A10 Networks, Inc.
Form 10-Q
October 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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
¨ 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: 001-36343

A10 NETWORKS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	20-1446869
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3 West Plumeria Drive, San Jose, California 95134
(Address of Principal Executive Offices and Zip Code)
(408) 325-8668
(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) 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
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	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	x

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. x
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of October 3, 2018, the number of outstanding shares of the registrant’s common stock, par value $0.00001 per share, was 72,707,302.

A10 NETWORKS, INC.
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(*) The condensed consolidated financial statements for the three and six months ended June 30, 2017 have been restated as further discussed in Note 2. Restatement of Previously Issued Consolidated Financial Statements of the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 in this report.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except par value)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$40,567	$ 46,567
Marketable securities	86,820	84,567
Accounts receivable, net of allowances of $851 and $983, respectively	50,370	48,266
Inventory	14,965	17,577
Prepaid expenses and other current assets	12,977	6,825
Total current assets	205,699	203,802
Property and equipment, net	8,676	9,913
Goodwill	1,307	1,307
Intangible assets	4,469	5,190
Other non-current assets	8,555	4,646
Total assets	$228,706	$ 224,858
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$6,234	$ 9,033
Accrued liabilities	25,154	21,835
Deferred revenue	64,907	61,858
Total current liabilities	96,295	92,726
Deferred revenue, non-current	33,176	32,779
Other non-current liabilities	760	967
Total liabilities	130,231	126,472
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, $0.00001 par value: 500,000 shares authorized; 72,707 and 71,692 shares issued and outstanding, respectively	1	1
Additional paid-in-capital	367,525	355,533
Accumulated other comprehensive loss	(221)	(123)
Accumulated deficit	(268,830)	(257,025)
Total stockholders' equity	98,475	98,386
Total liabilities and stockholders' equity	$228,706	$ 224,858

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 As Restated, Note 2	2018	2017 As Restated, Note 2
Revenue:				
Products	$39,224	$32,828	$67,373	$76,526
Services	21,489	21,145	42,523	41,381
Total revenue	60,713	53,973	109,896	117,907
Cost of revenue:				
Products	9,080	8,265	16,189	18,767
Services	4,107	4,535	8,882	8,776
Total cost of revenue	13,187	12,800	25,071	27,543
Gross profit	47,526	41,173	84,825	90,364
Operating expenses:				
Sales and marketing	25,788	25,561	52,692	51,824
Research and development	15,572	16,490	34,369	33,532
General and administrative	9,858	6,852	21,452	14,499
Total operating expenses	51,218	48,903	108,513	99,855
Loss from operations	(3,692)	(7,730)	(23,688)	(9,491)
Non-operating income (expense):				
Interest expense	(32)	(64)	(65)	(108)
Interest and other income (expense), net	(429)	(26)	137	816
Total non-operating income (expense), net	(461)	(90)	72	708
Loss before income taxes	(4,153)	(7,820)	(23,616)	(8,783)
Provision for income taxes	379	135	586	509
Net loss	$(4,532)	$(7,955)	$(24,202)	$(9,292)
Net loss per share:				
Basic and diluted	$(0.06)	$(0.11)	$(0.33)	$(0.13)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	72,707	69,770	72,471	69,173

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 As Restated, Note 2	2018	2017 As Restated, Note 2
Net loss	$(4,532)	$(7,955)	$(24,202)	$(9,292)
Other comprehensive loss, net of tax:				
Unrealized gain (loss) on marketable securities	75	—	(98)	(1)
Comprehensive loss	$(4,457)	$(7,955)	$(24,300)	$(9,293)

See accompanying notes to the condensed consolidated financial statements.

