases in state minimum taxes and foreign income taxes related to our subsidiary in Sweden.

Liquidity and Capital Resources

We have incurred losses since our inception in May 1999. As of December 31, 2015, we had an accumulated deficit of $555.4 million and had working capital of $164.4 million. Our cash, cash equivalents and short-term marketable securities totaled $115.2 million. To date, we have funded our operations primarily through offerings of equity securities and debt, and the sales of our products.

In July 2013, we were awarded the Helmsley Grant from the Helmsley Trust to accelerate the development of our Gen 6 Sensor. The funding was milestone based and was contingent upon our meeting specific development milestones related to the Gen 6 Sensor over a period of several years. All such milestones have now been met. Upon the successful commercialization of the Gen 6 Sensor, we are obligated to either (1) make royalty payments of up to $2.0 million per year for four years, or (2) at our sole election, make a one-time $6.0 million royalty payment. As of December 31, 2015, we have received the full $4.0 million of the Helmsley Grant funds.

Cash Flow Summary

| (In millions) | Years Ended December 31, | | | Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 |
| Net cash provided by operating activities | $49.0 | $23.6 | $2.4 | $25.4 | $21.2 |
| Net cash provided by (used in) investing activities | $(51.5) | $(16.8) | $20.9 | $(34.7) | $(37.7) |
| Net cash provided by financing activities | $16.8 | $21.8 | $11.8 | $(5.0) | $10.0 |

Net Cash Provided by Operating Activities. The increase in cash provided by operations for the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014 was primarily due to $72.2 million in higher non-cash charges primarily comprised of share-based compensation and the issuance of shares associated with the Verily Collaboration Agreement, partially offset by $35.2 million in higher net loss, and an additional $11.6 million cash outflow from changes in operating assets and liabilities. The main drivers in the change in operating assets and liabilities included increases in accounts receivable, inventory, and accounts payable and accrued liabilities, all as a result of our growth.

The increase in cash provided by operations for the twelve months ended December 31, 2014, compared to the twelve months ended December 31, 2013 was primarily due to $23.8 million in higher non-cash charges primarily comprised of share-based compensation and $7.4 million in lower net loss, partially offset by an additional $10.0 million cash outflow from changes in operating assets and liabilities. The main drivers in the change in operating assets and liabilities included increases in accounts receivable, inventory, and accounts payable and accrued liabilities, all as a result of our growth.

Net Cash Used in/Provided by Investing Activities. The change in cash used in investing activities for the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014 was primarily due to a $31.4 million increase in cash used to purchase short-term marketable securities and by the use of $33.3 million to purchase equipment to support manufacturing improvements and information technology infrastructure for the twelve months ended December 31, 2015, compared to $16.2 million for the twelve months ended December 31, 2014, partially offset by a $14.3 million increase in proceeds from the maturity of short-term marketable securities.

The change in cash used in investing activities for the twelve months ended December 31, 2014, compared to the twelve months ended December 31, 2013 was primarily due to a $31.9 million decrease in proceeds from the maturity of short-term marketable securities and by the use of $16.2 million to purchase equipment to support manufacturing improvements and information technology infrastructure for the twelve months ended December 31, 2014, compared to $7.9 million for the twelve months ended December 31, 2013, partially offset by a $2.5 million decrease in cash used to purchase short-term marketable securities.

For the twelve months ended December 31, 2015, 2014 and 2013, we invested $33.3 million, $16.2 million and $7.9 million, respectively, to purchase equipment to support manufacturing improvements and information technology infrastructure.

Net Cash Provided by Financing Activities. The change in cash provided by financing activities for the twelve months ended December 31, 2015, compared to the twelve months ended December 31, 2014 was due to a $4.9 million decrease in proceeds from the issuance of common stock pursuant to the exercise of then-outstanding stock options. The change in cash provided by financing activities for the twelve months ended December 31, 2014, compared to the twelve months ended December 31, 2013 was due to a $12.0 million increase in proceeds from the issuance of common stock pursuant to the exercise of then-outstanding stock options, partially offset by the repayment of long-term debt of $2.2 million for the twelve months ended December 31, 2014.

Operating Capital and Capital Expenditure Requirements

We anticipate that we will continue to incur net losses as we incur expenses and expand the commercialization of our approved products, develop additional continuous glucose monitoring products, and expand our marketing, manufacturing and corporate infrastructure.

We believe that our cash, cash equivalents, short-term marketable securities balances, and projected cash contributions from our commercial operations will be sufficient to meet our anticipated cash requirements with respect to the continued scale-up of our commercialization activities, research and development activities, including clinical trials, the expansion of our marketing, manufacturing and corporate infrastructure, and to meet our other anticipated cash needs through at least December 31, 2016. If our available cash, cash equivalents and short-term marketable securities are insufficient to satisfy our liquidity requirements, or if we develop additional products or new markets for our existing products, we may seek to sell additional equity or debt securities or obtain an additional credit facility. The sale of additional equity and debt securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. Additionally, we cannot guaranty that we will be successful in obtaining additional cash contributions from future partnership arrangements. Our ability to transition to, and maintain profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, or if we are unable to obtain additional financing, we may be required to reduce planned increases in compensation related expenses or other operating expenses related to research, development, and commercialization activities, which could have an adverse impact on our ability to achieve our intended business objectives.

Because of the numerous risks and uncertainties associated with the development of continuous glucose monitoring technologies, we are unable to estimate the exact amounts of capital outlays and operating expenditures associated with our current and anticipated clinical trials. Our future funding 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 manufacturing 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; and
- the acquisition of businesses, products and technologies and our ability to integrate and manage any acquired businesses, products and technologies, including without limitation, SweetSpot.

Contractual Obligations

In November 2012, we entered into a loan and security agreement (the “Loan Agreement”) that provided for (i) a $15.0 million revolving line of credit and (ii) a total term loan of up to $20.0 million (the "Term Loan"), in both cases, to be used for general corporate purposes. The borrowings under the Loan Agreement are collateralized by a first priority security interest in substantially all of our assets with a negative pledge on our intellectual property.

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The revolving line of credit expired as of November 2015 with no amounts drawn or outstanding. In accordance with the Loan Agreement, $7.0 million was advanced under the Term Loan at the funding date in November 2012 and the remaining $13.0 million in additional funds expired unused. The Term Loan bears a fixed interest rate equal to the three-year treasury rate at the time of advance plus 6.94% and requires payment of interest only for the first year and amortized payments of interest and principal thereafter through the maturity date of November 2016.

Under the office lease agreement, as amended (the "Office Lease"), with John Hancock Life Insurance Company (U.S.A.) (the "Landlord") we lease approximately 219,000 square feet of space in the locations at 6340 Sequence Drive, 6310 Sequence Drive and 6290 Sequence Drive. The amended lease term extends through March 2022 and we have an option to renew the lease upon the expiration of the initial term for two additional five-year terms by giving notice to the Landlord prior to the end of the initial term of the lease and any extension period, if applicable. Provided we are not in default under the Office Lease and the Office Lease is still in effect, we generally have the right to terminate the lease starting at the $55^{th}$ month of the Office Lease. In September 2015, we received $1.8 million of tenant improvement allowance associated with the Office Lease, which was recorded as a deferred rent obligation and will be amortized over the term of the lease and reflected as a reduction to rent expense. Leasehold improvements associated with the tenant improvement allowance are included in "Property and equipment, net" in our consolidated balance sheet. We have also entered into other operating lease agreements, primarily for office and warehouse space, that expire at various times through March 2022.

As of December 31, 2015, we are required to make total future monthly payments, excluding real estate taxes and operating costs, for all of our real estate obligations for the period from January 2016 through September 2023 totaling $31.5 million.

On February 1, 2016, we entered into a sublease (the "Sublease") with Entropic Communications, LLC with respect to facilities in the building at 6350 Sequence Drive. Under the Sublease, we leased approximately 132,600 square feet of space in the 6350 building. The lease term extends through January 2022. Rent payable under the Sublease will be approximately $14.6 million. For additional detail see Note 10 “Subsequent Events” in the Notes to our Consolidated Financial Statements in this Form 10-K.

We are party to various purchase arrangements related to components used in manufacturing and research and development activities. As of December 31, 2015, we had purchase commitments with certain vendors totaling approximately $49.3 million due within one year. There are no material purchase commitments due beyond one year.

The following table summarizes our outstanding contractual obligations as of December 31, 2015 and the effect those obligations are expected to have on our liquidity and cash flows in future periods (in millions):

| Contractual Obligations: | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
|---|---|---|---|---|---|
| Operating leases | $31.5 | $4.8 | $9.6 | $10.6 | $6.5 |
| Long-term debt | 2.3 | $2.3 | — | — | — |
| Purchase commitments | 49.3 | 49.3 | — | — | — |
| Total | $83.1 | $56.4 | $9.6 | $10.6 | $6.5 |

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet activities.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which we have prepared in accordance with U.S. GAAP. The preparation of these consolidated 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 consolidated 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.

