DEXCOM INC
Form 10-Q
August 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-51222
DEXCOM, INC.
(Exact name of Registrant as specified in its charter)

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

Registrant's Telephone Number, including area code: (858) 200-0200
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer	ý	Accelerated Filer	o
Non-Accelerated Filer	o (Do not check if a smaller reporting company)	Smaller Reporting Company	o
Emerging Growth Company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 27, 2017, 86,560,946 shares of the Registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 395.9	$ 94.5
Short-term marketable securities, available-for-sale	100.7	29.2
Accounts receivable, net	101.7	101.7
Inventory	42.8	45.4
Prepaid and other current assets	15.7	9.2
Total current assets	656.8	280.0
Property and equipment, net	125.0	109.4
Goodwill	11.9	11.3
Other assets	1.9	2.1
Total assets	$ 795.6	$ 402.8
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 72.2	$ 68.1
Accrued payroll and related expenses	31.4	33.4
Current portion of deferred revenue	1.5	0.9
Total current liabilities	105.1	102.4
Other liabilities	16.3	16.6
Long term senior convertible notes	320.5	—
Total liabilities	441.9	119.0
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5.0 shares authorized; no shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Common stock, $0.001 par value, 200.0 authorized; 86.8 and 86.5 issued and outstanding, respectively, at June 30, 2017. Common stock, $0.001 par value, 100.0 authorized; 84.9 and 84.6 shares issued and outstanding, respectively, at December 31, 2016.	0.1	0.1
Additional paid-in capital	1,015.6	905.7
Accumulated other comprehensive loss	(1.6)	(1.0)
Accumulated deficit	(660.4)	(621.0)
Total stockholders' equity	353.7	283.8
Total liabilities and stockholders' equity	$ 795.6	$ 402.8

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$170.6	$137.3	$312.9	$253.5
Cost of sales	53.1	51.8	101.3	92.9
Gross profit	117.5	85.5	211.6	160.6
Operating expenses				
Research and development	45.3	36.3	93.4	68.5
Selling, general and administrative	85.8	69.3	172.2	131.4
Total operating expenses	131.1	105.6	265.6	199.9
Operating loss	(13.6)	(20.1)	(54.0)	(39.3)
Other income	1.8	—	2.2	—
Interest income	0.5	0.1	0.7	0.2
Interest expense	(3.1)	(0.1)	(3.6)	(0.2)
Loss before income taxes	(14.4)	(20.1)	(54.7)	(39.3)
Income tax expense (benefit)	(17.3)	0.1	(15.9)	0.1
Net income (loss)	$2.9	$(20.2)	$(38.8)	$(39.4)
Basic and diluted net income (loss) per share	$0.03	$(0.24)	$(0.45)	$(0.48)
Shares used to compute basic net income (loss) per share	86.4	83.6	85.8	82.8
Shares used to compute dilutive net income (loss) per share	87.4	83.6	85.8	82.8

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$2.9	$(20.2)	$(38.8)	$(39.4)
Foreign currency translation loss	(0.3)	(0.4)	(0.6)	(0.4)
Comprehensive income (loss)	$2.6	$(20.6)	$(39.4)	$(39.8)

See accompanying notes

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

	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net loss	$(38.8)	$(39.4)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	7.6	7.3
Share-based compensation	55.9	52.7
Non-cash interest expense	2.1	—
Deferred tax	(17.1)	—
Other non-cash expenses	6.1	0.1
Changes in operating assets and liabilities:		
Accounts receivable, net	0.5	0.8
Inventory	2.8	(7.2)
Prepaid and other assets	(6.2)	(2.7)
Accounts payable and accrued liabilities	1.8	9.3
Accrued payroll and related expenses	(2.1)	(1.7)
Deferred revenue	0.5	(0.2)
Deferred rent and other liabilities	1.5	0.9
Net cash provided by operating activities	14.6	19.9
Investing activities		
Purchase of available-for-sale marketable securities	(91.4)	(20.9)
Proceeds from the maturity of available-for-sale marketable securities	19.6	21.7
Purchase of property and equipment	(34.9)	(22.0)
Acquisitions, net of cash acquired	—	0.4
Net cash used in investing activities	(106.7)	(20.8)
Financing activities		
Net proceeds from issuance of common stock	5.7	4.8
Proceeds from issuance of convertible debt, net of issuance costs	389.0	—
Proceeds from short-term borrowings	75.0	—
Repayment of short-term borrowings	(75.0)	—
Repayment of long-term debt	—	(2.3)
Net cash provided by financing activities	394.7	2.5
Effect of exchange rate changes on cash and cash equivalents	(1.2)	(0.2)
Increase in cash and cash equivalents	301.4	1.4
Cash and cash equivalents, beginning of period	94.5	86.1
Cash and cash equivalents, end of period	$395.9	$87.5
Supplemental disclosure of non-cash investing and financing transactions:		
Issuance of common stock in connection with acquisition	$—	$7.2
Acquisition-related holdback liability	$—	$1.8
Assets acquired and financing obligation under build-to-suit leasing arrangement	$—	$6.0
Acquisition of property and equipment included in accounts payable and accrued liabilities	$4.9	$3.8