A10 NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended June 30,	
	2018	2017 As Restated, Note 2
Cash flows from operating activities:		
Net loss	$(24,202)	$(9,292)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,103	4,332
Stock-based compensation	10,722	9,279
Other non-cash items	(234)	386
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,941)	20,984
Inventory	1,993	(1,593)
Prepaid expenses and other assets	(705)	(3,112)
Accounts payable	(3,035)	(1,810)
Accrued liabilities	3,163	(5,544)
Deferred revenue	7,447	108
Other	119	33
Net cash (used in) provided by operating activities	(2,570)	13,771
Cash flows from investing activities:		
Proceeds from sales of marketable securities	13,877	14,222
Maturities of marketable securities	30,655	32,320
Purchases of marketable securities	(46,890)	(47,074)
Purchase of investment	(1,000)	—
Purchases of property and equipment	(1,289)	(1,513)
Net cash used in investing activities	(4,647)	(2,045)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee equity incentive plans	1,269	7,207
Repurchases and retirement of common stock	—	(816)
Payment of contingent consideration	—	(650)
Other	(52)	(57)
Net cash provided by financing activities	1,217	5,684
Net (decrease) increase in cash and cash equivalents	(6,000)	17,410
Cash and cash equivalents - beginning of period	46,567	28,975
Cash and cash equivalents - end of period	$40,567	$46,385
Non-cash investing and financing activities:		
Inventory transfers to property and equipment	$619	$1,899
Purchases of property and equipment included in accounts payable	$38	$440

See accompanying notes to the condensed consolidated financial statements.

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A10 Networks, Inc.

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Description of Business and Summary of Significant Accounting Policies
Description of Business

A10 Networks, Inc. (together with our subsidiaries, the “Company”, “we”, “our” or “us”) was incorporated in California in 2004 and reincorporated in Delaware in March 2014. We are headquartered in San Jose, California and have wholly-owned subsidiaries throughout the world including Asia and Europe.

We are a leading provider of secure application solutions and services that enable a new generation of intelligently connected companies with the ability to continuously improve cyber protection and digital responsiveness across dynamic Information Technology (“IT”) and network infrastructures. Our product portfolio seeks to address many of the aforementioned challenges and solution requirements. The portfolio consists of six secure application solutions; Thunder Application Delivery Controllers (“ADC”), Lightning Application Delivery Controller (“Lightning ADC”), Thunder Carrier Grade Network Address Translation (“CGN”), Thunder Threat Protection System (“TPS”), Thunder SSL Insight (“SSLi”) and Thunder Convergent Firewall (“CFW”), and two intelligent management and automation tools; Harmony Controller and aGalaxy. Our solutions are available in a variety of form factors, such as optimized hardware appliances, bare metal software, virtual appliances and cloud-native software.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include those of A10 Networks, Inc. and its subsidiaries after elimination of all intercompany accounts and transactions.

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). As permitted under these rules and regulations, we have condensed or omitted certain financial information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The unaudited condensed consolidated balance sheet as of December 31, 2017 has been derived from our audited financial statements, which are included in our 2017 Annual Report on Form 10-K for the year ended December 31, 2017 on file with the SEC (our “Annual Report”).

These financial statements have been prepared on the same basis as our annual financial statements and, in management’s opinion, reflect all adjustments consisting only of normal recurring adjustments that are necessary for a fair presentation of our financial information. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

These financial statements and accompanying notes should be read in conjunction with the financial statements and accompanying notes thereto in our Annual Report.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation in the condensed consolidated balance sheets and the condensed consolidated statements of cash flows. We have separately presented the line items “Proceeds from sales of marketable securities” and “Maturities of marketable securities” as opposed to our historical consolidated presentation of “Proceeds from sales and maturities of marketable securities” in the condensed consolidated statement of cash flows for the six months ended June 30, 2017.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Those estimates and assumptions affect revenue recognition and deferred revenue, the allowance for doubtful accounts, the sales return reserve, the valuation of inventory, the fair value of marketable securities, contingencies and litigation, acquisition related purchase price allocations, accrued liabilities, deferred commissions and the determination of fair value of stock-based compensation. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management’s estimates.

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. Other than the accounting policies related to the adoption of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) discussed in Note 11 in this report, there have been no material changes to the Company’s significant accounting policies during the six months ended June 30, 2017.

Concentration of Credit Risk and Significant Customers

Financial instruments that potentially subject us to concentrations of credit risk consist of cash, cash equivalents, marketable securities and accounts receivable. Our cash, cash equivalents and marketable securities are held and invested in high-credit quality financial instruments by recognized financial institutions and are subject to minimum credit risk.