While our significant accounting policies are more fully described in Note 1 to our consolidated financial statements included in this Annual Report on Form 10-K, we believe that the following accounting policies and estimates are most critical to a full understanding and evaluation of our reported financial results.

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Revenue Recognition

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

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

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

We have entered into distribution agreements with Edgepark, Byram and other distributors that allow the distributors to sell our durable systems and disposable units. We have contracts with certain distributors who stock our products, and we refer to these distributors as Stocking Distributors, whereby the Stocking Distributors fulfill orders for our product from their inventory. We also have contracts with certain distributors that do not stock our products, but rather products are shipped directly to the customer by us on behalf of our distributor, and we refer to these distributors as Drop-Ship Distributors. Revenue is recognized based on contracted prices and invoices are either paid by check following the issuance of a purchase order or letter of credit, or they are paid by wire at the time of placing the order. Terms of distributor orders are generally Freight on Board (“FOB”) shipping point (or Free Carrier (“FCA”) shipping point for international orders). Distributors do not have rights of return per their distribution agreement outside of our standard warranty. The distributors typically have a limited time frame to notify us of any missing, damaged, defective or non-conforming products. For any such products, we shall either, at our option, replace the portion of defective or non-conforming product at no additional cost to the distributor or cancel the order and refund any portion of the price paid to us at that time for the sale in question.

Share-Based Compensation

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

We recorded $82.7 million, $50.0 million and $24.6 million in share-based compensation expense during the twelve months ended December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, unrecognized estimated compensation costs related to unvested restricted stock units totaled $151.8 million and are expected to be recognized through 2019.

Inventory

Inventory is valued at the lower of cost or market value on a part-by-part basis that approximates first in, first out. We make adjustments to reduce the cost of inventory to its net realizable value, if required, for estimated excess, obsolete and potential scrapped inventories. Factors influencing these adjustments include inventories on hand and on order compared to estimated future usage and sales for existing and new products, as well as judgments regarding quality control testing data, and assumptions about the likelihood of scrap and obsolescence. Once written down the adjustments are considered permanent and are not reversed until the related inventory is sold or disposed.

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

Warranty Accrual

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

Recent Accounting Guidance

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

In July 2015, the FASB issued guidance to change the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance requires that inventory accounted for under the first-in, first-out (FIFO) or average cost methods be measured at the lower of cost and net realizable value, where net realizable value represents the estimated selling price of inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for us beginning in the first quarter of fiscal 2018. Earlier application is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the effect this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies the current guidance in ASC Topic 740, Income Taxes, which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. We have elected to early adopt effective December 31, 2015 with our deferred tax assets and deferred tax liabilities presented as noncurrent in the consolidated balance sheet and related disclosures for the year ended December 31, 2015.

ITEM 7A. 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

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of securities, including money market funds, U.S. Treasury debt and corporate debt securities. Due to the short-term nature of our investments, we believe that we have no material exposure to interest rate risk.

Foreign Currency Risk

To date we have recorded no product sales in other than U.S. dollars. We have only limited business transactions in foreign currencies. We do not currently engage in hedging or similar transactions to reduce our foreign currency risks. We believe we have no material exposure to risk from changes in foreign currency exchange rates at this time. We will continue to monitor and evaluate our internal processes relating to foreign currency exchange, including the potential use of hedging strategies.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required is set forth under “Report of Independent Registered Public Accounting Firm,” “Consolidated Balance Sheets,” “Consolidated Statements of Operations,” “Consolidated Statements of Comprehensive Loss,” “Consolidated Statements of Stockholders’ Equity,” “Consolidated Statements of Cash Flows” and “Notes to Consolidated Financial Statements” on pages F-2 to F-25 of this annual report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 as of December 31, 2015, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date 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.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our management, with the participation of the Chief Executive and Chief Financial Officers, assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, our management, with the participation of the Chief Executive and Chief Financial Officers, believes that, as of December 31, 2015, our internal control over financial reporting is effective based on those criteria. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP an independent Public Registered Accounting firm, as stated in their report which is included herein.

The certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.01 and 31.02 to this report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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, we cannot guaranty that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
DexCom, Inc.

We have audited DexCom, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). DexCom, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, DexCom, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of DexCom, Inc. as of December 31, 2015 and December 31, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of DexCom, Inc. and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
San Diego, California
February 23, 2016

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ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning our directors required by this Item is incorporated by reference to the section in our Proxy Statement entitled “Proposal No. 1—Election of Directors.”

The information concerning our executive officers required by this Item is incorporated by reference to the section in our Proxy Statement entitled “Executive Officers.”

The information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 required by this Item is incorporated by reference to the section in our Proxy Statement entitled “Section 16(a) Beneficial Ownership Reporting Compliance.”

We have adopted a written code of ethics for financial employees that applies to our principal executive officer, principal financial officer, principal accounting officer, controller and other employees of the finance department designated by our Chief Financial Officer. This code of ethics, titled the “Code of Conduct and Ethics for Chief Executive Officer and Senior Finance Personnel,” is publicly available on our Internet website at http://investor.shareholder.com/dexcom/governance.cfm. The information contained on our Internet website is not incorporated by reference into this Report on Form 10-K.

The information concerning the audit committee of the Board of Directors required by this Item is incorporated by reference to information set forth in the Proxy Statement.

The information concerning material changes to the procedures by which stockholders may recommend nominees to the Board of Directors required by this Item is incorporated by reference to information set forth in the Proxy Statement.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item concerning executive compensation and our Compensation Committee is incorporated by reference to information set forth in the Proxy Statement.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to information set forth in the Proxy Statement under the headings “Principal Stockholders and Stock Ownership by Management” and “Equity Compensation Plan Information.”

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item with respect to director independence is incorporated by reference to information set forth in the Proxy Statement.

The information concerning certain relationships and related transactions required by the Item is incorporated by reference to the section in our Proxy Statement entitled “Certain Transactions.”

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information concerning principal accountant fees and services required by this Item is incorporated by reference to the section in our Proxy Statement entitled “Ratification of Selection of Independent Registered Public Accounting Firm.”

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report:

1. Financial Statements. The financial statements in Part II, Item 8 of this Annual Report are incorporated by reference.

2. Financial Statement Schedules.
For the three fiscal years ended December 31, 2015—Schedule II Valuation and Qualifying Accounts, the financial statements in Part II, Item 8 of this Annual Report are incorporated by reference.
Schedules not listed above have been omitted because information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

3. Exhibits.

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Provided Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Date of First Filing | Exhibit Number | |
| 3.01 | Registrant’s Restated Certificate of Incorporation. | S-1/A | 333-122454 | March 3, 2005 | 3.03 | |
| 3.02 | Registrant’s Amended and Restated Bylaws. | 8-K | 000-51222 | November 25, 2014 | 3.01 | |
| 4.01 | Form of Specimen Certificate for Registrant’s common stock. | S-1/A | 333-122454 | March 24, 2005 | 4.01 | |
| 10.01 | Form of Indemnity Agreement between Registrant and each of its directors and executive officers. | S-1 | 333-122454 | February 1, 2005 | 10.01 | |
| 10.02 | 1999 Stock Option Plan and related agreements.* | S-1 | 333-122454 | February 1, 2005 | 10.02 | |
| 10.03 | 2005 Equity Incentive Plan and forms of stock option agreement and stock option exercise agreements.* | S-1/A | 000-51222 | March 24, 2005 | 10.03 | |
| 10.04 | 2005 Employee Stock Purchase Plan and form of subscription agreement.* | S-1/A | 000-51222 | March 24, 2005 | 10.04 | |
| 10.05 | Offer letter between DexCom, Inc. and Jorge Valdes dated October 16, 2005.* | 10-K | 000-51222 | February 27, 2006 | 10.14 | |
| 10.06 | Office Lease Agreement, dated March 31, 2006, between DexCom, Inc. and Kilroy Realty, L.P. | 8-K | 000-51222 | April 7, 2006 | 99.01 | |
| 10.07 | Offer letter between DexCom, Inc. and Steven R. Pacelli dated April 10, 2006.* | 8-K | 000-51222 | April 13, 2006 | 99.01 | |