See accompanying notes

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

1. Organization and Summary of Significant Accounting Policies

Organization and Business

DexCom, Inc. is a medical device company focused on the design, development and commercialization of continuous glucose monitoring ("CGM") systems for ambulatory use by people with diabetes and by healthcare providers for the treatment of people with 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 $660.4 million at June 30, 2017. As of June 30, 2017, we had available cash, cash equivalents and marketable securities totaling $496.6 million and working capital of $551.7 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 June 30, 2018.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and related notes thereto for the year ended December 31, 2016 included in the Annual Report on Form 10-K filed by us with the Securities and Exchange Commission on February 28, 2017.

Principles of Consolidation

The consolidated financial statements include the accounts of DexCom, Inc. and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting

An operating segment is identified as a component of a business that has discrete financial information available, and one for which the chief operating decision maker must decide the level of resource allocation. In addition, the guidance for segment reporting indicates certain quantitative thresholds. None of the operations of our subsidiaries 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, Canada and portions of Europe, and through distribution arrangements in the United States, Canada, Australia, New Zealand, and in portions of Europe, Asia, Latin America, the Middle East and Africa. DexCom, Inc. is domiciled 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, convertible debt, employee bonus, clinical trial expenses, allowance for bad debt and refunds and rebates, including pharmacy rebates.

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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 ratably over the requisite service period of the individual grants, which typically equals the vesting period. Shared-based compensation arrangements include Restricted Stock Units (“RSUs”) and purchases of common stock at a discount under our Employee Stock Purchase Plan, or ESPP. We estimate the fair value of RSUs based on the market price of our common stock on the date of grant and the fair value of ESPP purchase rights on the date of grant using the Black-Scholes option pricing model.

As discussed below under "Recent Accounting Guidance", we adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718) (“ASU 2016-09”) in the first quarter of 2017 and elected to account for forfeitures as they occur with the change applied on a modified retrospective basis with a cumulative effect adjustment to accumulated deficit of $0.6 million. Prior to the adoption of this accounting standard we estimated at grant the likelihood that the award will ultimately vest (the “pre-vesting forfeiture rate”), and revised the estimate, if necessary, in future periods if the actual forfeiture rate differed. We used our historical data and company-specific events to estimate pre-vesting forfeitures and recorded stock-based compensation expense only for those awards that were expected to vest.

We recorded $25.3 million and $55.9 million in share-based compensation expense during the three and six months ended June 30, 2017, compared to $27.6 million and $52.7 million during the three and six months ended June 30, 2016. At June 30, 2017, unrecognized estimated compensation costs related to unvested restricted stock units totaled $174.2 million and is expected to be recognized through 2020.

Revenue Recognition

We sell our durable systems and disposable units through a direct sales force in the United States, Canada and portions of Europe, and through distribution arrangements in the United States, Canada, Australia, New Zealand, and in portions of Europe, Asia, Latin America, the Middle East, 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 subsequent 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 Healthcare and its subsidiaries (“Byram”), RGH Enterprises (“Edgepark”) and other distributors that allow the distributors to sell our durable systems and disposable units. The majority of our distributors 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. Terms of distributor orders are generally Freight on Board (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. Shipping charges billed to customers are included in revenue while related costs are included as cost of sales.

