

As of June 30, 2019, the total gross unrecognized tax benefits were \$420.8 million, compared to \$305.4 million as of June 24, 2018, and \$339.4 million as of June 25, 2017. During fiscal year 2019, gross unrecognized tax benefits increased by \$115.4 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$376.0 million, \$268.3 million, and \$247.6 million, as of June 30, 2019, June 24, 2018, and June 25, 2017, respectively. The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

	(in thousands)
Balance as of June 26, 2016	\$ 417,432
Settlements and effective settlements with tax authorities	(6,691)
Lapse of statute of limitations	(113,491)
Increases in balances related to tax positions taken during prior periods	6,557
Decreases in balances related to tax positions taken during prior periods	(11,528)
Increases in balances related to tax positions taken during current period	47,168
Balance as of June 25, 2017	339,447
Settlements and effective settlements with tax authorities	(693)
Lapse of statute of limitations	(88,837)
Increases in balances related to tax positions taken during prior periods	2,044
Decreases in balances related to tax positions taken during prior periods	(1,320)
Increases in balances related to tax positions taken during current period	54,772
Balance as of June 24, 2018	305,413
Settlements and effective settlements with tax authorities	(3,705)
Lapse of statute of limitations	(28,176)
Increases in balances related to tax positions taken during prior periods	78,927
Decreases in balances related to tax positions taken during prior periods	(1,577)
Increases in balances related to tax positions taken during current period	69,890
Balance as of June 30, 2019	\$ 420,772

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. The Company had accrued \$19.1 million, \$13.0 million, and \$15.7 million cumulatively for gross interest and penalties as of June 30, 2019, June 24, 2018, and June 25, 2017, respectively.

The Company is subject to audits by state and foreign tax authorities. The Company is unable to make a reasonable estimate as to when cash settlements, if any, with the relevant taxing authorities will occur.

The Company files U.S. federal, U.S. state, and foreign income tax returns. As of June 30, 2019, tax years 2004-2019 remain subject to examination in the jurisdictions where the Company operates.

The Company is in various stages of examinations in connection with all of its tax audits worldwide, and it is difficult to determine when these examinations will be settled. It is reasonably possible that over the next 12-month period the Company may experience an increase or decrease in its unrecognized tax benefits as a result of tax examinations or lapses of statute of limitations. The change in unrecognized tax benefits may range up to \$12 million.

Note 8: Net Income per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the treasury stock method, for dilutive stock options, restricted stock units, and convertible notes.

The following table reconciles the numerators and denominators of the basic and diluted computations for net income per share.

	Year Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
(in thousands, except per share data)			
Numerator:			
Net income	\$ 2,191,430	\$ 2,380,681	\$ 1,697,763
Denominator:			
Basic average shares outstanding	152,478	161,643	162,222
Effect of potential dilutive securities:			
Employee stock plans	1,323	2,312	2,058
Convertible notes	5,610	12,258 ⁽¹⁾	16,861 ⁽¹⁾
Warrants	504	4,569	2,629
Diluted average shares outstanding	159,915	180,782	183,770
Net income per share - basic	\$ 14.37	\$ 14.73	\$ 10.47
Net income per share - diluted	\$ 13.70	\$ 13.17	\$ 9.24

(1) Diluted shares outstanding do not include any effect resulting from note hedges associated with the Company's 2018 Notes as their impact would have been anti-dilutive.

For purposes of computing diluted net income per share, weighted-average common shares do not include potentially dilutive securities that are anti-dilutive under the treasury stock method. The following potentially dilutive securities were excluded:

	Year Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
(in thousands)			
Options and RSUs	578	34	34

Note 9: Financial Instruments

Fair Value

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value. The level of an asset or liability in the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities with sufficient volume and frequency of transactions.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or model-derived valuations techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities and based on non-binding, broker-provided price quotes and may not have been corroborated by observable market data.

The Company's primary financial instruments include its cash, cash equivalents, investments, restricted cash and investments, long-term investments, accounts receivable, accounts payable, long-term debt and capital leases, and foreign currency related

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