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | File No. | Date of First Filing | Exhibit Number | Provided Herewith |
|---|---|---|---|---|---|---|
| 10.09 | Amended and Restated Joint Development Agreement, dated January 12, 2009, between DexCom, Inc. and Animas Corporation.** | 8-K/A | 000-51222 | January 28, 2009 | 10.1 | |
| 10.10 | OUS Commercialization Agreement, dated January 12, 2009, between DexCom, Inc. and Animas Corporation.** | 8-K/A | 000-51222 | January 28, 2009 | 10.2 | |
| 10.11 | Form of Amended and Restated Executive Change of Control & Severance Agreement.* | 10-K | 000-51222 | March 5, 2009 | 10.20 | |
| 10.12 | Amended and Restated Offer Letter Agreement dated December 19, 2008 between DexCom, Inc. and Terrance H. Gregg.* | 10-K | 000-51222 | March 5, 2009 | 10.21 | |
| 10.14 | Non-Exclusive Distribution Agreement, between RGH Enterprises, Inc. and DexCom, Inc., dated April 30, 2008.** | 10-Q | 000-51222 | August 3, 2009 | 10.23 | |
| 10.15 | Letter of Amendment of the Amended and Restated Joint Development Agreement, between Animas Corporation and DexCom, Inc., dated July 30, 2009.** | 10-Q | 000-51222 | November 4, 2009 | 10.24 | |
| 10.16 | Amendment No. 1 to the Commercialization Agreements, between Animas Corporation and DexCom, Inc., dated July 30, 2009.** | 10-Q | 000-51222 | November 4, 2009 | 10.25 | |
| 10.17 | Amended and Restated Development, Manufacturing, Licensing and Supply Agreement, between DSM PTG, Inc. and DexCom, Inc., dated February 19, 2010.** | 10-K | 000-51222 | March 9, 2010 | 10.25 | |
| 10.18 | Form of Restricted Stock Unit Award Agreement. | 10-Q | 000-51222 | May 5, 2010 | 10.26 | |
| 10.19 | First Amendment to Office Lease between DexCom, Inc. and Kilroy Realty, L.P., dated August 18, 2010. | 10-Q | 000-51222 | November 4, 2010 | 10.27 | |
| 10.20 | 2005 Equity Incentive Plan, as amended.* | 10-Q | 000-51222 | May 3, 2011 | 10.25 | |
| 10.21 | Amendment Number One to Non-Exclusive Distribution Agreement, between RGH Enterprises, Inc. and DexCom, Inc., dated March 29, 2011.** | 10-Q/A | 000-51222 | July 1, 2011 | 10.26 | |
| 10.22 | Amendment No. 2 to the OUS Commercialization Agreement, between Animas Corporation and DexCom, Inc., dated June 7, 2011.** | 10-Q | 000-51222 | August 3, 2011 | 10.27 | |
| 10.23 | Offer letter between DexCom, Inc. and Kevin Sayer dated May 3, 2011.* | 10-Q | 000-51222 | August 3, 2011 | 10.28 | |
| 10.24 | | 10-K | 000-51222 | February 23, 2012 | 10.26 | |

| | | | | | |
|---|---|---|---|---|---|
| | Research and Development Agreement, between Roche Diagnostics Operations, Inc. and DexCom, Inc. dated November 1, 2011.** | | | | |
| 10.25 | Loan and Security Agreement by and among Silicon Valley Bank, Oxford Finance LLC, DexCom, Inc. and SweetSpot Diabetes Care, Inc. dated November 1, 2012. | 10-K | 000-51222 | February 21, 2013 | 10.26 |

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| Exhibit Number | Exhibit Description | Incorporated by Reference Form | File No. | Date of First Filing | Exhibit Number | Provided Herewith |
|---|---|---|---|---|---|---|
| 10.26 | Amendment Number Two to Non-Exclusive Distribution Agreement between RGH Enterprises, Inc. and DexCom, Inc., dated March 28, 2013.** | 10-Q | 000-51222 | May 1, 2013 | 10.27 | |
| 10.27 | Amendment Number Three to Non-Exclusive Distribution Agreement between RGH Enterprises, Inc. and DexCom, Inc., dated December 4, 2013.** | 10-K | 000-51222 | February 20, 2014 | 10.28 | |
| 10.28 | Non-Exclusive Distribution Agreement between Dexcom, Inc. and Diabetes Specialty Center, LLC dated October 12, 2009, as amended on September 30, 2010, October 11, 2011, November 14, 2012 and November 1, 2013.** | 10-K | 000-51222 | February 20, 2014 | 10.29 | |
| 10.29 | First Amendment to Loan and Security Agreement by and among Silicon Valley Bank, Oxford Finance LLC, DexCom, Inc. and SweetSpot Diabetes Care, Inc. dated August 6, 2013. | 10-Q | 000-51222 | March 31, 2014 | 10.30 | |
| 10.30 | Settlement and License Agreement by and among Abbott Diabetes Care, Inc. and DexCom, Inc., dated July 2, 2014. | 10-Q | 000-51222 | August 6, 2014 | 10.31 | |
| 10.31 | Amendment No. 5 to Non-Exclusive Distribution Agreement between DexCom, Inc. and Diabetes Specialty Center, LLC, dated March 14, 2014. | 10-Q | 000-51222 | August 6, 2014 | 10.32 | |
| 10.32 | Second Amendment to Office Lease between DexCom, Inc. and Kilroy Realty, L.P., dated October 1, 2014. | 10-K | 000-51222 | February 25, 2015 | 10.32 | |
| 10.33 | 2015 Equity Incentive Plan | DEF 14A | 000-51222 | April 13, 2015 | Appendix A | |
| 10.34 | Form of Restricted Stock Unit Award Agreement | 8-K | 000-51222 | June 2, 2015 | 10.2 | |
| 10.33 | 2015 Employee Stock Purchase Plan | DEF 14A | 000-51222 | April 13, 2015 | Appendix A | |
| 10.34 | Form of Subscription Agreement under 2015 Employee Stock Purchase Plan | 8-K | 000-51222 | June 2, 2015 | 10.2 | |
| 10.35 | Collaboration and License Agreement between DexCom Inc., and Google Life Sciences, LLC dated August 10, 2015** | 10-Q | 000-51222 | November 4, 2015 | 10.32 | |
| 21.01 | List of Subsidiaries. | | | | | X |
| 23.01 | Consent of Independent Registered Public Accounting Firm. | | | | | X |
| 24.01 | Power of Attorney. (See page 63 of this Form 10-K). | | | | | X |
| 31.01 | | | | | | X |

| | | |
|---|---|---|
| | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a). | |
| 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 |

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| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Exhibit Number | Provided Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Date of First Filing | | |
| 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 | | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | | X |

* Represents a management contract or compensatory plan.

** Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and were filed separately with the Securities and Exchange Commission.

*** 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.<br>(Registrant) |
| Dated: February 23, 2016 | By: /S/ JESS ROPER<br>Jess Roper,<br>Senior Vice President & Chief Financial Officer |

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kevin Sayer and Jess Roper, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and dates indicated.

| Signature | Title | Date |
|---|---|---|
| /S/ KEVIN SAYER<br>Kevin Sayer | President, Chief Executive Officer, and Director (Principal Executive Officer) | February 23, 2016 |
| /S/ JESS ROPER<br>Jess Roper | Senior Vice President & Chief Financial Officer (Principal Financial and Accounting Officer) | February 23, 2016 |
| /S/ TERRANCE GREGG<br>Terrance Gregg | Executive Chairman of the Board of Directors | February 23, 2016 |
| /S/ MARK FOLETTA<br>Mark Foletta | Lead Independent Director | February 23, 2016 |
| /S/ STEVE ALTMAN<br>Steve Altman | Director | February 23, 2016 |
| /S/ NICHOLAS AUGUSTINOS<br>Nicholas Augustinos | Director | February 23, 2016 |
| /S/ BARBARA KAHN<br>Barbara Kahn | Director | February 23, 2016 |
| /S/ JONATHAN LORD<br>Jonathan Lord, M.D. | Director | February 23, 2016 |
| /S/ JAY SKYLER | Director | February 23, 2016 |

Jay Skyler, M.D.

| | | |
|---|---|---|
| /S/ ERIC TOPOL<br>Eric Topol, M.D. | Director | February 23, 2016 |

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DEXCOM, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
DexCom, Inc.
We have audited the accompanying consolidated balance sheets of DexCom, Inc. as of December 31, 2015 and December 31, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DexCom, Inc. at December 31, 2015 and December 31, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), DexCom, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
San Diego, California
February 23, 2016

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

| | As of December 31, 2015 | 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $86.1 | $71.8 |
| Short-term marketable securities, available-for-sale | 29.1 | 11.8 |
| Accounts receivable, net | 74.1 | 42.4 |
| Inventory | 35.2 | 16.0 |
| Prepaid and other current assets | 6.8 | 3.9 |
| Total current assets | 231.3 | 145.9 |
| Property and equipment, net | 54.7 | 31.2 |
| Restricted cash | — | 1.0 |
| Intangible assets, net | 2.2 | 2.7 |
| Goodwill | 3.7 | 3.2 |
| Other assets | 0.1 | 0.6 |
| Total assets | $292.0 | $184.6 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $38.9 | $20.4 |
| Accrued payroll and related expenses | 24.9 | 17.2 |
| Current portion of long-term debt | 2.3 | 2.3 |
| Current portion of deferred revenue | 0.8 | 0.7 |
| Total current liabilities | 66.9 | 40.6 |
| Other liabilities | 3.9 | 1.5 |
| Long-term debt, net of current portion | — | 2.3 |
| Total liabilities | 70.8 | 44.4 |
| Commitments and contingencies (Note 4) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value, 5.0 shares authorized; no shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively | — | — |
| Common stock, $0.001 par value, 100.0 authorized; 82.0 and 81.7 issued and outstanding, respectively, at December 31, 2015; and 77.6 and 77.3 shares issued and outstanding, respectively, at December 31, 2014 | 0.1 | 0.1 |
| Additional paid-in capital | 776.8 | 638.0 |
| Accumulated other comprehensive loss | (0.3) | (0.1) |
| Accumulated deficit | (555.4) | (497.8) |
| Total stockholders' equity | 221.2 | 140.2 |
| Total liabilities and stockholders' equity | $292.0 | $184.6 |