Our accounts receivable are unsecured and represent amounts due to us based on contractual obligations of our customers. We mitigate credit risk in respect to accounts receivable by performing periodic credit evaluations based on a number of factors, including past transaction experience, evaluation of credit history and review of the invoicing terms of the contract. We generally do not require our customers to provide collateral to support accounts receivable.

Significant customers, including distribution channel partners and direct customers, are those which represent more than 10% of our total revenue for each period presented or our gross accounts receivable balance as of each respective balance sheet date. Revenues from our significant customers as a percentage of our total revenue are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Customer A (a distribution channel partner)	20%	*	14%	14%

* represents less than 10% of total revenue

As of June 30, 2018, one customer accounted for 30% of our total gross accounts receivable. As of December 31, 2017, no customer accounted for 10% or more of our total gross accounts receivable.

Recently Adopted Accounting Guidance

In May 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within that reporting period. The amendments will be applied prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 on January 1, 2018 did not impact our condensed consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as subsequently amended, which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) Topic 605, Revenue Recognition. This ASU requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the capitalization of incremental customer acquisition costs and amortization of these costs over the contract period or estimated customer life which resulted in the recognition of a deferred commission asset on our condensed consolidated balance sheet. We adopted ASU 2014-09 and its related amendments (collectively "ASC 606") on January 1, 2018 using the modified retrospective method. See Note 11 in this report for disclosure on the impact of adopting this standard.

Recent Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This new accounting standard primarily requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. In July 2018, FASB issued ASU No. 2018-11, Topic 842 - Targeted Improvements. The update requires modified retrospective transition, with the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment and elect various practical expedients. This standard is effective for annual periods beginning after December 15, 2018 with early adoption permitted. We will adopt this standard effective January 1, 2019. We are currently gathering information and evaluating the impact of this guidance on our condensed consolidated financial statements and related disclosures.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118. These amendments add SEC guidance to the FASB Accounting Standards Codification regarding the Tax Cuts and Jobs Act pursuant to the issuance of SAB 118. The amendments are effective upon addition to the FASB Codification. See Note 9 in this report for disclosures related to the effect of the Tax Cuts and Jobs Act and our utilization of SAB 118.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. We are evaluating the impact of this guidance on our condensed consolidated financial statements.

There are several other new accounting pronouncements issued by the FASB, which we will adopt. However, we do not believe any of those accounting pronouncements will have a material impact on our consolidated financial position, operating results or statements of cash flows.

2. Restatement of Previously Issued Consolidated Financial Statements

Restatement Background

Subsequent to the issuance of the condensed consolidated financial statements as of September 30, 2017, the Audit Committee of our Board of Directors (the “Audit Committee”) commenced an investigation (the “Investigation”) with the assistance of outside counsel relating to certain accounting and internal control matters at the Company, principally focused on certain revenue recognition matters from the fourth quarter of 2015 through the fourth quarter of 2017 inclusive. The investigation was conducted with the assistance of outside counsel and independent counsel. Counsel retained forensic accountants to assist with their work. The investigation commenced following the identification of violations of the Company's Insider Trading Policy and Code of Conduct by a mid-level employee within the finance department, and as a result it was determined that further review and procedures relating to certain accounting and internal control matters should be undertaken.

During the course of this Investigation, code of conduct breaches and accounting and financial reporting errors were identified. The matters primarily resulted in modification to the timing of the recognition of revenue in a limited number of sale transactions between the Company and its resellers and distributors. The Company determined the need to restate the condensed consolidated financial statements as of and for the three and six months ended June 30, 2017, the condensed consolidated financial statements as of and for the three months ended March 31, 2017 and the consolidated statements as of and for the year ended December 31, 2016, including interim periods therein. The Company also adjusted the consolidated financial statements as of and for the year ended December 31, 2015 to correct identified immaterial errors.