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 expectations for future warranty activity based on changes and improvements to the product or process that are, or will be in place in the future. These estimates are evaluated on at least a quarterly basis to determine the continued appropriateness of such assumptions.

Foreign Currency

The financial statements of our foreign subsidiaries 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. Translation related adjustments are recognized as part of comprehensive income and are included in accumulated other comprehensive loss in the consolidated balance sheet. Gains and losses resulting from certain intercompany transactions as well as transactions with customers and vendors that are denominated in currencies other than the functional currency of each subsidiary give rise to foreign exchange gains or losses reflected in operations. To date the results of operations of these subsidiaries and related translation adjustments and foreign exchange gains or losses have not been material in our consolidated results.

Comprehensive Income (Loss)

We report all components of comprehensive income (loss), including net income (loss), in the consolidated financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income (loss) and comprehensive income (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 income (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.

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 or expense. 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.

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Fair Value Measurements

Our financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses, and Senior Convertible Notes.

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 7 “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 to ten 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

We test goodwill 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. The change in goodwill for the three and six months ended June 30, 2017 represents translation adjustments on our foreign currency denominated goodwill related to the acquisition of Nintamed, our distributor that served Germany, Switzerland and Austria.

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 modified retrospective transition method and is effective for us in our first quarter of 2018. We are currently in the process of completing the initial assessment of the impact that this new revenue recognition standard will have on our consolidated financial statements. As part of the initial assessment, we are reviewing a representative sample of contracts across our various streams of revenue and geographies to identify potential differences that could result from applying the requirements of the new standard. The analysis includes identifying whether there may be differences in timing of revenue recognition under the new standard as well as assessing performance obligations, variable consideration and contract costs. We have not yet estimated the impact, if any, of the new standard on the timing and pattern of our revenue recognition. We will continue to evaluate the future impact and method of adoption of ASU 2014 -09 and related amendments on the Consolidated Financial Statements and related disclosures throughout 2017.

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

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(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 was effective for us in the first quarter of fiscal 2017 with no material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which require a lessee to recognize a lease payment liability and a corresponding right of use asset on their balance sheet for all lease terms longer than 12 months, lessor accounting remains largely unchanged. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2018 and early adoption is permitted. We are currently evaluating the effect this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) ("ASU 2016-09"), which is intended to simplify several areas of accounting for share-based payment arrangements. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. We adopted this standard in the first quarter of 2017.

We had excess tax benefits for which a benefit could not be previously recognized of approximately $161.0 million. Upon adoption, we recognized the previously unrecognized excess tax benefits of $161.0 million deferred tax assets with an offsetting increase in our valuation allowance using a modified retrospective method through a cumulative effect adjustment to the accumulated deficit, with no net impact on our financial statements. All excess tax benefits and all tax deficiencies generated in the current and future periods will be recognized prospectively and recorded as income tax benefit or expense in our Consolidated Statements of Operations in the reporting period in which they occur. Until such time that we release our valuation allowance against deferred tax assets, the tax impact of any excess tax benefits and deficiencies will be offset with the change in our valuation allowance. In addition, we elected to account for forfeitures as they occur with the change applied on a modified retrospective basis with a cumulative effect adjustment to accumulated deficit of $0.6 million. Due to the full valuation allowance on the U.S. deferred tax assets, we have determined that none of the provisions of ASU 2016-09 will have a significant impact on our 2017 consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes - Intra-Entity Asset Transfer other than Inventory (Topic 740) ("ASU 2016-16"), which would require the recognition of the tax expense from the sale of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party or otherwise recovered through use. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning period of adoption. We are considering the impact the adoption of ASU 2016-16 may have on our consolidated financial statements.

2. Net Income (Loss) Per Common Share

Basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (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 income (loss) per share is computed using the weighted average number of common shares outstanding and, when dilutive, potential common share equivalents from outstanding options and unvested RSUs settleable in shares of common stock (using the treasury-stock method), and potential common shares from convertible securities (using the if-converted method). Because the Company reported a net loss for the six months ended June 30, 2017 and the three and six months ended June 30, 2016, all potential dilutive common shares have been excluded from the computation of the diluted net income (loss) per share for all periods presented, as the effect would have been anti-dilutive.

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The following table sets forth the computation of basic and diluted net income (loss) per share (in millions, except per share data):