CALIX, INC
Form 10-Q
August 03, 2016
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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 25, 2016
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 or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting 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

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 July 25, 2016, there were 48,782,211 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 and share data)

	June 25, 2016 (Unaudited)	December 31, 2015 (See Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,045	$ 23,626
Marketable securities	38,167	49,964
Accounts receivable, net	49,118	47,155
Inventory	40,761	47,667
Deferred cost of revenue	6,812	4,918
Prepaid expenses and other current assets	8,139	9,470
Total current assets	169,042	182,800
Property and equipment, net	15,648	17,149
Goodwill	116,175	116,175
Intangible assets, net	2,440	6,618
Other assets	1,075	1,144
Total assets	$ 304,380	$ 323,886
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 13,802	$ 19,603
Accrued liabilities	43,930	35,512
Deferred revenue	12,367	12,124
Total current liabilities	70,099	67,239
Long-term portion of deferred revenue	19,649	19,569
Other long-term liabilities	1,085	1,293
Total liabilities	90,833	88,101
Commitments and contingencies (See Note 7)		
Stockholders’ equity:		
Preferred stock, $0.025 par value; 5,000,000 shares authorized; no shares issued and outstanding as of June 25, 2016 and December 31, 2015	—	—
Common stock, $0.025 par value; 100,000,000 shares authorized; 54,059,966 shares issued and 48,730,149 shares outstanding as of June 25, 2016, and 53,049,781 shares issued and 49,509,251 shares outstanding as of December 31, 2015	1,351	1,326
Additional paid-in capital	825,790	818,754
Accumulated other comprehensive loss	(130)	(195)
Accumulated deficit	(573,478)	(556,923)
Treasury stock, 5,329,817 shares and 3,540,530 shares as of June 25, 2016 and December 31, 2015, respectively	(39,986)	(27,177)
Total stockholders’ equity	213,547	235,785
Total liabilities and stockholders’ equity	$ 304,380	$ 323,886

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 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenue	$107,425	$99,129	$205,800	$190,167
Cost of revenue:				
Products and services [1]	56,605	48,752	107,835	95,212
Amortization of intangible assets	814	2,088	2,477	4,176
Total cost of revenue	57,419	50,840	110,312	99,388
Gross profit	50,006	48,289	95,488	90,779
Operating expenses:				
Research and development [1]	25,033	22,851	47,806	44,765
Sales and marketing [1]	19,213	19,215	38,275	38,974
General and administrative [1]	11,641	9,436	24,325	19,588
Amortization of intangible assets	—	2,552	1,701	5,104
Total operating expenses	55,887	54,054	112,107	108,431
Loss from operations	(5,881)	(5,765)	(16,619)	(17,652)
Interest and other income (expense), net:				
Interest income	216	338	427	717
Interest expense	(170)	(279)	(334)	(658)
Other income (expense), net	133	29	216	77
Loss before provision for income taxes	(5,702)	(5,677)	(16,310)	(17,516)
Provision for income taxes	124	102	245	193
Net loss	$(5,826)	$(5,779)	$(16,555)	$(17,709)
Net loss per common share:				
Basic and diluted	$(0.12)	$(0.11)	$(0.34)	$(0.34)
Weighted-average number of shares used to compute net loss per common share:				
Basic and diluted	48,371	51,950	48,478	51,843
Net loss	$(5,826)	$(5,779)	$(16,555)	$(17,709)
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available-for-sale marketable securities, net	41	(3)	106	36
Foreign currency translation adjustments, net	(23)	49	(41)	19
Total other comprehensive income (loss), net of tax	18	46	65	55
Comprehensive loss	$(5,808)	$(5,733)	$(16,490)	$(17,654)

[1] Includes stock-based compensation as follows:				
Cost of revenue	$183	$211	$310	$386
Research and development	1,099	1,483	2,146	2,695
Sales and marketing	840	1,656	1,662	3,081
General and administrative	846	991	1,571	1,841