Revenue Recognition Adjustments

During the three and six months ended June 30, 2017, revenue on certain sale transactions was recognized prematurely in prior periods, as it was determined that there was an oversight or misuse of facts which indicated that the reseller's or distributor's price was not fixed or determinable, or that collectability was not reasonably assured, because the reseller's or distributor's payment to the Company was contingent on resale of the product or the transaction included extended payment terms beyond the Company's customary terms.

To correct these errors, the related revenue and cost of revenue were reversed in the period in which the accounting errors took place and have been recognized in subsequent periods when all of the revenue recognition criteria were met. Additionally, certain adjustments to accounts receivable, net of allowances, inventory, prepaid expenses and other assets and deferred revenue, current, were made to the condensed consolidated balance sheet at the end of the period in which the accounting errors occurred.

Other Adjustments

In addition to the restatement adjustments described above, we have identified other revenue and expense classification errors that are not material, individually or in the aggregate that have been corrected in connection with the restatement.

Tax effect of restatement adjustments

The Company recorded adjustments to its deferred taxes as a result of the restatement. The overall impact of the restatement is an increase to deferred taxes with the corresponding increase to the valuation allowance with no impact to the effective tax rate or income tax expense.

Impact of the Restatement

The following tables present the condensed consolidated statement of operations as previously reported, restatement adjustments and the condensed consolidated statement of operations as restated for the three and six months ended June 30, 2017 (in thousands, except per share amounts):

	Three Months Ended June 30, 2017			
	As Previously Reported	Revenue Recognition Adjustments	Other Adjustments	As Restated
Revenue:				
Products	$32,100	$ 316	$ 412	$32,828
Services	21,589	(32)	(412)	21,145
Total revenue	53,689	284	—	53,973
Cost of revenue:				
Products	8,070	107	88	8,265
Services	4,623	—	(88)	4,535
Total cost of revenue	12,693	107	—	12,800
Gross profit	$40,996	$ 177	$ —	$41,173
Operating expenses:				
General and administrative	$6,989	$ (137)	$ —	$6,852
Total operating expenses	$49,040	$ (137)	$ —	$48,903
Loss from operations	$(8,044)	$ 314	$ —	$(7,730)
Loss before income taxes	$(8,134)	$ 314	$ —	$(7,820)
Net loss	$(8,269)	$ 314	$ —	$(7,955)
Net loss per share:				
Basic and diluted	$(0.12)			$(0.11)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	69,770			69,770

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	Six Months Ended June 30, 2017			
	As Previously Reported	Revenue Recognition Adjustments	Other Adjustments	As Restated
Revenue:				
Products	$71,806	$ 3,950	$ 770	$76,526
Services	42,169	(18)	(770)	41,381
Total revenue	113,975	3,932	—	117,907
Cost of revenue:				
Products	17,854	706	207	18,767
Services	8,983	—	(207)	8,776
Total cost of revenue	26,837	706	—	27,543
Gross profit	$87,138	$ 3,226	$ —	$90,364
Operating expenses:				
General and administrative	$14,150	$ 349	$ —	$14,499
Total operating expenses	$99,506	$ 349	$ —	$99,855
Loss from operations	$(12,368)	$ 2,877	$ —	$(9,491)
Loss before income taxes	$(11,660)	$ 2,877	$ —	$(8,783)
Net loss	$(12,169)	$ 2,877	$ —	$(9,292)
Net loss per share:				
Basic and diluted	$(0.18)			$(0.13)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	69,173			69,173

The following table presents the condensed consolidated statement of cash flows as previously reported, restatement adjustments, and the condensed consolidated statement of cash flows as restated for the six months ended June 30, 2017 (in thousands):

	Six Months Ended June 30, 2017		
	As Previously Reported	Revenue Recognition Adjustments	As Restated
Cash flows from operating activities:			
Net loss	$(12,169)	$ 2,877	$(9,292)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Changes in operating assets and liabilities:			
Accounts receivable, net	$25,071	$ (4,087)	$20,984
Inventory	$(2,214)	$ 621	$(1,593)
Prepaid expenses and other assets	$(3,196)	$ 84	$(3,112)
Deferred revenue	$(397)	$ 505	$108
Net cash provided by operating activities	$13,771	$ —	$13,771

The only change to the condensed consolidated statement of comprehensive loss for the three and six months ended June 30, 2017 as a result of the restatements is due to the changes in net loss. Refer to the condensed consolidated statement of comprehensive loss as restated.

