CALIX, INC
Form 10-Q
August 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o 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: 001-34674

Calix, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	68-0438710
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1035 N. McDowell Blvd., Petaluma, CA 94954
(Address of Principal Executive Offices) (Zip Code)
(707) 766-3000
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) 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: x No: o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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: x No: o

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

Large Accelerated Filer	o	Accelerated Filer	x
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: o No: x
As of August 3, 2018, there were 53,079,237 shares of the Registrant’s common stock, par value $0.025 outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
CALIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	June 30, 2018 (Unaudited)	December 31, 2017 (See Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,175	$ 39,775
Accounts receivable, net	69,535	80,392
Inventory	19,988	31,529
Prepaid expenses and other current assets	11,059	10,759
Total current assets	148,757	162,455
Property and equipment, net	15,557	15,681
Goodwill	116,175	116,175
Other assets	1,981	759
	$ 282,470	$ 295,070
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,112	$ 35,977
Accrued liabilities	47,445	49,279
Deferred revenue	17,205	13,076
Line of credit	30,000	30,000
Total current liabilities	120,762	128,332
Long-term portion of deferred revenue	18,497	20,645
Other long-term liabilities	2,051	1,130
Total liabilities	141,310	150,107
Commitments and contingencies (See Note 7)		
Stockholders' equity:		
Preferred stock, $0.025 par value; 5,000 shares authorized; no shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Common stock, $0.025 par value; 100,000 shares authorized; 58,382 shares issued and 53,052 shares outstanding as of June 30, 2018, and 56,839 shares issued and 51,509 shares outstanding as of December 31, 2017	1,460	1,421
Additional paid-in capital	860,196	851,054
Accumulated other comprehensive loss	(397)	(169)
Accumulated deficit	(680,113)	(667,357)
Treasury stock, 5,330 shares as of June 30, 2018 and December 31, 2017	(39,986)	(39,986)
Total stockholders' equity	141,160	144,963
	$ 282,470	$ 295,070

See accompanying notes to condensed consolidated financial statements.

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CALIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenue:				
Systems	$102,563	$107,348	$195,854	$198,953
Services	9,139	18,775	15,251	44,688
Total revenue	111,702	126,123	211,105	243,641
Cost of revenue:				
Systems [(1)]	54,363	58,299	105,996	115,672
Services [(1)]	6,473	24,501	12,184	50,269
Total cost of revenue	60,836	82,800	118,180	165,941
Gross profit	50,866	43,323	92,925	77,700
Operating expenses:				
Research and development [(1)]	22,101	32,950	47,637	66,758
Sales and marketing [(1)]	20,527	18,429	40,428	40,858
General and administrative [(1)]	10,371	9,701	19,466	19,958
Restructuring charges	793	957	6,133	1,656
Gain on sale of product line	—	—	(6,704)	—
Total operating expenses	53,792	62,037	106,960	129,230
Loss from operations	(2,926)	(18,714)	(14,035)	(51,530)
Interest and other income (expense), net:				
Interest income (expense), net	(165)	54	(388)	148
Other income (expense), net	456	(151)	162	(81)
Total interest and other income (expense), net	291	(97)	(226)	67
Loss before provision for income taxes	(2,635)	(18,811)	(14,261)	(51,463)
Provision for income taxes	158	177	268	850
Net loss	$(2,793)	$(18,988)	$(14,529)	$(52,313)
Net loss per common share:				
Basic and diluted	$(0.05)	$(0.38)	$(0.28)	$(1.05)
Weighted-average number of shares used to compute net loss per common share:				
Basic and diluted	52,290	50,019	51,952	49,772
Net loss	$(2,793)	$(18,988)	$(14,529)	$(52,313)
Other comprehensive loss, net of tax:				
Unrealized gains (losses) on available-for-sale marketable securities, net	—	3	—	(1)
Foreign currency translation adjustments, net	(507)	132	(228)	193
Total other comprehensive income (loss), net of tax	(507)	135	(228)	192
Comprehensive loss	$(3,300)	$(18,853)	$(14,757)	$(52,121)

[(1)] Includes stock-based compensation as follows:

Cost of revenue:				
Systems	$141	$96	$253	$212
Services	90	75	167	131

Research and development	814	1,122	1,797	2,448
Sales and marketing	785	654	1,635	1,765
General and administrative	714	831	1,449	1,762

See accompanying notes to condensed consolidated financial statements.