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 25, 2016	Six Months Ended June 27, 2015
Operating activities:		
Net loss	$(16,555)	$(17,709)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,131	4,978
Loss on retirement of property and equipment	—	5
Amortization of intangible assets	4,178	9,280
Amortization of premiums related to available-for-sale securities	233	541
Stock-based compensation	5,689	8,003
Changes in operating assets and liabilities:		
Restricted cash	—	295
Accounts receivable, net	(1,963)	(11,240)
Inventory	6,906	6,042
Deferred cost of revenue	(1,894)	3,796
Prepaid expenses and other assets	1,394	1,065
Accounts payable	(5,859)	(5,091)
Accrued liabilities	9,012	(2,889)
Deferred revenue	323	(3,612)
Other long-term liabilities	(207)	(135)
Net cash provided by (used in) operating activities	5,388	(6,671)
Investing activities:		
Purchases of property and equipment	(3,078)	(3,618)
Purchases of marketable securities	—	(25,271)
Maturities of marketable securities	11,670	27,832
Net cash provided by (used in) investing activities	8,592	(1,057)
Financing activities:		
Proceeds from exercise of stock options	14	590
Proceeds from employee stock purchase plan	2,905	2,865
Payments for repurchases of common stock	(12,809)	(3,377)
Taxes paid for awards vested under equity incentive plans	(1,547)	(1,510)
Net cash used in financing activities	(11,437)	(1,432)
Effect of exchange rate changes on cash and cash equivalents	(124)	3
Net increase (decrease) in cash and cash equivalents	2,419	(9,157)
Cash and cash equivalents at beginning of period	23,626	48,829
Cash and cash equivalents at end of period	$26,045	$39,672

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,” the “Company,” “our,” “we,” or “us”) was incorporated in August 1999, and a Delaware corporation. The Company is a leading global provider of broadband communications access systems and software for fiber- and copper-based network architectures that enable communications service providers ("CSPs") to transform their networks and connect to their residential and business subscribers. The Company enables 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 solely 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. The Company develops and sells carrier-class hardware and software products, referred to as the Unified Access portfolio, which are designed to enhance and transform CSP access networks to meet the changing demands of subscribers rapidly and cost-effectively.

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 significant intercompany balances and transactions have been eliminated in consolidation. The Condensed Consolidated Balance Sheet at December 31, 2015 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 Form 10-K for the year ended December 31, 2015.

The Company's fiscal year begins on January 1st and ends on December 31st. Quarterly periods are based on a 4-4-5 fiscal calendar with the first, second and third fiscal 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 25, 2016 than in the six months ended June 27, 2015. 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.

2. Significant Accounting Policies

The Company’s significant accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015. Our significant accounting policies did not change during the six months ended June 25, 2016.

Concentration of Customer Risk

The Company had two customers that each accounted for more than 10% of its total revenue for the three and six months ended June 25, 2016 and one of these customers accounted for more than 10% of the Company’s total revenue for the three and six months ended June 27, 2015. These two customers together represented 35% and 32% of the Company’s total revenue for the three and six months ended June 25, 2016, respectively, and 24% and 25% of the Company’s total revenue for the three and six months ended June 27, 2015, respectively. Each of these two customers represented more than 10% of the Company’s accounts receivable as of June 25, 2016.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which includes provisions intended to simplify the following aspects related to how share-based payments are accounted for and presented in the financial statements:

a. Accounting for Income Taxes: ASU 2016-09 requires recognition of all of the tax effects related to share-based payments at settlement (or expiration) through the statement of operations. Under the current GAAP, tax benefits in excess of compensation cost (“windfalls”) are recorded in equity, and tax deficiencies (“shortfalls”) are recorded in equity to the extent of previous windfalls, and then to the statement of operations. ASU 2016-09 is required to be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption. ASU 2016-09 also removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. Under the new guidance, the benefit will be recorded when it arises, subject to normal valuation allowance considerations. This change is required to be applied on a modified retrospective basis, with a cumulative-effect adjustment to opening retained earnings.