3. Marketable Securities and Fair Value Measurements

Marketable Securities

Marketable securities, classified as available-for-sale, consisted of the following (in thousands):

	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$13,499	$ 5	$ —	$13,504	$17,000	$ 6	$ (1)	$17,005
Corporate securities	51,345	8	(160)	51,193	39,154	1	(76)	39,079
U.S. Treasury and agency securities	5,245	—	(22)	5,223	5,744	—	(19)	5,725
Commercial paper	2,497	—	(1)	2,496	9,225	1	(2)	9,224
Asset-backed securities	14,455	—	(51)	14,404	13,567	—	(33)	13,534
	$87,041	$ 13	$ (234)	$86,820	$84,690	$ 8	$ (131)	$84,567

During the six months ended June 30, 2018 and 2017, we did not reclassify any amount to earnings from accumulated other comprehensive loss related to unrealized gains or losses.

The following table summarizes the cost and estimated fair value of marketable securities based on stated effective maturities as of June 30, 2018 (in thousands):

	Amortized Cost	Fair Value
Less than 1 year	$ 53,683	$53,598
Mature in 1 - 3 years	33,358	33,222
	$ 87,041	$86,820

All available-for-sale securities have been classified as current because they are available for use in current operations.

Marketable securities in an unrealized loss position consisted of the following (in thousands):

	Less Than 12 Months		12 Months or More		Total	
As of June 30, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificates of deposit	$1,999	$ —	$—	$ —	$1,999	$ —
Corporate securities	46,688	(160)	—	—	46,688	(160)
U.S. Treasury and agency securities	1,732	(14)	3,491	(8)	5,223	(22)
Commercial paper	1,247	(1)	—	—	1,247	(1)
Asset-backed securities	13,975	(51)	429	—	14,404	(51)
	$65,641	$ (226)	$3,920	$ (8)	$69,561	$ (234)

As of December 31, 2017	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Certificates of deposit	$2,999	$ (1)	$—	$ —	$2,999	$ (1)
Corporate securities	36,079	(74)	1,499	(2)	37,578	(76)
U.S. Treasury and agency securities	2,246	(2)	3,479	(17)	5,725	(19)
Commercial paper	4,232	(2)	—	—	4,232	(2)
Asset-backed securities	11,415	(32)	728	(1)	12,143	(33)
	$56,971	$ (111)	$5,706	$ (20)	$62,677	$ (131)

Based on evaluation of securities that have been in a continuous loss position, we did not recognize any other-than-temporary impairment charges during the six months ended June 30, 2018 and 2017.

Fair Value Measurements

The following is a summary of our cash, cash equivalents and marketable securities measured at fair value on a recurring basis (in thousands):

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	$30,041	$—	$ —	$30,041	$34,453	$—	$ —	$34,453
Cash equivalents	10,526	—	—	10,526	12,114	—	—	12,114
Certificates of deposit	—	13,504	—	13,504	—	17,005	—	17,005
Corporate securities	—	51,193	—	51,193	—	39,079	—	39,079
U.S. Treasury and agency securities	—	5,223	—	5,223	—	5,725	—	5,725
Commercial paper	—	2,496	—	2,496	—	9,224	—	9,224
Asset-backed securities	—	14,404	—	14,404	—	13,534	—	13,534
	$40,567	$86,820	$ —	$127,387	$46,567	$84,567	$ —	$131,134

There were no transfers between Level 1 and Level 2 fair value measurement categories during the six months ended June 30, 2018 and 2017.