See accompanying notes

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Product revenue | $400.7 | $257.1 | $157.1 |
| Development grant and other revenue | 1.3 | 2.1 | 2.9 |
| Total revenue | 402.0 | 259.2 | 160.0 |
| Product cost of sales | 123.6 | 82.3 | 58.1 |
| Development and other cost of sales | — | 0.6 | 1.8 |
| Total cost of sales | 123.6 | 82.9 | 59.9 |
| Gross profit | 278.4 | 176.3 | 100.1 |
| Operating expenses | | | |
| Research and development | 137.5 | 69.4 | 44.8 |
| Selling, general and administrative | 198.0 | 128.4 | 84.2 |
| Total operating expenses | 335.5 | 197.8 | 129.0 |
| Operating loss | (57.1) | (21.5) | (28.9) |
| Interest expense | (0.4) | (0.8) | (0.9) |
| Loss before income taxes | (57.5) | (22.3) | (29.8) |
| Income tax expense | 0.1 | 0.1 | — |
| Net loss | $(57.6) | $(22.4) | $(29.8) |
| Basic and diluted net loss per share | $(0.72) | $(0.30) | $(0.42) |
| Shares used to compute basic and diluted net loss per share | 79.8 | 75.2 | 71.1 |

See accompanying notes

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net loss | $(57.6) | $(22.4) | $(29.8) |
| Unrealized gain (loss) on short-term available-for-sale marketable securities | — | — | — |
| Foreign currency translation gain (loss) | (0.2) | — | — |
| Comprehensive loss | $(57.8) | $(22.4) | $(29.8) |

See accompanying notes

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DexCom, Inc.

Consolidated Statements of Stockholders' Equity
(In millions)

| | Common stock | | Additional paid-in capital | Accumulated other comprehensive income (loss) | Accumulated deficit | Total stockholders' equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance at December 31, 2012 | 69.5 | $0.1 | $ 522.6 | $ (0.1) | $ (445.6) | $ 77.0 |
| Issuance of common stock under equity incentive plans | 2.8 | — | 10.2 | — | — | 10.2 |
| Issuance of common stock for Employee Stock Purchase Plan | 0.2 | — | 1.9 | — | — | 1.9 |
| Share-based compensation for employee stock option and award grants | — | — | 24.8 | — | — | 24.8 |
| Net loss | — | — | — | — | (29.8) | (29.8) |
| Balance at December 31, 2013 | 72.5 | 0.1 | 559.5 | (0.1) | (475.4) | 84.1 |
| Issuance of common stock under equity incentive plans | 4.6 | — | 21.4 | — | — | 21.4 |
| Issuance of common stock for Employee Stock Purchase Plan | 0.1 | — | 2.6 | — | — | 2.6 |
| Issuance of common stock for contingent consideration settlement | 0.1 | — | 4.0 | — | — | 4.0 |
| Share-based compensation for employee stock option and award grants | — | — | 50.5 | — | — | 50.5 |
| Net loss | — | — | — | — | (22.4) | (22.4) |
| Balance at December 31, 2014 | 77.3 | 0.1 | 638.0 | (0.1) | (497.8) | 140.2 |
| Issuance of common stock under equity incentive plans | 3.9 | — | 15.3 | — | — | 15.3 |
| Issuance of common stock for Employee Stock Purchase Plan | 0.1 | — | 3.8 | — | — | 3.8 |
| Issuance of common stock related to Verily Collaboration Agreement | 0.4 | — | 36.5 | — | — | 36.5 |
| Share-based compensation for employee stock option and award grants | — | — | 83.2 | — | — | 83.2 |
| Net loss | — | — | — | — | (57.6) | (57.6) |
| Other comprehensive loss | — | — | — | (0.2) | — | (0.2) |
| Balance at December 31, 2015 | 81.7 | $0.1 | $ 776.8 | $ (0.3) | $ (555.4) | $ 221.2 |

See accompanying notes

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Operating activities | | | |
| Net loss | $(57.6) | $(22.4) | $(29.8) |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 10.8 | 8.4 | 7.0 |
| Share-based compensation | 82.7 | 50.0 | 24.6 |
| Non-cash research and development charge through issuance of common stock | 36.5 | — | — |
| Accretion and amortization related to marketable securities, net | 0.3 | 0.1 | 0.3 |
| Amortization of debt issuance costs | 0.2 | 0.3 | 0.4 |
| Change in fair value of contingent consideration | — | (0.2) | 2.5 |
| Other non-cash expenses | 0.5 | 0.2 | 0.2 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (31.7) | (16.3) | (6.5) |
| Inventory | (19.2) | (7.0) | (1.6) |
| Prepaid and other assets | (2.5) | (0.4) | (1.4) |
| Restricted cash | 1.0 | — | — |
| Accounts payable and accrued liabilities | 17.8 | 8.3 | 2.4 |
| Accrued payroll and related expenses | 7.7 | 2.2 | 5.8 |
| Deferred revenue | 0.1 | — | (1.2) |
| Deferred rent and other liabilities | 2.4 | 0.4 | (0.3) |
| Net cash provided by operating activities | 49.0 | 23.6 | 2.4 |
| Investing activities | | | |
| Purchase of available-for-sale marketable securities | (45.2) | (13.8) | (16.3) |
| Proceeds from the maturity of available-for-sale marketable securities | 27.5 | 13.2 | 45.1 |
| Purchase of property and equipment | (33.3) | (16.2) | (7.9) |
| Acquisitions, net of cash acquired | (0.5) | — | — |
| Net cash provided by (used in) investing activities | (51.5) | (16.8) | 20.9 |
| Financing activities | | | |
| Net proceeds from issuance of common stock | 19.1 | 24.0 | 12.0 |
| Repayment of long-term debt | (2.3) | (2.2) | (0.2) |
| Net cash provided by financing activities | 16.8 | 21.8 | 11.8 |
| Increase in cash and cash equivalents | 14.3 | 28.6 | 35.1 |
| Cash and cash equivalents, beginning of period | 71.8 | 43.2 | 8.1 |
| Cash and cash equivalents, ending of period | $86.1 | $71.8 | $43.2 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid during the year for interest | $0.3 | $0.4 | $0.5 |
| Issuance of common stock in connection with contingent consideration settlement | $— | $4.0 | $— |

See accompanying notes

DexCom, Inc.
Notes to Consolidated Financial Statements
December 31, 2015

1. Organization and Summary of Significant Accounting Policies

Organization and Business

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

Basis of Presentation

We have incurred operating losses since our inception and have an accumulated deficit of $555.4 million at December 31, 2015. As of December 31, 2015, we had available cash, cash equivalents and short-term marketable securities totaling $115.2 million and working capital of $164.4 million. Our ability to transition to, and maintain, profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. If events or circumstances occur such that we do not meet our operating plan as expected, we may be required to reduce planned increases in compensation expenses and other operating expenses needed to support the growth of our business which could have an adverse impact on our ability to achieve our intended business objectives. We believe our working capital resources will be sufficient to fund our operations through at least December 31, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of DexCom and our wholly owned subsidiaries, DexCom AB, and SweetSpot Diabetes Care, Inc. ("SweetSpot"). All significant intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting and Geographic Information

An operating segment is identified as a component of a business that has discrete financial information available, and one for which the chief operating decision maker must decide the level of resource allocation. In addition, the guidance for segment reporting indicates certain quantitative thresholds. The operations of SweetSpot, our subsidiary, does not meet the definition of an operating segment and are currently not material, but may become material in the future.

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

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

During the years ended 2015, 2014 and 2013, no individual country, outside of our country of domicile, generated revenue that represented more than 10% of our total revenue. Product revenue is designated based on the geographic location to which we deliver the product. Development grant and other revenue is attributed to countries based upon the location of the headquarters of our customer or their billing address. During fiscal 2015 and 2014, total revenues attributable to the United States and outside of the United States were as follows:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Amount | % of Total | | Amount | % of Total | |
| | (In millions, except percentages) | | | | | |
| Revenues: | | | | | | |
| United States | $347.4 | 86 | % | $224.2 | 86 | % |
| Outside of the United States | 54.6 | 14 | % | 35.0 | 14 | % |
| Total | $402.0 | 100 | % | $259.2 | 100 | % |

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Revenue attributed to countries outside of the United States for fiscal 2013 did not exceed 10% of our total revenue. Substantially all of our long-lived assets are located in the United States.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Significant estimates include excess or obsolete inventories, valuation of inventory,
warranty accruals, allowance for bad debt, refunds and rebates, including pharmacy rebates and share–
based compensation expense.

