RESMED INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

On March 30, 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which requires companies to recognize additional tax benefits or expenses related to the vesting or settlement of employee share-based awards (the difference between the actual benefit for tax purposes and the tax benefit initially recognized for financial reporting purposes) as income tax benefit or expense in earnings, rather than in additional paid-in capital, in the reporting period in which they occur. This ASU also requires companies to classify cash flows resulting from employee share-based payments, including the additional tax benefits or expenses related to the vesting or settlement of share-based awards, as cash flows from operating activities rather than financing activities. Although this change will reduce some of the administrative complexities of tracking share-based awards, it will increase the volatility of our income tax expense and cash flows from operations. The new standard is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We elected to early adopt this ASU during the fourth quarter of fiscal year 2016 and are therefore required to report the impacts as though the ASU had been adopted on July 1, 2015 , the beginning of our fiscal year, and to reflect the tax benefit as a discrete item within each of the respective interim reporting periods. Accordingly, we recognized additional income tax benefits as an increase to earnings of $11.2 million during the year ended June 30, 2016 and we also recognized additional income tax benefits as an increase to operating cash flows of $14.5 million for the year ended June 30, 2016. The new accounting standard did not impact any periods prior to July 1, 2015, as we applied the changes on a prospective basis.

(4) Earnings Per Share

We compute basic earnings per share by dividing the net income available to common stockholders by the weighted average number of shares of common stock outstanding. For purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding and the number of dilutive common stock equivalents such as stock options and restricted stock units.

The weighted average number of outstanding stock options and restricted stock units not included in the computation of diluted earnings per share were 297,000, 62,000 and 273,000 for the years ended June 30, 2016, 2015 and 2014, respectively, as the effect would have been anti-dilutive.

Basic and diluted earnings per share for the years ended June 30, 2016, 2015 and 2014 are calculated as follows (in thousands except per share data):

	2016	2015	2014
Numerator:			
Net Income, used in calculating diluted earnings per share	$352,409	$352,886	$345,273
Denominator:			
Basic weighted-average common shares outstanding	140,242	140,468	141,474
Effect of dilutive securities:			
Stock options and restricted stock units	1,427	2,219	2,885
Diluted weighted average shares	141,669	142,687	144,359
Basic earnings per share	$ 2.51	$ 2.51	$ 2.44
Diluted earnings per share	$ 2.49	$ 2.47	$ 2.39

(5) Inventories

Inventories were comprised of the following as of June 30, 2016 and June 30, 2015 (in thousands):

	2016	2015
Raw materials	$ 67,121	$ 74,416
Work in progress	3,939	2,550
Finished goods	153,396	169,893
Total inventories	$224,456	$246,859