4. Condensed Consolidated Financial Statement Details

Inventory

Inventory consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Raw materials	$6,518	$ 6,643
Finished goods	8,447	10,934
Total inventory	$14,965	$ 17,577

Property and Equipment, Net

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

	Useful Life	June 30, 2018	December 31, 2017
	(in years)		
Equipment	1-3	$49,821	$ 47,817
Software	1-3	4,022	3,988
Furniture and fixtures	1-3	951	950
Leasehold improvements	2-8	3,824	3,824
Construction in progress		38	—
Property and equipment, gross		58,656	56,579
Less: accumulated depreciation		(49,980)	(46,666)
Property and equipment, net		$8,676	$ 9,913

Depreciation expense on property and equipment was $1.7 million and $1.8 million for the three months ended June 30, 2018 and 2017, respectively, and $3.4 million and $3.6 million for the six months ended June 30, 2018, respectively.

Intangible Assets

Purchased intangible assets, net, consisted of the following (in thousands):

	June 30, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Developed technology	$5,050	$ (2,020)	$3,030	$5,050	$ (1,515)	$3,535
Patents	2,936	(1,497)	1,439	2,936	(1,281)	1,655
Total	$7,986	$ (3,517)	$4,469	$7,986	$ (2,796)	$5,190

Amortization expense related to purchased intangible assets was $0.3 million and $0.4 million each for the three months ended June 30, 2018 and 2017, and $0.7 million for each of the six months ended June 30, 2018 and 2017. Purchased intangible assets will be amortized over a remaining weighted average useful life of 3.1 years.

Future amortization expense for purchased intangible assets as of June 30, 2018 is as follows (in thousands):

Fiscal Year	
Remainder of 2018	$722
2019	1,442
2020	1,442
2021	863
	$4,469

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Accrued compensation and benefits	$13,210	$ 13,828
Accrued tax liabilities	3,459	2,985
Other	8,485	5,022
Total accrued liabilities	$25,154	$ 21,835

Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Deferred revenue:		
Products	$6,771	$ 6,161
Services	91,312	88,476
Total deferred revenue	98,083	94,637
Less: current portion	(64,907)	(61,858)
Non-current portion	$33,176	$ 32,779

5. Credit Facility

In November 2016, we entered into a loan and security agreement (the “2016 Credit Facility”) with Silicon Valley Bank (“SVB”) as the lender. The 2016 Credit Facility provides a three-year, $25.0 million revolving credit facility, which includes a maximum of $25.0 million letter of credit subfacility. When the balance of our cash, cash equivalents and marketable securities minus outstanding revolving loans and letters of credit equals or exceeds $50.0 million, loans may be advanced under the 2016 Credit Facility up to the full $25.0 million. When our net cash falls below $50.0 million, loans may be advanced under the 2016 Credit Facility based on a borrowing base equal to a specified percentage of the value of our eligible accounts receivable. The loans bear interest, at our option, at (i) the prime rate reported in The Wall Street Journal, minus 0.50% or (ii) a LIBOR rate determined in accordance with the 2016 Credit Facility, plus 2.50%. We are required to pay customary closing fees, commitment fees and letter of credit fees for a facility of this size and type.

In September 2018, we entered into an amendment with SVB to reduce the unused revolving line facility fee on the 2016 Credit Facility from 0.4% to 0.3%.

Our obligations under the 2016 Credit Facility are secured by substantially all of our assets, excluding our intellectual property. The 2016 Credit Facility contains customary affirmative and negative covenants. In addition, the 2016 Credit Facility requires us to maintain compliance with an adjusted quick ratio of not less than 1.50:1.00, as determined in accordance with the 2016 Credit Facility. As of June 30, 2018, we had no outstanding balance under the 2016 Credit Facility and were in compliance with all financial statement covenants except for the submission of our quarterly financial statements no later than 45 days after the last day of the fiscal quarter. However, SVB granted a forbearance on this requirement through August 31, 2018, and we submitted our quarterly financial statements within the forbearance period.

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6. Commitments and Contingencies

Legal Proceedings

Litigation

From time to time, we may be party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. Some of these proceedings involve claims that are subject to substantial uncertainties and unascertainable damages. We make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Unless otherwise specifically disclosed in this note, we have determined that no provision for liability nor disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

On March 22, 2018, the Company, our Chief Executive Officer, our Chief Financial Officer, and certain former officers, were named as defendants in a putative class action lawsuit filed in the United States District Court for the Northern District of California, captioned Shah v. A10 Networks, Inc. et al., 3:18-cv-01772-VC (the “Securities Action”). The complaint in the Securities Action alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and seeks unspecified damages and other relief. On August 31, 2018, the court appointed a lead plaintiff. An amended complaint is due to be filed by October 5, 2018.