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b. Classification of Excess Tax Benefits on the Statement of Cash Flows: ASU 2016-09 requires all tax-related cash flows resulting from share-based payments to be reported as operating activities on the statement of cash flows, a change from the current requirement to present windfall tax benefits as an inflow from financing activities and an outflow from operating activities. Either prospective or retrospective transition of this change in cash flow presentation is permitted.

c. Forfeitures: ASU 2016-09 allows companies to make an accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. Estimates of forfeitures will still be required in certain circumstances, such as at the time of modification of an award or issuance of a replacement award in a business combination. If elected, the change to recognize forfeitures when they occur needs to be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to opening retained earnings.

d. Minimum Statutory Tax Withholding Requirements: ASU 2016-09 allows companies to withhold an amount up to the employees' maximum individual tax rate in the relevant jurisdiction without resulting in liability classification of the award. This provision is required to be adopted using a modified retrospective approach, with a cumulative-effect adjustment to opening retained earnings for any outstanding liability awards that qualify for equity classification under the ASU.

e. Classification of Employee Taxes Paid on the Statement of Cash Flows When an Employer Withholds Shares for Tax-Withholding Purposes: ASU 2016-09 clarifies that all cash payments made to taxing authorities on the employees' behalf for withheld shares should be presented as financing activities on the statement of cash flows. This change should be applied retrospectively.

ASU 2016-09 will be effective for the Company beginning in the first quarter of fiscal 2017. Early application is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is currently assessing the potential impact of adopting this new guidance on its consolidated financial statements.

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 fiscal 2019. Early application is permitted, and it is required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently assessing the potential impact of adopting this new guidance on its consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"), which requires measurement of inventory at lower of cost and net realizable value, versus lower of cost or market. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 will be effective for the Company beginning in the first quarter of fiscal 2017. Early application is permitted, and the guidance should be applied prospectively. The Company is currently assessing the potential impact of adopting this new guidance on its consolidated financial statements.

In May 2014, the 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 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. On August 12, 2015, the FASB issued Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date ("ASU 2015-14") to defer the effective date of ASU 2014-09 by one year. As a result, the standard will be effective for the Company in the first quarter of fiscal 2018. ASU 2015-14 permits early adoption of the new revenue standard, but not before its original effective date. The Company is currently assessing the method of adoption and the potential impact of adopting this new guidance on its consolidated financial statements.

3. Cash, Cash Equivalents and Marketable Securities

The Company has invested its excess cash primarily in money market funds and highly liquid marketable securities such as corporate debt instruments, U.S. government agency securities and commercial paper. The Company considers all investments with maturities of three months or less when purchased to be cash equivalents. Marketable securities represent highly liquid corporate debt instruments, U.S. government agency securities and commercial paper with maturities greater than 90 days at date of purchase. Marketable securities with maturities greater than one year are classified as current because management considers all marketable securities to be available for current operations.

Cash equivalents are stated at amounts that approximate fair value based on quoted market prices. Marketable securities are recorded at their fair values.

The Company's investments have been classified and accounted for as available-for-sale. Such investments are recorded at fair value and unrealized holding gains and losses are reported as a separate component of accumulated other comprehensive income (loss) in the stockholders' equity until realized. Realized gains and losses on sales of marketable securities, if any, are determined on the specific identification method and are reclassified from accumulated other comprehensive income (loss) to results of operations as other income (expense).

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The Company, to date, has not determined that any of the unrealized losses on its investments are considered to be other-than-temporary. The Company reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other things: the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and the Company's intent and ability to hold its investment for a period of time sufficient to allow for any anticipated recovery in market value, or whether the Company will more likely than not be required to sell the security before recovery of its amortized cost basis. The Company has evaluated its investments as of June 25, 2016 and has determined that no investments with unrealized losses are other-than-temporarily impaired. No investments have been in a continuous loss position greater than one year.