Cash and Cash Equivalents

We invest our excess cash in bank deposits, money market accounts, and debt securities. We consider all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents.

Accounts Receivable

We grant credit to various customers in the normal course of business. We maintain an allowance for doubtful accounts for potential credit losses. Uncollectible accounts are written-off against the allowance after appropriate collection efforts have been exhausted and when it is deemed that a customer account is uncollectible. Generally, receivable balances greater than one year past due are deemed uncollectible.

Letters of Credit

At December 31, 2015 and 2014, we had irrevocable letters of credit outstanding with a commercial bank for approximately $0.7 million and $0.7 million, respectively, securing our facility leases. The letters of credit are secured by cash equivalents. The letter of credit as of December 31, 2014 was also secured by an equal amount of restricted cash which has been separately disclosed in the accompanying consolidated balance sheets.

Concentration of Credit Risk

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 loss by placing our cash with high credit quality financial institutions. We have established guidelines relative to diversification of our cash and investment securities and their maturities that are intended to secure safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates and changes in our operations and financial position. The following table summarizes customers who accounted for 10% or more of net accounts receivable:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Customer A | 23% | 23% |
| Customer B | 13% | 12% |

Impairment of Long-Lived Assets

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. We have not experienced any material impairment losses on assets used in operations.

Share-Based Compensation

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

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Revenue Recognition

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

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

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

We have entered into distribution agreements with Byram, Edgepark and other distributors that allow the distributors to sell our durable systems and disposable units. We have contracts with certain distributors who stock our products, and we refer to these distributors as Stocking Distributors, whereby the Stocking Distributors fulfill orders for our product from their inventory. We also have contracts with certain distributors that do not stock our products, but rather products are shipped directly to the customer by us on behalf of our distributor, and we refer to these distributors as Drop-Ship Distributors. Revenue is recognized based on contracted prices and invoices are either paid by check following the issuance of a purchase order or letter of credit, or they are paid by wire at the time of placing the order. Terms of distributor orders are generally FOB (or Free Carrier ("FCA") shipping point for international orders). Distributors do not have rights of return per their distribution agreement outside of our standard warranty. The distributors typically have a limited time frame to notify us of any missing, damaged, defective or non-conforming products. For any such products, we shall either, at our option, replace the portion of defective or non-conforming product at no additional cost to the distributor or cancel the order and refund any portion of the price paid to us at that time for the sale in question.

One of our distributors, Byram, accounted for $74.1 million, $46.1 million and $24.3 million in gross revenue, which represents 18%, 18% and 15% of our total revenues for the twelve months ended December 31, 2015, 2014 and 2013, respectively. Another one of our distributors, Edgepark, accounted for $42.6 million, $28.1 million and $23.1 million in gross revenue, which represents 11%, 11% and 14% of our total revenues for the twelve months ended December 31, 2015, 2014 and 2013, respectively.

Warranty Accrual

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

Research and Development

All costs of research and development are expensed as incurred. Research and development expenses primarily include salaries, bonus and payroll related costs, clinical trials, regulatory expenses, quality assurance programs, part components, share-based compensation, and fees paid to consultants.

Foreign Currency

The financial statements of our subsidiary in Sweden, whose functional currency is the Swedish Krona, are translated into U.S. dollars for financial reporting purposes. Assets and liabilities are translated at period-end exchange rates, and revenue and expense transactions are translated at average exchange rates for the period. Cumulative translation adjustments are recognized as part of comprehensive income and are included in accumulated other comprehensive loss in the consolidated balance sheet. Gains and losses on transactions denominated in other than the functional currency are reflected in operations. To date the results of operations of this subsidiary and related translation adjustments have not been material in our consolidated results.

Comprehensive Loss

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

Inventory

Inventory is valued at the lower of cost or market value on a part-by-part basis that approximates first in, first out. We make adjustments to reduce the cost of inventory to its net realizable value, if required, for estimated excess, obsolete and potential scrapped inventories. Factors influencing these adjustments include inventories on hand and on order compared to estimated future usage and sales for existing and new products, as well as judgments regarding quality control testing data, and assumptions about the likelihood of scrap and obsolescence. Once written down the adjustments are considered permanent and are not reversed until the related inventory is sold or disposed.

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

Deferred Rent

Rent expense is recorded on a straight-line basis over the term of the lease. The difference between rent expense accrued and amounts paid under the lease agreement is recorded as deferred rent in the accompanying consolidated balance sheets.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized, which requires significant judgment. We establish a valuation allowance against our net deferred tax assets to reduce them to the amount expected to be realized. The realization of deferred tax assets is dependent, in part, upon future taxable income. In assessing whether our deferred tax assets will be realized, we consider all available evidence, both positive and negative. Such evidence includes historical earnings, future reversals of existing taxable temporary differences, estimates of future taxable income, and the feasibility of ongoing tax planning strategies.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We file income tax returns in the United States, Sweden and in various state jurisdictions with varying statutes of limitations. Due to net operating losses incurred, our income tax returns from inception to date are subject to examination by taxing authorities. Our policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. As of December 31, 2015, we had no interest or penalties accrued for uncertain tax positions.

Marketable Securities

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

Fair Value Measurements

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

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

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

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

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

Property and Equipment

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

Goodwill and Intangible Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the twelve months ended December 31, 2015 resulted from an acquisition of a small privately held engineering consulting company with 10 full time employees to complement our research and development activities, which closed in April 2015.

Our identifiable intangible assets are comprised of acquired technologies, customer relationships, covenants not-to-compete, in-process research and development and trade names. The cost of identifiable intangible assets with finite lives is generally amortized on a straight-line basis over the assets’ respective estimated useful lives.

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

Recent Accounting Guidance

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

In July 2015, the FASB issued guidance to change the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance requires that inventory accounted for under the first-in, first-out (FIFO) or average cost methods be measured at the lower of cost and net realizable value, where net realizable value represents the estimated selling price of inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for us beginning in the first quarter of fiscal 2018. Earlier application is permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the effect this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies the current guidance in ASC Topic 740, Income Taxes, which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. We have elected to early adopt prospectively beginning in the year ended December 31, 2015 with our deferred tax assets and deferred tax liabilities presented as noncurrent in the consolidated balance sheet and related disclosures for the year ended December 31, 2015.

## 2. Net Loss Per Common Share

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Options outstanding to purchase common stock | 1.3 | 3.1 | 5.8 |
| Unvested restricted stock units | 4.1 | 4.2 | 3.6 |
| Total | 5.4 | 7.3 | 9.4 |

3. Financial Statement Details (in millions)

Short Term Marketable Securities, Available-for-Sale

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

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

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| U.S. government agencies | $9.1 | $— | $— | $9.1 |
| Corporate debt | 2.3 | — | — | 2.3 |
| Commercial paper | 0.4 | — | — | 0.4 |
| Total | $11.8 | $— | $— | $11.8 |

Accounts Receivable

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Accounts receivable | $82.0 | $46.8 |
| Less allowance for doubtful accounts, sales returns and discounts | (7.9) | (4.4) |
| Total | $74.1 | $42.4 |

Inventory

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Raw materials | $16.0 | $7.6 |
| Work-in-process | 2.6 | 1.0 |
| Finished goods | 16.6 | 7.4 |
| Total | $35.2 | $16.0 |

Property and Equipment

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Furniture and fixtures | $3.7 | $3.9 |
| Computer equipment | 21.0 | 18.9 |
| Machinery and equipment | 47.2 | 26.5 |
| Leasehold improvements | 21.0 | 14.7 |
| Total | 92.9 | 64.0 |
| Accumulated depreciation and amortization | (38.2) | (32.8) |
| Property and equipment, net | $54.7 | $31.2 |

Depreciation and amortization expense related to property and equipment for the twelve months ended December 31, 2015, 2014, and 2013 was $10.2 million, $7.8 million, and $6.4 million, respectively.