On May 30, 2018, certain of our current and former directors and officers were named as defendants in a putative shareholder derivative lawsuit filed in the United States District Court for the Northern District of California, captioned Moulton v. Chen et al., 3:18-cv-03223-VC (the “Derivative Action”). We were also named as a nominal defendant. The complaint in the Derivative Action alleges breaches of fiduciary duties and other related claims in connection with purported misrepresentations related to internal controls and revenues and failures to ensure that financial statements were made in accordance with generally accepted accounting principles. Plaintiff seeks unspecified damages allegedly sustained by the Company, restitution, and other relief. On July 11, 2018 the Derivative Action was stayed until a motion to dismiss in the Securities Action is granted with prejudice or denied in whole or in part. Defendants are not required to move or otherwise respond to the current complaint.

Investigations

The U.S. Securities and Exchange Commission (“SEC”) is conducting a private investigation into possible violations of Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a), and 13(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13, 13a-14, 13a-15, and 13b2-1 thereunder. The Company is cooperating with the SEC regarding this investigation. The Company is unable to predict the duration, scope or outcome of the investigation, but an adverse outcome is reasonably possible. In such an event, the Company could be required to pay fines and sanctions and/or implement additional remedial measures. However, the Company is not able to estimate the likelihood or a reasonable range of possible loss.

Lease Commitments

We lease various operating spaces in the United States, Asia and Europe under non-cancelable operating lease arrangements that expire on various dates through April 2022. These arrangements require us to pay certain operating expenses, such as taxes, repairs and insurance, and contain renewal and escalation clauses. We recognize rent expense under these arrangements on a straight-line basis over the term of the lease.

Guarantees and Indemnifications

In the normal course of business, we provide indemnifications to customers against claims of intellectual property infringement made by third parties arising from the use of our products. Other guarantees or indemnification arrangements include guarantees of product and service performance, and standby letters of credit for lease facilities and corporate credit cards. We have not recorded a liability related to these indemnification and guarantee provisions and our guarantees and indemnification arrangements have not had any significant impact on our consolidated financial statements to date.

7. Equity Incentive Plans and Stock-Based Compensation

Equity Incentive Plans

2014 Equity Incentive Plan

The 2014 Equity Incentive Plan (the “2014 Plan”) provides for the granting of stock options, restricted stock awards, restricted stock units (“RSUs”), performance-based RSUs (“PSUs”), stock appreciation rights, performance units and performance shares to our employees, consultants and members of our board of directors. In June 2015, our board of directors adopted and our stockholders approved an amendment and restatement of the 2014 Plan, which increased the number of shares available for issuance under the 2014 Plan by the number of shares granted under the 2008 Stock Plan (the “2008 Plan”) that were or may in the future be canceled or otherwise forfeited or repurchased after March 20, 2014. A maximum of 8,310,566 shares may become available from such awards granted under the 2008 Plan for issuance under the 2014 Plan.

The shares authorized for the 2014 Plan increase annually by the least of (i) 8,000,000 shares, (ii) 5% of the outstanding shares of common stock on the last day of our immediately preceding fiscal year, or (iii) such other amount as determined by our Board of Directors. Accordingly, on January 1, 2018, the number of shares in the 2014 Plan increased by 3,584,623 shares, representing 5% of the prior year end’s common stock outstanding. As of June 30, 2018, we had a total of 11,164,558 shares available for future grant.

2014 Employee Stock Purchase Plan

The 2014 Employee Stock Purchase Plan (the “2014 Purchase Plan”) provides for twenty-four month offering periods with four six-month purchase periods in each offering period. Employees purchase shares in each purchase period at 85% of the market value of our common stock at the beginning of the offering period or the end of the purchase period, whichever is lower. If the market value of our common stock at the end of the purchase period is less than the market value at the beginning of the offering period, participants will be withdrawn from the then current offering period following their purchase of shares, and automatically will be enrolled in the immediately following offering period. Participants may contribute up to 15% of their eligible compensation, subject to certain limits. As of June 30, 2018, we had 3,065,182 shares available for future issuance under the 2014 Purchase Plan.