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CALIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2018	July 1, 2017
Operating activities:		
Net loss	$(14,529)	$(52,313)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	5,301	6,318
Depreciation and amortization	4,942	4,929
Amortization of intangible assets	—	813
Loss on retirement of property and equipment	247	80
Gain on sale of product line	(6,704)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	11,348	(2,056)
Inventory	9,524	4,973
Prepaid expenses and other assets	(1,066)	(5,487)
Accounts payable	(10,315)	3,731
Accrued liabilities	(2,589)	2,962
Deferred revenue	1,180	14,860
Other long-term liabilities	(17)	(244)
Net cash used in operating activities	(2,678)	(21,434)
Investing activities:		
Purchases of property and equipment	(2,955)	(4,715)
Purchases of marketable securities	—	(8,732)
Sales of marketable securities	—	5,051
Maturities of marketable securities	—	18,516
Proceeds from sale of product line	10,350	—
Net cash provided by investing activities	7,395	10,120
Financing activities:		
Proceeds from exercise of stock options	51	29
Proceeds from employee stock purchase plans	3,836	673
Taxes paid for awards vested under equity incentive plan	(7)	(2,630)
Proceeds from line of credit	288,064	—
Repayment of line of credit	(288,064)	—
Net cash provided by (used in) financing activities	3,880	(1,928)
Effect of exchange rate changes on cash and cash equivalents	(197)	177
Net increase (decrease) in cash and cash equivalents	8,400	(13,065)
Cash and cash equivalents at beginning of period	39,775	50,359
Cash and cash equivalents at end of period	$48,175	$37,294

See accompanying notes to condensed consolidated financial statements.

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CALIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Company and Basis of Presentation

Company

Calix, Inc. (together with its subsidiaries, "Calix" or the "Company") was incorporated in August 1999, and is a Delaware corporation. The Company is a leading global provider of cloud and software platforms, systems and services required to deliver the unified access network and smart home and business services of tomorrow. The Company's platforms and services help its customers to build next generation networks by embracing a DevOps operating model, optimizing the subscriber experience by leveraging big data analytics and turn the complexity of the smart home and business into new revenue streams. The Company's cloud and software platforms, systems and services enable communication service providers ("CSPs") to provide a wide range of revenue-generating services, from basic voice and data to advanced broadband services, over legacy and next-generation access networks. The Company focuses on CSP access networks, the portion of the network that governs available bandwidth and determines the range and quality of services that can be offered to subscribers.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, including the accounts of Calix, Inc. and its wholly-owned subsidiaries, have been prepared in accordance with the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. generally accepted accounting principles ("GAAP") can be condensed or omitted. In the opinion of management, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. All intercompany balances and transactions have been eliminated in consolidation. The Condensed Consolidated Balance Sheet at December 31, 2017 has been derived from the audited financial statements at that date. The results of the Company's operations can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year or any future periods. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company's fiscal year begins on January 1st and ends on December 31st. Quarterly periods are based on a 4-4-5 calendar with the first, second and third quarters ending on the 13th Saturday of each fiscal period. As a result, the Company had one fewer day in the six months ended June 30, 2018 than in the six months ended July 1, 2017. The preparation of financial statements in conformity with GAAP for interim financial reporting requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Liquidity and Capital Resources

Since its inception, the Company has incurred significant losses, and as of June 30, 2018, the Company had an accumulated deficit of $680.1 million. Based on its current operating plan and operating cash flows, management plans to finance its future operations and capital expenditures with existing cash and cash equivalents and its existing credit facility with Silicon Valley Bank ("SVB"), which it believes will be sufficient to fund its operations and capital expenditures through at least the next twelve months. See Note 6 for more information on the Company's credit facility with SVB. The Company may also need to seek other sources of liquidity, including but not limited to the sale of equity or incremental borrowings, to support its working capital needs. However, there can be no assurances that such capital will be available on terms which are acceptable to the Company or at all or that the Company will achieve profitable operations. If the Company is unable to generate sufficient cash flows or obtain other sources of liquidity, the Company will be forced to limit its development activities, reduce its investment in growth initiatives and institute cost-cutting measures, all of which may adversely impact the Company's business and growth. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Significant Accounting Policies

The Company's significant accounting policies are disclosed in its Annual Report on Form 10-K for the year ended December 31, 2017. The Company's significant accounting policies did not change during the six months ended June 30, 2018, except for those impacted by the newly adopted accounting standard below.