Goodwill and Intangible Assets
Goodwill and intangible assets as of December 31, 2015 consisted of the following (in millions, except months):

| | Weighted-Average Amortization Period (in months) | Gross Amount | Accumulated Amortization | Intangible Assets, net |
|---|---|---|---|---|
| Intangible assets subject to amortization | | | | |
| Developed technology | 109 | $3.2 | $(1.5 ) | $ 1.7 |
| Customer-related intangible | 70 | 0.6 | (0.4 ) | 0.2 |
| Covenants not-to-compete | 70 | 0.2 | (0.1 ) | 0.1 |
| In-process research and development | 51 | 0.2 | (0.1 ) | 0.1 |
| Total | | $4.2 | $(2.1 ) | $ 2.1 |
| Intangible assets not subject to amortization | | | | |
| Trademarks and trade names | | | | 0.1 |
| Goodwill | | | | 3.7 |
| Total | | | | $ 3.8 |

Goodwill and intangible assets as of December 31, 2014 consisted of the following (in millions, except months):

| | Weighted-Average Amortization Period (in months) | Gross Amount | Accumulated Amortization | Intangible Assets, net |
|---|---|---|---|---|
| Intangible assets subject to amortization | | | | |
| Developed technology | 109 | $3.2 | $(1.2 ) | $ 2.0 |
| Customer-related intangible | 70 | 0.6 | (0.3 ) | 0.3 |
| Covenants not-to-compete | 70 | 0.2 | (0.1 ) | 0.1 |
| Total | | $4.0 | $(1.6 ) | $ 2.4 |
| Intangible assets not subject to amortization | | | | |
| In-process research and development | | | | 0.2 |
| Trademarks and trade names | | | | 0.1 |
| Goodwill | | | | 3.2 |
| Total | | | | $ 3.5 |

Total expense related to amortization of intangible assets for the twelve months ended December 31, 2015, 2014, and 2013 was $0.5 million, $0.6 million, and $0.6 million, respectively. In the fourth quarter of 2014, we recorded an impairment charge of $0.2 million, included in the "Research and development" line item of the Consolidated Statement of Operations related to our Covenant not-to-compete intangible asset as a result of the SweetSpot settlement agreement entered into on November 3, 2014.

The following table sets forth the total future amortization expense related to intangible assets subject to amortization as of December 31, 2015:

| Fiscal Year Ending | |
|---|---|
| 2016 | $0.5 |
| 2017 | 0.5 |
| 2018 | 0.3 |
| 2019 | 0.3 |
| 2020 | 0.3 |
| Thereafter through 2021 | 0.2 |
| Total | $2.1 |

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Accounts Payable and Accrued Liabilities

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Accounts payable trade | $19.0 | $9.9 |
| Accrued tax, audit, and legal fees | 2.1 | 1.6 |
| Clinical trials | 0.7 | 0.4 |
| Accrued other including warranty | 17.1 | 8.5 |
| Total | $38.9 | $20.4 |

Accrued Payroll and Related Expenses

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Accrued paid time off | $4.4 | $3.2 |
| Accrued wages, bonus and taxes | 18.4 | 12.5 |
| Other accrued employee benefits | 2.1 | 1.5 |
| Total | $24.9 | $17.2 |

Accrued Warranty

Warranty costs are reflected in the consolidated statements of operations as product cost of sales. A reconciliation of our accrued warranty costs for the twelve months ended December 31, 2015 and 2014 were as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Beginning balance | $1.3 | $0.9 |
| Charges to costs and expenses | 9.0 | 5.2 |
| Costs incurred | (7.0) | (4.8) |
| Ending balance | $3.3 | $1.3 |

4. Commitments and Contingencies

Long-Term Debt

In November 2012, we entered into a loan and security agreement (the “Loan Agreement”) that provides for (i) a $15.0 million revolving line of credit and (ii) a total term loan of up to $20.0 million (the "Term Loan"), in both cases, to be used for general corporate purposes. The borrowings under the Loan Agreement are collateralized by a first priority security interest in substantially all of our assets with a negative pledge on our intellectual property. The revolving line of credit expired as of November 2015 with no amounts drawn or outstanding. In accordance with the Loan Agreement, $7.0 million was advanced under the Term Loan at the funding date in November 2012 and the remaining $13.0 million in additional funds expired unused. The Term Loan bears a fixed interest rate equal to the three-year treasury rate at the time of advance plus 6.94% and requires payment of interest only for the first year and amortized payments of interest and principal thereafter through the maturity date of November 2016. The aggregate debt issuance costs and fees incurred with respect to the issuance of the Loan Agreement were $1.1 million. These costs have been capitalized as debt issuance costs on our consolidated balance sheet as other assets. Fees related to the revolving line of credit were amortized through the maturity date of November 2015. Issuance costs and fees related to the term loan are being amortized through the maturity date of November 2016 using the effective interest method. As of December 31, 2015, the remaining unamortized issuance costs and fees are insignificant. Principal repayment obligations under the Loan Agreement as of December 31, 2015 were $2.3 million.

Leases

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

to the end of the initial term of the lease and any extension period, if applicable. Provided we are not in default under the Office Lease and the Office Lease is still in effect, we generally have the right to terminate the lease starting at the 55th month of the Office Lease. In September 2015, we received $1.8 million of tenant improvement allowance associated with the Office Lease, which was recorded as a deferred rent obligation and will be amortized over the term of the lease and reflected as a reduction to rent expense. Leasehold improvements associated with the tenant improvement allowance are included in Property and equipment, net in our consolidated balance sheet. We have also entered into other operating lease agreements, primarily for office and warehouse space, that expire at various times through March 2022. These facility leases have annual rental increases ranging from approximately 2.5% to 4%. The difference between the straight-line expense over the term of the lease and actual amounts paid are recorded as deferred rent.

Rental obligations, excluding real estate taxes, operating costs, and tenant improvement allowances, under all lease agreements as of December 31, 2015 were as follows (in millions):

| Fiscal Year Ending | |
|---|---|
| 2016 | $4.8 |
| 2017 | 4.4 |
| 2018 | 5.2 |
| 2019 | 5.3 |
| 2020 | 5.3 |
| Thereafter | 6.5 |
| Total | $31.5 |

Total rent expense for the twelve months ended December 31, 2015, 2014 and 2013 was $5.6 million, $3.6 million and $3.0 million, respectively.

Litigation

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

Purchase Commitments

We are party to various purchase arrangements related to our manufacturing and development activities including materials used in our CGM systems. As of December 31, 2015, we had purchase commitments with vendors totaling $49.3 million due within one year. There are no material purchase commitments due beyond one year.

5. Development and Other Agreements

Collaboration with Google Life Sciences

On August 10, 2015, we entered into a Collaboration and License Agreement (the “Verily Collaboration Agreement”) with Google Life Sciences LLC, now renamed Verily Life Sciences (“Verily”). Pursuant to the Verily Collaboration Agreement, we and Verily have agreed to jointly develop a series of next-generation continuous glucose monitoring products. The Verily Collaboration Agreement provides us with an exclusive license to use certain intellectual property of Verily related to the development, manufacture and commercialization of the products contemplated under the Verily Collaboration Agreement. The Verily Collaboration Agreement provides for the establishment of a joint steering committee, joint development committee and joint commercialization committee to oversee and coordinate the parties’ activities under the collaboration. We and Verily have agreed to make committee decisions by consensus. The terms of Verily Collaboration Agreement required that we pay an upfront fee of $35.0 million in either cash or shares of our common stock at our sole election, with the number of shares calculated based on the volume weighted average trading price during a period of twenty consecutive trading days ending prior to the date of the Verily Collaboration Agreement. In addition, we will pay Verily up to $65.0 million in additional milestones upon achievement of various development and regulatory objectives, which payments may be paid in cash or shares of our common stock at our sole election, calculated based on the volume weighted average trading price during a period of twenty consecutive trading days ending on the trading day prior to the date on which the applicable objective has been achieved.

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On August 27, 2015, we filed a Registration Statement on Form S-3 with the SEC and issued 404,591 shares of our common stock to Verily in connection with the $35.0 million upfront payment. We recorded $36.5 million in research and development expense in our consolidated statement of operations for the twelve months ended months ended December 31, 2015 related to the issuance of the 404,591 shares of our common stock, based on our stock price of $90.29 per share as of the date of Verily Collaboration Agreement.

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

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

Edwards Lifesciences LLC

On November 10, 2008, we entered into a Collaboration Agreement with Edwards Lifesciences LLC (“Edwards”). The Collaboration Agreement was amended by the parties on May 5, 2009 (as amended, the “Collaboration Agreement”). In accordance with the Collaboration Agreement, the parties also entered into a Manufacturing and Supply Agreement and Quality Agreement, each dated as of November 10, 2008 (the “Manufacturing and Supply Agreement” and “Quality Agreement,” respectively). Pursuant to the Collaboration Agreement, the parties agreed to develop jointly and to market an in-hospital automatic blood glucose monitoring system ("In-Hospital Product"). On September 3, 2015, we and Edwards entered into a Restatement of License, Termination of Collaboration & Release Agreement (the “Restated Agreement”) terminating each of the Manufacturing and Supply Agreement and Quality Agreement, and amending in part the Collaboration Agreement. Pursuant to the Restated Agreement, we and Edwards agreed to a mutual release of claims, including any activities related to further development obligations or milestone payments. In addition, the Restated Agreement provides Edwards with a fully paid-up, royalty-free license to use certain of our intellectual property solely in the field of blood-based glucose monitoring within the hospital environment. Under the Restated Agreement, we reserve the right to market and sell our interstitial continuous glucose monitoring technology in all settings, including within the hospital market. No payments are required by either party in connection with the Restated Agreement.