The 2014 Purchase Plan was suspended effective March 16, 2018 due to the delay of the Form 10-K filing for the fiscal year ended December 31, 2017. Accordingly, there were no stock purchases under the 2014 Purchase Plan during the three and six months ended June 30, 2018. The 2014 Purchase Plan may resume after we become a current filer, subject to the Board acting at that time to establish new purchase and offering periods.

Stock-Based Compensation

A summary of our stock-based compensation expense is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock-based compensation by type of award:				
Stock options	$302	$791	$631	$1,610
Stock awards	2,269	3,351	4,934	6,300
Employee stock purchase rights (1)	—	821	5,157	1,369
	$2,571	$4,963	$10,722	$9,279

Stock-based compensation by category of expense:

Cost of revenue	$197	$382	$1,090	$665
Sales and marketing	701	1,888	3,466	3,424
Research and development	1,003	1,823	4,385	3,487
General and administrative	670	870	1,781	1,703
	$2,571	$4,963	$10,722	$9,279

(1) Amount for the six months ended June 30, 2018 includes $4.1 million of accelerated stock-based compensation expense. In March 2018, as a result of a suspension of the 2014 Purchase Plan due to our non-timely filing status, all unrecognized stock-based compensation expense related to ESPP was accelerated and recognized within the condensed consolidated statement of operations.

As of June 30, 2018, we had $22.4 million of unrecognized stock-based compensation expense related to unvested stock-based awards which will be recognized over a weighted-average period of 2.1 years.

Stock Options

The following tables summarize our stock option activities and related information:

	Number of Shares (thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2017	6,018	$ 5.18		
Granted	—	$ —		
Exercised	(359)	$ 3.54		
Canceled [1]	(270)	$ 9.07		
Outstanding as of June 30, 2018	5,389	$ 5.09	4.6	$ 9,059
Vested and exercisable as of June 30, 2018	4,688	$ 4.92	4.1	$ 8,547

(1) Includes 220,826 shares of canceled stock options from the 2008 Plan that became available for issuance under the 2014 Plan.

As of June 30, 2018, the aggregate intrinsic value represents the excess of the closing price of our common stock of $6.23 over the exercise price of the outstanding in-the-money options.

The intrinsic value of options exercised was $1.1 million and $6.4 million during the six months ended June 30, 2018 and 2017, respectively.

Stock Awards

We have granted RSUs to our employees, consultants and members of our board of directors, and PSUs and market performance-based restricted stock units (“MSUs”) to certain executives.

In 2014 and 2015, we granted 540,000 MSUs and 40,000 MSUs, respectively, to certain executives. These MSUs will vest if the closing price of our common stock remains above certain predetermined target prices for 20 consecutive trading days within a 4-year period following the grant date, subject to continued service by the award holder. None of these MSUs were vested as of June 30, 2018.

In February 2016, we granted 547,000 PSUs with certain financial and operational targets. Actual performance, as measured at the time and prior to the restatement of the 2016 financial statements, resulted in participants achieving 80% of target. Given the PSUs did not contain explicit or implicit claw back rights, there was no change to stock-based compensation expense for the impact of the restatement. As of June 30, 2018, 178,402 shares had vested, 181,600 shares were forfeited, and the remaining shares will vest in annual tranches through February 2020 subject to continued service vesting requirements.

In October 2016, we granted 60,641 PSUs with certain financial and operational targets. To the extent they become eligible to vest upon achievement of the performance targets, these PSUs additionally are subject to service condition vesting requirements with scheduled vesting dates of March 2017 through June 2018. As of June 30, 2018, 30,320 shares were vested and 30,321 shares were forfeited.

The following table summarizes our stock award activities and related information:

	Number of Shares (thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Vesting Term (years)
Outstanding as of December 31, 2017	5,568	$ 6.88	
Granted	99	$ 6.86	
Released	(656)		