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Newly Adopted Accounting Standard

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Additionally, it supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and creates new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. The Company determines revenue recognition through the following steps: identification of the contract, or contracts, with a customer; identification of the performance obligations in the contract; determination of the transaction price; allocation of the transaction price to the performance obligations in the contract; and recognition of revenue when, or as, the Company satisfies a performance obligation. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the previous guidance. These may include 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 new standard permits adoption by using either (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures.

On January 1, 2018, the Company adopted Topic 606 and Subtopic 340-40 using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Accordingly, results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while results for prior periods have not been restated and continues to be reported under the accounting standards in effect for those periods. The Company recognized the cumulative effect of initially applying the standards as an adjustment to the opening balance of accumulated deficit of $1.8 million as of January 1, 2018, with the impact primarily relating to deferring the costs of obtaining contracts (sales commissions) and the upfront recognition of software license revenue. The impact to revenue of applying Topic 606 for the three and six months ended June 30, 2018 was an increase of $2.7 million and $3.9 million, respectively.

Significant changes to the Company's accounting policies as a result of adopting Topic 606 are discussed below.

Revenue Recognition

Revenue is recognized when a performance obligation is satisfied, which occurs when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's hardware products contain both software and non-software components that function together to deliver the products' essential functionality and therefore constitutes a single performance obligation as the promise to transfer the individual software and non-software components is not separately identifiable and, therefore, not distinct. The Company's contracts may include multiple performance obligations. For such arrangements, the Company allocates the contract's transaction price to each performance obligation using the relative stand-alone selling price of each distinct good or service in the contract. The Company generally determines stand-alone selling prices based on the prices charged to customers or its best estimate of stand-alone selling price. The Company's estimate of stand-alone selling price is established considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, characteristics of targeted customers and pricing practices. The determination of estimated stand-alone selling price is made through consultation with and formal approval by management, taking into consideration the go-to-market strategy.

For certain revenue arrangements involving delivery of both systems and professional services, each is considered a distinct performance obligation. Systems revenue is recognized at a point in time when management has determined that control over systems has transferred to the customer, which is generally when legal title has transferred to the customer. For the same revenue arrangements, management believes that control of the associated professional services is transferred to the customer over time. As such, professional services revenue is recognized over the period in which the services are provided using a cost input measure. Prior to adoption of Topic 606, the Company recognized revenue (and corresponding cost of revenue) for systems and associated professional services under the same revenue arrangement as services were delivered and milestones were accepted by the customer and as the systems were installed or delivered to the customer. Accordingly, the Company now recognizes revenue when control of the systems and services has been transferred to the customer, which may be earlier than system installation or customer acceptance, in accordance with the agreed-upon specifications in the contract.

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The Company derives revenue from contracts with customers primarily from the following and categorizes its revenue as follows:

- Systems include revenue from the sale of access and premises systems, software platform licenses and cloud-based software subscriptions.
- Services include revenue from professional services, customer support, software- and cloud-based maintenance, extended warranty subscriptions, training and managed services.

The following is a summary of revenue disaggregated by geographic region based upon the location of the customers (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017 (1)	June 30, 2018	July 1, 2017 (1)
United States	$92,691	$108,119	$182,080	$214,647
Caribbean	1,537	3,767	2,674	4,714
Canada	2,254	3,994	4,540	5,506
Europe	3,744	1,191	4,971	2,769
Other	11,476	9,052	16,840	16,005
Total	$111,702	$126,123	$211,105	$243,641

(1) Fiscal 2017 revenue amounts are accounted for under Topic 605.

Concentration of Customer Risk

The Company had one customer that accounted for more than 10% of its total revenue for the three and six months ended June 30, 2018 and two customers that each accounted for more than 10% of its total revenue for the six months ended July 1, 2017. The one customer represented 21% and 17% of the Company's total revenue for the three and six months ended June 30, 2018, respectively. The two customers together represented 34% and 44% of the Company's total revenue for the three and six months ended July 1, 2017, respectively. The one customer represented more than 10% of the Company's accounts receivable as of June 30, 2018 and December 31, 2017.