Tandem Diabetes Care, Inc.

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

We received an initial payment of $1.0 million as a result of the execution of the Tandem Agreement, which was fully recognized in development grant and other revenue as of December 31, 2014. During the year ended December 31, 2013 we recognized $0.5 million related to the initial consideration received. In July 2014, we received an additional $1.0 million milestone payment related to the regulatory submission by Tandem of their CGM enabled insulin pump. In September 2015, we received the final $1.0 million milestone payment related to the regulatory approval of Tandem's CGM enabled insulin pump, which was recognized in development grant and other revenue for the twelve months ended December 31, 2015. Under the terms of the Tandem Agreement, we are entitled to receive up to $1.0 million to offset certain development, clinical and regulatory expenses. Each of the milestones related to the Tandem Agreement is considered to be substantive.

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

The Leona M. and Harry B Helmsley Charitable Trust

In July 2013, we were awarded a $4.0 million grant (the "Helmsley Grant") from the Leona M. and Harry B. Helmsley Charitable Trust (the "Helmsley Trust") to accelerate the development of the sixth generation of our advanced glucose-sensing technologies (the "Gen 6 Sensor"). The funding is milestone-based and is contingent upon our meeting specific development milestones related to the development of the Gen 6 Sensor over a period of several years. Upon successful commercialization of our Gen 6 Sensor, we are obligated to either (1) make royalty payments based on a percentage of product sales of up to $2.0 million per year for four years, or (2) at our sole election, make a one-time $6.0 million royalty payment.

The Helmsley Grant funds will offset research and development expense as incurred and earned. During the years ended 2015, 2014 and 2013, $1.0 million, $2.5 million and $0.5 million of the Helmsley Grant was received and earned.

6. Fair Value Measurements

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

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

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

The following table represents our fair value hierarchy for our financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis as of December 31, 2015 (in millions):

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | $— | $32.1 | $— | $32.1 |
| Marketable securities, available for sale | | | | |
| U.S. government agencies | — | 22.1 | — | 22.1 |
| Corporate debt | — | 4.9 | — | 4.9 |
| Commercial paper | — | 2.1 | — | 2.1 |
| Total marketable securities, available for sale | $— | $29.1 | $— | $29.1 |

The following table represents our fair value hierarchy for our financial assets (cash equivalents, marketable securities and restricted cash) measured at fair value on a recurring basis as of December 31, 2014 (in millions):

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | $— | $54.3 | $— | $54.3 |
| Marketable securities, available for sale | | | | |
| U.S. government agencies | — | 9.1 | — | 9.1 |
| Corporate debt | — | 2.3 | — | 2.3 |
| Commercial paper | — | 0.4 | — | 0.4 |
| Total marketable securities, available for sale | $— | $11.8 | $— | $11.8 |
| Restricted cash | $1.0 | $— | $— | $1.0 |

Our restricted cash balance as of December 31, 2014 included certificates of deposit.

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There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2015 and December 31, 2014.

7. Income Taxes

We have recorded a net tax expense of $0.1 million for the years ended December 31, 2015 and 2014, respectively, and a net tax benefit of $12,000 for the year ended December 31, 2013. The tax expense for the years ended December 31, 2015 and 2014 were primarily related to foreign income taxes and state minimum taxes.

At December 31, 2015, we had federal and state tax net operating loss carryforwards of approximately $675.1 million and $424.3 million, respectively. The federal and state tax loss carryforwards will begin to expire in 2019 and 2016, respectively, unless previously utilized. California net operating loss carryforwards of $39.6 million and $14.1 million will expire in 2016 and 2017, respectively. California net operating loss carryforwards of $321.8 million will expire from 2028 through 2035. Arizona net operating loss carryforwards of $0.7 million will expire in 2016.

We also had federal and state research and development tax credit carryforwards of approximately $18.5 million and $20.5 million, respectively. The federal research and development tax credit will begin to expire in 2019, unless previously utilized. The state research and development tax credit will carryforward indefinitely until utilized.

Utilization of net operating losses and credit carryforwards are subject to an annual limitation due to ownership change limitations provided by Section 382 and 383 of the Internal Revenue Code of 1986, as amended, and similar state provisions. An ownership change limitation occurred as a result of the stock offering completed in February 2009. The limitation will likely result in approximately $2.1 million of U.S. income tax credits that will expire unused. The related deferred tax assets have been removed from the components of our deferred tax assets as summarized below. The tax benefits related to the remaining federal and state net operating losses and tax credit carryforwards may be further limited or lost if future cumulative changes in ownership exceed 50% within any three-year period.

Significant components of our deferred tax assets as of December 31, 2015 and 2014 are shown below (in millions). A valuation allowance of approximately $196.4 million has been established as of December 31, 2015 to offset the deferred tax assets, as realization of such assets is uncertain. We maintain a deferred tax liability related to indefinite lived intangible assets that is not netted against deferred tax assets, as reversal of the taxable temporary difference cannot serve as a source of income for realization of the deferred tax assets, because the deferred tax liability will not reverse until the asset is sold or written down due to impairment.

| | December 31, 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $127.6 | $132.2 |
| Capitalized research and development expenses | 17.0 | 5.0 |
| Tax credits | 19.1 | 9.0 |
| Share-based compensation | 20.8 | 15.5 |
| Fixed and intangible assets | (1.3) | 1.2 |
| Other, net | 13.9 | 7.0 |
| Total gross deferred tax assets | 197.1 | 169.9 |
| Less: valuation allowance | (196.4) | (169.0) |
| Deferred tax liability related to acquired intangibles assets | (0.8) | (1.0) |
| Net deferred tax liability | $(0.1) | $(0.1) |

We recognize windfall tax benefits associated with the exercise of share-based compensation directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for net operating loss carryforwards resulting from windfall tax benefits occurring from January 1, 2006 onward. At December 31, 2015, deferred tax assets do not include $131.9 million of excess tax benefits from share-based compensation.

As discussed in Note 1, we have elected to early adopt ASU 2015-17 prospectively beginning in the year ended December 31, 2015 with our deferred tax assets and deferred tax liabilities presented as noncurrent in the consolidated balance sheet for the year ended December 31, 2015.

The reconciliation between our effective tax rate on income (loss) from continuing operations and the statutory rate is as follows:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Income taxes at statutory rates | 35.00 % | 35.00 % | 35.00 % |
| State income tax, net of federal benefit | 1.72 % | (1.56 )% | 2.70 % |
| Permanent items | (0.55 )% | (0.80 )% | (3.64 )% |
| Research and development credits | 17.40 % | 7.50 % | 6.17 % |
| Stock and officers compensation | (5.37 )% | (15.93 )% | (2.23 )% |
| Rate change | (0.30 )% | (1.66 )% | 7.11 % |
| Other | (0.36 )% | (3.97 )% | 0.08 % |
| Change in valuation allowance | (47.73 )% | (19.24 )% | (45.15 )% |
| Income taxes at effective rates | (0.19 )% | (0.66 )% | 0.04 % |

The following table summarizes the activity related to our gross unrecognized tax benefits (in millions):

| | |
|---|---|
| Balance at January 1, 2013 | $4.8 |
| Increases related to prior year tax positions | 0.5 |
| Increases related to current year tax positions | 0.9 |
| Balance at December 31, 2013 | 6.2 |
| Increases related to current year tax positions | 1.4 |
| Balance at December 31, 2014 | 7.6 |
| Increases related to prior year tax positions | 2.6 |
| Increases related to current year tax positions | 5.4 |
| Balance at December 31, 2015 | $15.6 |

Due to the valuation allowance recorded against our deferred tax assets, none of the total unrecognized tax benefits as of December 31, 2015 would reduce our annual effective tax rate if recognized. Interest and penalties are classified as a component of income tax expense and were not material for all the periods presented. Due to net operating losses incurred, tax years from 1999 and forward remain open to examination by the major taxing jurisdictions to which we are subject. We do not expect any changes to our unrecognized tax benefits over the next twelve months.

As of December 31, 2015, U.S. income taxes have not been provided on approximately $0.5 million of accumulated undistributed earnings of our foreign subsidiary in Sweden, as we currently intend to indefinitely reinvest these earnings in our foreign operations. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be remitted.

8. Employee Benefit Plans

401(k) Plan

We have a defined contribution 401(k) retirement plan (the “401(k) Plan”) covering substantially all employees that meet certain age requirements. Employees may contribute up to 90% of their compensation per year (subject to a maximum limit by federal tax law). Under the 401(k) Plan, we may elect to match a discretionary percentage of contributions. No such matching contributions have been made to the 401(k) Plan since its inception.