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

	June 25, 2016	December 31, 2015
Cash and cash equivalents:		
Cash	$20,661	$ 13,378
Money market funds	5,384	10,248
Total cash and cash equivalents	26,045	23,626
Marketable securities:		
Corporate debt securities	27,652	35,799
U.S. government agency securities	10,515	10,520
Commercial paper	—	3,645
Total marketable securities	38,167	49,964
Total cash, cash equivalents and marketable securities	$64,212	$ 73,590

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

As of June 25, 2016, the amortized cost and fair value of marketable securities were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 27,642	$ 12	$ (2)	$27,652
U.S. government agency securities	10,513	2	—	10,515
Total marketable securities	$ 38,155	$ 14	$ (2)	$38,167

As of December 31, 2015, the amortized cost and fair value of marketable securities were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 35,869	$ 2	$ (72)	$35,799
U.S. government agency securities	10,544	—	(24)	10,520
Commercial paper	3,645	—	—	3,645
Total marketable securities	$ 50,058	$ 2	$ (96)	$49,964

As of June 25, 2016, the amortized cost and fair value of marketable securities by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	$ 38,155	$38,167

4. Fair Value Measurements

In accordance with Accounting Standard Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, ("ASC Topic 820"), the Company measures its cash equivalents and marketable securities at fair value on a recurring basis. ASC Topic 820 clarifies that 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. As a basis for considering such assumptions, ASC Topic 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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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.
The following table sets forth the Company's financial assets measured at fair value on a recurring basis as of June 25, 2016 and December 31, 2015, based on the three-tier fair value hierarchy (in thousands):

As of June 25, 2016	Level 1	Level 2	Total
Money market funds	$5,384	$—	$5,384
Corporate debt securities	—	27,652	27,652
U.S. government agency securities	—	10,515	10,515
Total	$5,384	$38,167	$43,551

As of December 31, 2015	Level 1	Level 2	Total
Money market funds	$10,248	$—	$10,248
Corporate debt securities	—	35,799	35,799
U.S. government agency securities	—	10,520	10,520
Commercial paper	—	3,645	3,645
Total	$10,248	$49,964	$60,212

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 fair values of corporate debt securities, U.S. government agency securities and commercial paper classified as Level 2 were derived from quoted market prices for similar instruments indexed to prevailing market yield rates. The Company has no Level 3 financial assets. The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 25, 2016 and June 27, 2015.

5. Goodwill and Intangible Assets

Goodwill

Goodwill was recorded as a result of the Company's acquisitions of Occam Networks, Inc. (“Occam”) in February 2011 and Optical Solutions, Inc. ("OSI") in February 2006. This goodwill is not deductible for tax purposes, and there have been no adjustments to goodwill since the acquisition dates.

Goodwill is not amortized but instead is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it may be impaired. We evaluate goodwill on an annual basis at the end of the second quarter of each year. Management has determined that we operate as a single reporting unit and, therefore, evaluates goodwill impairment at the enterprise level. Management assessed qualitative factors to determine whether it was more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the Company was less than its carrying amount, including goodwill, as of June 25, 2016. In assessing the qualitative factors, management considered the impact of these key factors: macro-economic conditions, industry and market environment, overall financial performance of the Company, cash flow from operating activities, market capitalization and stock price. Management concluded that the fair value of the Company was more likely than not greater than its carrying amount as of June 25, 2016. As such, it was not necessary to perform the two-step goodwill impairment test at the time.

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Intangible Assets

Intangible assets are carried at cost, less accumulated amortization. The details of intangible assets as of June 25, 2016 and December 31, 2015 are disclosed in the following table (in thousands):

	June 25, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Core developed technology	$68,964	$(66,524)	$2,440	$68,964	$(64,047)	$4,917
Customer relationships	54,740	(54,740)	—	54,740	(53,039)	1,701
Total intangible assets, excluding goodwill	$123,704	$(121,264)	$2,440	$123,704	$(117,086)	$6,618

Amortization expense was $0.8 million and $4.6 million for the three months ended June 25, 2016 and June 27, 2015, respectively. Amortization expense was $4.2 million and $9.3 million for the six months ended June 25, 2016 and June 27, 2015, respectively.