Deferred Revenue

Deferred revenue results from transactions where the Company billed the customer for products or services and when cash payments are received or due prior to transferring control of the promised goods or services to the customer. The increase in the deferred revenue balance for the three and six months ended June 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by $3.2 million and $8.7 million of revenue recognized that was included in the deferred revenue balance at the beginning of each period, respectively.

Revenue allocated to remaining performance obligations represent contract revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. This amount was approximately $35.7 million as of the end of the second quarter of 2018 and the Company expects to recognize approximately 48.2% of such revenue over the next 12 months and the remainder thereafter.

Payment terms to customers typically range from net 30 to net 90 days and vary by the type and location of customer and the products or services offered. The period between the transfer of control of the promised good or service to a customer and when payment is due is not significant.

Contract Costs

In connection with the adoption of Topic 606 on January 1, 2018, the Company also adopted the guidance in ASC 340-40, Other Assets and Deferred Costs - Contracts with Customers, with respect to capitalization and amortization of incremental costs of obtaining a contract. The new cost guidance requires the capitalization of all incremental costs incurred to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, provided it expects to recover the costs. As a result of this new guidance, the Company capitalizes certain sales commissions related primarily to extended warranty and Calix Cloud products for which the expected amortization period is greater than one year.

The Company expects that sales commissions as a result of obtaining customer contracts are recoverable, and therefore the Company defers and capitalizes them as contract costs.

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Capitalized commissions are amortized as sales and marketing expenses over the period that the related revenue is recognized, which typically range from three to ten years for extended warranty and cloud offerings. The Company classifies the unamortized portion of deferred commissions as current or noncurrent based on the timing of when the Company expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and other assets, respectively, in the Company's Condensed Consolidated Balance Sheets.

As of June 30, 2018, the unamortized balance of deferred commissions was $0.8 million. For the three and six ended June 30, 2018, the amount of amortization was less than $0.1 million, and there was no impairment loss in relation to the costs capitalized.

Practical Expedients

The Company expenses sales commissions as sales and marketing expenses when incurred if the expected amortization period is one year or less. This applies generally to all transactions other than extended warranty contracts and Calix Cloud products.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Cumulative Effect of Adoption

The cumulative effect of changes made to the Condensed Consolidated January 1, 2018 Balance Sheet was as follows (in thousands):

	Balance at December 31, 2017	Adjustments	Balance at January 1, 2018
Accounts receivable, net	$ 80,392	$ 491	$ 80,883
Prepaid expenses and other current assets	10,759	(245)	10,514
Other assets	759	698	1,457
Total assets	295,070	944	296,014
Deferred revenue	13,076	(829)	12,247
Total liabilities	150,107	(829)	149,278
Accumulated deficit	(667,357)	1,773	(665,584)
Total liabilities and stockholders' equity	295,070	944	296,014

The impact of adopting the new revenue standard on the Company's consolidated financial statements as of and for the three and six months ended June 30, 2018 were as follows (in thousands):

Condensed Consolidated Balance Sheet

As of June 30, 2018 (Unaudited)	As Reported	Adjustments	Balances Without Adoption of Topic 606
Accounts receivable, net	$ 69,535	$ (3,343)	$ 66,192
Prepaid expenses and other current assets	11,059	2,535	13,594
Other assets	1,981	(593)	1,388
Total assets	282,470	(1,401)	281,069
Accrued liabilities	47,445	(380)	47,065
Deferred revenue	17,205	2,304	19,509
Total liabilities	141,310	1,924	143,234
Accumulated deficit	(680,113)	(3,325)	(683,438)
Total liabilities and stockholders' equity	282,470	(1,401)	281,069

Condensed Consolidated Statement of Comprehensive Loss

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Three Months Ended June 30, 2018 (Unaudited)	As Reported	Adjustments	Balances Without Adoption of Topic 606
Revenue:			
Systems	$ 102,563	$ (2,513)	$ 100,050
Services	9,139	(214)	8,925
Total revenue	111,702	(2,727)	108,975
Cost of revenue:			
Systems	54,363	(1,412)	52,951
Services	6,473	(187)	6,286
Total cost of revenue	60,836	(1,599)	59,237
Gross profit	50,866	(1,128)	49,738
Sales and marketing	20,527	(18)	20,509
Net loss	(2,793)	(1,110)	(3,903)