Employee Stock Purchase Plan

In May 2015, we adopted a new ESPP, the 2015 Employee Stock Purchase Plan (the "2015 ESPP") which replaced our 2005 ESPP and permits our eligible employees to purchase shares of common stock, at semi-annual intervals, through periodic payroll deductions. Payroll deductions may not exceed 10% of the participant's cash compensation subject to certain limitations, and the purchase price will not be less than 85% of the lower of the fair market value of the stock at either the beginning of the applicable Offering Period or the Purchase Date. Under our 2015 ESPP, each Offering Period is twelve months, with new Offering Periods commencing every six months on the dates of March 1 and September 1 of each year. Each Offering Period consists of two (2) six month purchase periods (each a "Purchase Period") during which payroll deductions of the participants are accumulated under the ESPP. The last business day of each Purchase Period is referred to as the "Purchase Date." Purchase Dates are every six months on the dates of February 28 or February 29 and August 31. Under our 2005 ESPP, the Offering Periods commence on February 1 and August 1 of each year with Purchase dates on January 31 and July 31.

During the years ended 2015, 2014 and 2013 we issued 115,848, 135,057 and 199,661, respectively, shares of common stock under the 2005 ESPP.

Equity Incentive Plans

In May 2015, we adopted the 2015 Equity Incentive Plan (the "2015 Plan"), which replaced the 2005 Equity Incentive Plan and provides for the grant of incentive and nonstatutory stock options, restricted stock, stock bonuses, stock appreciation rights, and restricted stock units to employees, directors or consultants of the Company. The total number of shares reserved for issuance pursuant to the 2015 Plan as of the date of adoption was 4.0 million and forfeited shares under the 2005 Equity Incentive Plan subsequent to May 28, 2015 are returned to the share reserve under the 2015 Plan and will be available for future awards. Stockholder approval is required to increase the maximum number of securities that may be issued under the 2015 Plan. Options generally vest over three or four years and expire ten years from the date of grant. In addition, incentive stock options may not be granted at a price less than the 100% of the fair market value on the date of grant.

A summary of our stock option activity, and related information for the year ended December 31, 2015 is as follows (in millions except weighted-average exercise price and weighted-average remaining contractual term):

| | Number of Shares | | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Outstanding at December 31, 2014 | 3.1 | | $7.95 | | |
| Exercised | (1.8 | ) | 8.22 | | |
| Forfeited | — | | — | | |
| Outstanding at December 31, 2015 | 1.3 | | $7.56 | 2.96 | $94.5 |
| Exercisable at December 31, 2015 | 1.3 | | $7.56 | 2.96 | $94.5 |

The total intrinsic value of options exercised as of the date of exercise and total fair value of options vested was as follows (in millions):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Intrinsic value of options exercised | $125.8 | $99.0 | $29.8 |
| Fair value of options vested | $— | $0.4 | $1.3 |

We define in-the-money options at December 31, 2015 as options that had exercise prices that were lower than the $81.90 closing market price of our common stock at that date. The aggregate intrinsic value of options outstanding at December 31, 2015 is calculated as the difference between the exercise price of the underlying options and the market price of our common stock for the 1.3 million options that were in-the-money at that date. There were 1.3 million in-the-money options exercisable at December 31, 2015.

Valuation and expense information

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The following table summarizes share-based compensation expense related to employee stock options, restricted stock units and employee stock purchases for the years ended December 31, 2015, 2014 and 2013 (in millions):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Cost of sales | $8.1 | $4.5 | $2.6 |
| Research and development | 28.5 | 17.0 | 8.5 |
| Selling, general and administrative | 46.1 | 28.5 | 13.5 |
| Share-based compensation expense included in operating expenses | $82.7 | $50.0 | $24.6 |

At December 31, 2015, unrecognized estimated compensation costs related to unvested restricted stock units totaled $151.8 million and are expected to be recognized through 2019.

We estimate the fair value of each option grant and ESPP purchase rights on the date of grant using the Black-Scholes option pricing model with the below assumptions. We did not have any option grants during the years ended 2015, 2014 and 2013.

ESPP:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Risk free interest rate | 0.15 – 0.25 | 0.10 – 0.12 | 0.13 – 0.17 |
| Dividend yield | — % | — % | — % |
| Expected volatility of the Company’s stock | 0.30 – 0.44 | 0.41 – 0.50 | 0.30 – 0.39 |
| Expected life (in years) | 1 | 1 | 1 |

Restricted Stock Units (RSUs)

RSU awards typically vest annually over three or four years, and vesting is subject to continued employment. The RSUs had a weighted-average grant date fair value of $63.63, $46.19 and $17.29 per share for the years ended December 31, 2015, 2014 and 2013, respectively. The total fair value of RSUs vested was $60.0 million, $27.0 million and $17.5 million for the years ended 2015, 2014 and 2013, respectively.

The following table sets forth a summary of our RSU activity as of and for the year ended December 31, 2015 (in millions except weighted average grant date fair value):

| | Shares | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value |
|---|---|---|---|
| Nonvested at December 31, 2014 | 4.2 | $33.35 | |
| Granted | 2.1 | 63.63 | |
| Vested | (2.0) | 29.48 | |
| Forfeited | (0.2) | 32.62 | |
| Nonvested at December 31, 2015 | 4.1 | $50.60 | $339.0 |

Reserved Shares

We have reserved shares of common stock for future issuance as follows (in millions)

| | December 31, 2015 | 2014 |
|---|---|---|
| Stock options and awards under our plans: | | |
| Stock options granted and outstanding | 1.3 | 3.1 |
| Unvested restricted stock units | 4.1 | 4.2 |
| Reserved for future grant | 3.7 | 0.3 |
| Employee Stock Purchase Plan | 1.5 | 2.5 |
| Total | 10.6 | 10.1 |

9. Quarterly Financial Information (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2015 and 2014 (in millions except per share data):

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | March 31 |
| Year ended December 31, 2015 | | | | |
| Revenues | $130.8 | $105.2 | $93.2 | $72.8 |
| Gross profit | 91.2 | 74.7 | 66.0 | 46.5 |
| Total operating expenses | 89.6 | 117.1 | 69.6 | 59.2 |
| Net income (loss) | 1.5 | (42.5) | (3.7) | (12.9) |
| Basic net income (loss) per share (a) | $0.02 | $(0.53) | $(0.05) | $(0.17) |
| Diluted net income (loss) per share (a) | $0.02 | $(0.53) | $(0.05) | $(0.17) |
| Year ended December 31, 2014 | | | | |
| Revenues | $84.3 | $69.0 | $58.8 | $47.1 |
| Gross profit | 59.4 | 47.2 | 39.9 | 29.8 |
| Total operating expenses | 57.8 | 52.2 | 45.7 | 42.1 |
| Net income (loss) | 1.3 | (5.2) | (6.0) | (12.5) |
| Basic net income (loss) per share (a) | $0.02 | $(0.07) | $(0.08) | $(0.17) |
| Diluted net income (loss) per share (a) | $0.02 | $(0.08) | $(0.09) | $(0.17) |

(a) Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

10. Subsequent Events

On February 1, 2016, we entered into a Sublease (the “Sublease”) with Entropic Communications, LLC with respect to facilities in the building at 6350 Sequence Drive in San Diego, California (the “6350 Building”).

Under the Sublease, we have leased approximately 132,600 square feet of space in the 6350 Building. The lease term extends through January 2022. Rent payable by us under the Sublease will be as follows (in millions):

| Fiscal Year Ending | Total Annual Base Rent |
|---|---|
| 2016 | $0.8 |
| 2017 | 1.5 |
| 2018 | 2.2 |
| 2019 | 2.9 |
| 2020 | 3.4 |
| Thereafter | 3.8 |
| Total | $14.6 |

In addition, under the Sublease, we are obligated to pay a share of the real estate taxes and operating costs for the 6350 Building and were required to provide a security deposit of $0.3 million. The total obligation for rent under the life of the lease is $14.6 million, excluding real estate taxes and operating costs.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2015, 2014 and 2013
(in millions)

| | | |
|---|---|---|
| Allowance for doubtful accounts | | |
| Balance December 31, 2012 | $1.2 | |
| Provision for doubtful accounts | 2.7 | |
| Write-off and adjustments | (1.4 | ) |
| Recoveries | 0.1 | |
| Balance December 31, 2013 | $2.6 | |
| Allowance for doubtful accounts | | |
| Balance December 31, 2013 | $2.6 | |
| Provision for doubtful accounts | 4.0 | |
| Write-off and adjustments | (2.6 | ) |
| Recoveries | 0.3 | |
| Balance December 31, 2014 | $4.3 | |
| Allowance for doubtful accounts | | |
| Balance December 31, 2014 | $4.3 | |
| Provision for doubtful accounts | 7.8 | |
| Write-off and adjustments | (4.5 | ) |
| Recoveries | 0.2 | |
| Balance December 31, 2015 | $7.8 | |