As of June 25, 2016, expected future amortization expense for the fiscal years indicated is as follows (in thousands):

Period	Expected Amortization Expense
Remainder of 2016	$ 1,627
2017	813
Total	$ 2,440

6. Balance Sheet Details

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

	June 25, 2016	December 31, 2015
Accounts receivable	$50,357	$ 48,319
Allowance for doubtful accounts	(635)	(501)
Product return reserve	(604)	(663)
Accounts receivable, net	$49,118	$ 47,155

Inventory consisted of the following (in thousands):

	June 25, 2016	December 31, 2015
Raw materials	$1,791	$ 2,209
Finished goods	38,970	45,458
Total inventory	$40,761	$ 47,667

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

	June 25, 2016	December 31, 2015
Test equipment	$40,785	$ 39,035
Computer equipment and software	28,217	27,736
Furniture and fixtures	2,219	1,833
Leasehold improvements	6,573	6,554
Total	77,794	75,158
Accumulated depreciation and amortization	(62,146)	(58,009)
Property and equipment, net	$15,648	$ 17,149

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Accrued liabilities consisted of the following (in thousands):

	June 25, 2016	December 31, 2015
Accrued compensation and related benefits	$19,205	$ 13,809
Accrued warranty	10,174	9,564
Accrued professional and consulting fees	3,799	2,813
Accrued customer rebates	1,720	784
Accrued excess and obsolete inventory at contract manufacturers	1,190	1,011
Accrued business travel expenses	904	580
Advance customer payments	882	1,094
Accrued insurance	852	—
Accrued non income related taxes	741	905
Accrued freight	487	486
Accrued rent	410	381
Income taxes payable	331	322
Accrued hosting services	240	466
Accrued other	2,995	3,297
Total accrued liabilities	$43,930	$ 35,512

Deferred revenue consisted of the following (in thousands):

	June 25, 2016	December 31, 2015
Current:		
Product and services	$9,092	$ 8,937
Extended warranty	3,275	3,187
	12,367	12,124
Non-current:		
Product and services	36	58
Extended warranty	19,613	19,511
	19,649	19,569
Total deferred revenue	$32,016	$ 31,693

Deferred cost of revenue consisted of costs incurred for products and services for which revenues have been deferred.

7. Commitments and Contingencies

Commitments

The Company's principal commitments consist of obligations under operating leases for office space and non-cancelable outstanding purchase obligations. These commitments as of December 31, 2015 are disclosed in our Annual Report on Form 10-K, and have not changed materially during the six months ended June 25, 2016.

Contingencies

The Company evaluates the circumstances regarding outstanding and potential litigation and other contingencies on a quarterly basis to determine whether there is at least a reasonable possibility that a loss exists requiring accrual or disclosure, and if so, whether an estimate of the possible loss or range of loss can be made, or whether such an estimate cannot be made. When a loss is probable and reasonably estimable, the Company accrues for such amount based on its estimate of the probable loss considering information available at the time. When a loss is reasonably possible, the Company discloses the estimated possible loss or range of loss in excess of amounts accrued if material. Except as otherwise disclosed below, the Company does not believe that there was a reasonable possibility that a material loss may have been incurred during the period presented with respect to the matters disclosed.

Accrued Warranty

The Company provides a standard warranty for its hardware products. Hardware generally has a one, three or five-year standard warranty from the date of shipment. The Company accrues for potential warranty claims based on the Company's historical product failure rates and historical costs incurred in correcting product failures along with other relevant information. The Company's warranty accruals are

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based on estimates of losses that are probable based on information available. The adequacy of the accrual is reviewed on a periodic basis and adjusted, if necessary, based on additional information as it becomes available.

Changes in the Company's warranty reserve were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Balance at beginning of period	$9,152	$9,623	$9,564	$9,553
Warranty charged to cost of revenue	2,532	1,080	3,112	2,148
Utilization of warranty	(1,485)	(1,378)	(2,104)	(2,376)
Adjustments to pre-existing warranty	(25)	—		