Six Months Ended June 30, 2018 (Unaudited)	As Reported	Adjustments	Balances Without Adoption of Topic 606
Revenue:			
Systems	$ 195,854	$ (3,194)	$ 192,660
Services	15,251	(753)	14,498
Total revenue	211,105	(3,947)	207,158
Cost of revenue:			
Systems	105,996	(1,897)	104,099
Services	12,184	(465)	11,719
Total cost of revenue	118,180	(2,362)	115,818
Gross profit	92,925	(1,585)	91,340
Sales and marketing	40,428	(33)	40,395
Net loss	(14,529)	(1,552)	(16,081)

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires recognition of an asset and liability for lease arrangements longer than twelve months. ASU 2016-02 will be effective for the Company beginning in the first quarter of 2019. Early application is permitted, and the standard can be adopted using either a modified retrospective approach whereby the Company would recognize and measure leases at the beginning of the earliest period presented, or using a prospective approach to initially account for the impact of the adoption with a cumulative-effect adjustment to the January 1, 2019, rather than the January 1, 2017, financial statements. The prospective approach will eliminate the need to restate amounts presented prior to January 1, 2019. The Company is not planning to early adopt, and accordingly, it will adopt the new standard effective January 1, 2019. The Company intends to elect the available practical expedients on adoption. The Company is currently assessing the potential impact of adopting this new guidance on its consolidated financial statements. The Company expects its assets and liabilities to increase as the new standard requires recognition of right-of-use assets and lease liabilities for operating leases, but does not expect any material impact on its loss from operations or net loss as a result of the adoption of this standard.

Income taxes

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the “Tax Act”). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income Taxes, for the year ended December 31, 2017. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete.

The Company has not completed its accounting for tax reform with respect to the year ended December 31, 2017 relating to the calculation of the transition tax. The Company is still within the measurement period as of the second quarter of 2018 and is

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reviewing the earnings and profits of its material foreign subsidiaries to determine if a true up of the transition tax entry recorded at December 31, 2017 will be needed.

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Cash and cash equivalents:		
Cash	$44,372	$ 35,999
Money market funds	3,803	3,776
	$48,175	$ 39,775

The carrying amounts of the Company's money market funds approximate their fair values due to their nature, duration and short maturities.

4. Fair Value Measurements

The Company measures its cash equivalents and marketable securities at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company utilizes the following three-tier value hierarchy which prioritizes the inputs used in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-driven valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Unobservable inputs to the valuation derived from fair valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As of June 30, 2018 and December 31, 2017, the Company had money market funds of $3.8 million for each period, and each was classified as a level 1 financial asset. The fair values of money market funds classified as Level 1 were derived from quoted market prices as active markets for these instruments exist. The Company had no level 2 or level 3 financial assets.

5. Balance Sheet Details

Accounts receivable, net consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Accounts receivable	$70,031	$ 81,793
Allowance for doubtful accounts	(496)	(579)
Product return reserve [1]	—	(822)
	$69,535	$ 80,392

(1) With adoption of Topic 606 on January 1, 2018, the product return reserve is considered a contract liability and has been reclassified to accrued liabilities.

Inventory consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Raw materials	$2,090	$ 1,211
Finished goods	17,898	30,318
	$19,988	$ 31,529

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Property and equipment, net consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Test equipment	$42,730	$ 39,952
Computer equipment and software	33,717	32,175
Furniture and fixtures	2,668	2,714
Leasehold improvements	5,189	6,029
Total	84,304	80,870
Accumulated depreciation and amortization	(68,747)	(65,189)
	$15,557	$ 15,681

Accrued liabilities consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Accrued compensation and related benefits	$16,052	$ 15,563
Accrued warranty and retrofit	8,188	8,708
Accrued professional and consulting fees	7,877	9,604
Accrued restructuring charges	1,764	1,417
Accrued excess and obsolete inventory at contract manufacturers	3,254	2,430
Accrued non-income related taxes	1,128	1,778
Accrued customer rebates	1,239	382
Customer over payments	1,014	